CANADA RARE EARTH CORP.
(A Development Stage Enterprise)

Condensed consolidated interim financial statements

(Stated in Canadian Dollars)

For the six months ended September 30, 2015

Responsibility for Financial Statements

The accompanying unaudited condensed consolidated interim financial statements for Canada Rare Earth Corp. have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") consistently applied. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly presented. In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company hereby discloses that its auditors have not reviewed the unaudited condensed consolidated interim financial statements for the period ended September 30, 2015.

CANADA RARE EARTH CORP.
(A Development Stage Enterprise)

September 30, 2015

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

As at	Note	September 30, 2015 (unaudited) $	March 31 2015 (audited) $
ASSETS			
Current			
Cash		259,410	52,617
Short-term investments	6	220,000	540,000
Receivables	7	147,795	94,995
Interest and other receivables		21,075	38,090
Inventory		60,000	-
Prepaid expenses and deposits		2,790	-
Total current assets		711,070	725,702
Non-current			
Exploration and evaluation assets	8	741,197	1,829,580
Intangible assets	7	232,765	-
Long-term investments	9	1,141,720	1,141,720
Mata Azul participation right	10	38,548	38,548
		2,154,230	3,009,848
Total assets		2,865,300	3,735,550
LIABILITIES			
Current			
Accounts payable and accrued liabilities	11	9,691	35,466
		9,691	35,466
SHAREHOLDERS' EQUITY			
Share capital	12	14,823,754	14,340,194
Reserves	12	7,815,174	7,711,655
Deficit		(19,783,319)	(18,351,765)
Total shareholders' equity		2,855,609	3,700,084
Total liabilities and shareholders' equity		2,865,300	3,735,550

Note 2 d) – Going concern of operations

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.
(A Development Stage Enterprise)
Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
(Prepared by Management – Unaudited)

	Note	Three Months Ended September 30		Six Months Ended September 30	
		2015	2014	2015	2014
		$	$	$	$
Revenue					
Corporate finance fees	11, 15	-	-	92,363	-
Exploration costs	8	-	850	-	22,215
Expenses					
Consulting fees	11	20,177	131,691	183,307	221,691
Advertising and promotion		12,705	1,445	22,289	1,445
Listing, filing and transfer agent		7,152	61	12,369	15,828
Office and miscellaneous	11	3,678	3,556	8,521	11,697
Professional fees	11	26,121	24,301	48,138	50,310
Rent	11	2,400	5,400	4,800	10,800
Share-based payments	11	102,032	-	103,519	11,055
Travel and accommodations		1,043	628	11,545	311
Wages and benefits		27,078	41,223	45,938	84,668
		202,386	208,305	440,426	407,805
Loss before other items		(202,386)	(209,155)	(348,063)	(430,020)
Other income (expense)					
Write-down of exploration and evaluation assets	8	(1,040,252)	-	(1,099,006)	-
Unrealized foreign exchange loss		14,503	-	13,918	-
Corporate finance fees		-	11,000	-	11,000
Interest and investment income		43	2,801	1,597	5,793
Net loss and comprehensive loss for the period		(1,228,092)	(195,354)	(1,431,554)	(413,227)
Loss per share – basic and diluted per common share	16	(0.01)	0.00	(0.01)	0.00
Weighted average shares outstanding, basic and diluted		144,076,163	142,762,141	143,422,742	142,762,141

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

CANADA RARE EARTH CORP.
(A Development Stage Enterprise)
Condensed Consolidated Interim Statements of Changes in Equity
(Prepared by Management – Unaudited)

	Share capital		Reserves		Deficit	Total
	Number of shares	Share capital	Warrants	Equity-settled benefits		
		$	$	$	$	$
Balance at March 31, 2014	142,761,141	14,340,194	952,000	6,746,256	(17,685,247)	4,353,203
Expiry of warrants	-	-	(952,000)	952,000	-	-
Share-based payments	-	-	-	11,055	-	11,055
Loss and comprehensive loss for the period	-	-	-	-	(413,227)	(413,227)
Balance at September 30, 2014	142,761,141	14,340,194	-	7,709,311	(18,098,474)	3,951,031
Balance at March 31, 2015	142,761,141	14,340,194	952,000	6,759,655	(18,351,765)	3,700,084
Shares issued on acquisition of assets	24,178,000	483,560	-	-	-	483,560
Share-based payments	-	-	-	103,519	-	103,519
Loss and comprehensive loss for the period	-	-	-	-	(1,431,554)	(1,431,554)
Balance at September 30, 2015	166,940,141	14,823,754	952,000	6,863,174	(19,783,319)	2,855,609

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

CANADA RARE EARTH CORP.
(A Development Stage Enterprise)
Condensed Consolidated Interim Statements of Cash Flows
(Prepared by Management – Unaudited)

Six months ended September 30	Note	2015 $	2014 $
Cash flows provided by (used in):			
Operating activities			
Loss and comprehensive loss for the period		(1,431,554)	(413,227)
Adjustments for:			
Unrealized foreign exchange loss		(13,918)	-
Share-based payments		103,519	11,055
Changes in non-cash working capital items:			
Write-down of exploration and evaluation assets		1,099,006	-
Receivables		137,995	-
Interest and other receivables		17,015	(13,075)
Prepaid expenses and deposits		(2,790)	4,116
Refundable security deposits		-	105,024
Intangible assets		(232,765)	-
Accounts payable and accrued liabilities		(25,775)	21,706
Cash flows used in operating activities		(116,502)	(284,401)
Investing activities			
Recovery (acquisition of exploration and evaluation assets)		(10,623)	30,000
Mata Azul participation right		-	(38,548)
Net redemption of short-term investments		320,000	200,000
Cash flows provided by financing activities		309,377	191,452
Effect of foreign exchange on cash		13,918	-
Change in cash during the period		206,793	(92,949)
Cash, beginning of period		52,617	232,671
Cash, end of period		259,410	139,722

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 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 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 Suite 400 – 602 West Hastings Street, Vancouver, British Columbia, Canada, V6B 1P2.

2. Basis of Presentation

a) Statement of compliance

These condensed consolidated interim financial statements for the six month period ended September 30, 2015 have been prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with the Company's March 31, 2015 audited annual financial statements which were 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.

These condensed consolidated interim financial statements have been prepared using accounting policies consistent with those used in the Company's March 31, 2015 audited annual financial statements except for income tax expense which is recognized in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year and adoption of intangible assets as described in note 3.

The Company's audit committee approved the release of these condensed consolidated interim financial statements on November 23, 2015.

b) Basis of consolidation

These condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: REM Metals Corp., an Ontario corporation and 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.

c) Basis of measurement

These condensed consolidated interim 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 condensed consolidated interim 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 4.

2. Basis of Presentation (continued)

d) Going concern of operations

These condensed consolidated interim 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 $1,431,554 during the six months ended September 30, 2015 and, as of that date the Company's deficit was $19,783,319. The Company is dependent on its ability to raise additional debt or equity to raise sufficient cash resources to meet its current financial obligations and plans including establishing a vertically integrated business within the rare earth industry. 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 $479,410 at September 30, 2015 (March 31, 2015 - $592,617). 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. Adoption of New Accounting Policy

a) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

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

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

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

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 condensed 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 condensed 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 September 30, 2015, the Company held $220,000 (March 31, 2015 - $540,000) in short-term investments consisting of GICs. The yields on these investments are prime less 1.95% (March 31, 2015 - 1.95%) 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 condensed consolidated financial statements.

7. Acquisition of CEC Rare Earth Corp. Assets

In September 2015, the Company acquired assets from CEC Rare Earth Corp. ("REC"), an affiliated private British Columbia company. The acquired assets included $190,795 of cash, $60,000 of inventory, receivables determined to have $nil fair value and intangible assets determined to have fair value of $232,765 in the form of certain business arrangements that relate to exploring for, mining, concentrating, sourcing, treating, separating and selling rare earths in all forms and at all stages, and rights to earn equity positions in various initiatives.

As of September 30, 2015, the Company had not received the $147,795 of the cash acquired, which is reflected as receivables on the balance sheet.

The fair market value of the assets acquired is as follows:

	$
Cash	190,795
Intangible assets	232,765
Inventory	60,000
Net assets acquired	483,560

Consideration for the acquired assets includes 1) 24,178,000 common shares, subject to an escrow provision over 18 months; 2) three royalties adding to 13%, based on non-refundable gross collected proceeds derived from the acquired assets. The Company can acquire one of the three royalties amounting to 3% by issuing 15,712,000 shares within two years following the acquisition; and, 3) continuing the exercise period for 5,000,000 options exercisable at $0.10 per share until November 8, 2017. Additionally, the Company has also agreed to indemnify REC for up to $40,000 of Canadian corporate income taxes resulting from this transaction, if any.

The fair value of the common shares issued was determined to be $483,560.

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 year ended March 31, 2015 and six months ended September 30, 2015:

	Springer	Red Wine Complex	Clay-Howells	Coldwell Complex	Hinton Coal	Manitouwadge Graphite	Total
	$	$	$	$	$	$	$
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
Acquisition costs for the year	320	-	121	550	9,632	-	10,623
Write-downs	(50,620)	-	(58,754)	-	(989,632)	-	(1,099,006)
September 30, 2015	-	374,336	352,645	14,216	-	-	741,197

During the six months ended September 30, 2015, the Company did not incur any exploration expenditures.

During the six months ended September 30, 2014, the Company incurred the following exploration expenditures that were expensed as incurred:

	Red Wine Complex	Clay-Howells	Coldwell Complex	Other	Total
	$	$	$	$	$
Prospecting	-	-	850	-	850
Other	6,900	41	-	14,424	21,365
	6,900	41	850	14,424	22,215

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. In the six months ended September 30, 2015, the Company fully impaired the property and wrote off $50,620.

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 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 12 unpatented claim units acquired via staking. During the year ended March 31, 2014, the Company allowed 17 unpatented claims to lapse. During the six months ended September 30, 2015, the Company allowed 23 additional unpatented claims to lapse and wrote off $58,754.

d) 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.

e) 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 for $1,020,000 and received a non-refundable deposit of $20,000.

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.

As of June 24, 2015, the agreement to option the Hinton property expired due to non-payment. The parties are currently renegotiating the terms of a new option agreement. In the six months ended September 30, 2015, the Company fully impaired the Hinton Property and wrote off $989,632.

f) Manitouwadge Graphite Property

In February 2015, the Company completed the sale of the property for aggregate proceeds of $159,000. The Company was 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 September 30, 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.

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 November 2015.

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.

11. Related Party Transactions

Key management personnel compensation was:

Six months ended September 30	2015 $	2014 $
Short-term benefits	69,000	76,890
Share-based payments	68,274	5,301
	137,274	82,191

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 $12,603 (September 30, 2014 - $10,800) 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 six months ended September 30, 2015, the Company paid $135,000 (September 30, 2014 - $150,000) in consulting fees to a company related by common directors.

The Company also paid or accrued legal fees of $8,568 (September 30, 2014 - $21,390) to a company controlled by an officer of the Company.

During the six months ended September 30, 2015, the Company earned $92,363 (September 30, 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.

The Company had $nil included in accounts payable and accrued liabilities that was payable to related parties as at September 30, 2015 (March 31, 2015 - $4,323). 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 capital

	Number of Shares		Common Shares $
March 31, 2015 and March 31, 2014	142,762,141		14,340,194
Shares issued on acquisition of assets	24,178,000	0.02	483,560
September 30, 2015	166,940,141		14,823,754

b) Share Purchase Warrants

Details of share purchase warrant transactions for the period are as follows:

	Number of Warrants	Weighted Average Exercise Price $
March 31, 2014	28,000,000	0.10
Expired	(28,000,000)	0.10
March 31, 2015 and September 30, 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 were being 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 fiscal 2015, 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 vested as part of the agreement in which the Company acquired certain assets of REC (note 6).

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.

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.

The weighted average grant-date fair value of options awarded in the six months ended September 30, 2015 was $0.03 (September 30, 2014 - $Nil). The Company employed the Black-Scholes option-pricing model using the following weighted average assumptions:

	2015	2014
Risk-free interest rate	1.00%	-%
Expected life	5 years	- years
Dividend yield	0%	-%
Volatility	151%	-%

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

A summary of stock option activity to September 30, 2015 is as follows:

	Number	Weighted Average Exercise Price $
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 at March 31, 2015	16,700,000	0.12
Granted	8,375,000	0.05
Expired	50,000	0.35
Options outstanding at September 30, 2015	25,025,000	0.09

12. Share Capital and Reserves (continued)

The Company's outstanding and exercisable stock options at September 30, 2015 were:

	Outstanding Options			Exercisable Options	
Expiry Date	Number	Weighted Average Remaining Life	Weighted Average Exercise Price $	Number	Weighted Average Exercise Price $
January 2016	775,000	0.29	0.37	775,000	0.37
January 2017	800,000	1.30	0.17	800,000	0.17
November 2017	14,825,000	2.11	0.10	14,825,000	0.10
February 2020	250,000	4.38	0.05	125,000	0.05
May 2020	500,000	4.63	0.05	125,000	0.05
July 2020	7,875,000	4.78	0.05	1,968,750	0.05
	25,025,000	2.33	0.09	18,618,750	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 September 30, 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 September 30, 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 September 30, 2015 and March 31, 2015:

	As at September 30, 2015		
	Level 1 $	Level 2 $	Level 3 $
Cash	259,410	-	-
Short-term investments	220,000	-	-
	479,410	-	-

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

15. Corporate Finance Fees

In September 2014, the Company was engaged to provide corporate finance, strategic and business development services for a mechanically complete, full spectrum rare earth separation refinery built in Laos for a period of one year. In consideration, the Company received a retainer of US$25,000 per month for the duration of the mandate. As of September 30, 2015, the parties are negotiating a new arrangement based on knowledge gained during the past 12 months and certain developments in progress.

16. Loss Per Share

	Three months ended September 30		Six months ended September 30	
	2015	2014	2015	2014
Net loss for the period ($)	(1,228,090)	(195,354)	(1,431,554)	(413,227)
Weighted average number of common shares outstanding	(0.01)	0.00	(0.01)	0.00
Loss per share, basic and diluted ($ per share)	144,076,163	142,762,141	143,422,742	142,762,141

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