

CANADA RARE EARTH CORP.

(A Development Stage Enterprise)

Condensed consolidated interim financial statements

(Stated in Canadian Dollars)

For the Six Months Ended September 30, 2016

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, 2016.

CANADA RARE EARTH CORP.

(A Development Stage Enterprise)

September 30, 2016

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

As at	Note	September 30, 2016 (unaudited) \$	March 31 2016 (audited) \$
ASSETS			
Current			
Cash		75,882	323,471
Interest and other receivables		18,167	17,932
Prepaid expenses and deposits		44,417	9,034
Total current assets		<u>138,466</u>	<u>350,437</u>
Non-current			
Intangible assets		232,765	232,765
Promissory note receivable		1,574,040	1,558,440
Interest receivable on promissory note		26,148	10,305
Mata Azul participation right	8	38,548	38,548
		<u>1,871,501</u>	<u>1,840,058</u>
Total assets		<u>2,009,967</u>	<u>2,190,495</u>
LIABILITIES			
Current			
Accounts payable and accrued liabilities	9	31,423	26,046
		<u>31,423</u>	<u>26,046</u>
SHAREHOLDERS' EQUITY			
Share capital	10	14,823,754	14,823,754
Reserves	10	7,867,152	7,827,235
Deficit		(20,712,362)	(20,486,540)
Total shareholders' equity		<u>1,978,544</u>	<u>2,164,449</u>
Total liabilities and shareholders' equity		<u>2,009,967</u>	<u>2,190,495</u>

Note 2 d) – Going concern of operations

On behalf of the Company:

<u>“Tracy A. Moore”</u>	Director	<u>“Peter Shearing”</u>	Director
Tracy A. Moore		Peter Shearing	

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

CANADA RARE EARTH CORP.

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Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Prepared by Management – Unaudited)

		Three months ended September 30		Six months ended September 30	
	Note	2016	2015	2016	2015
		\$	\$	\$	\$
Revenue					
Sales	15	2,761	-	2,761	-
Corporate finance fees	9, 14	-	-	-	92,363
		<u>2,761</u>	<u>-</u>	<u>2,761</u>	<u>92,363</u>
Cost of sales	15	<u>2,322</u>	<u>-</u>	<u>2,322</u>	<u>-</u>
Gross margin		<u>439</u>	<u>-</u>	<u>439</u>	<u>92,363</u>
Expenses					
Consulting fees	9	37,500	20,177	98,999	183,307
Advertising and promotion		2,460	12,705	2,840	22,289
Listing, filing and transfer agent		3,291	7,152	4,388	12,369
Office and miscellaneous	9	5,460	3,678	17,700	8,521
Professional fees	9	6,333	26,121	11,953	48,138
Rent	9	8,054	2,400	15,775	4,800
Share-based payments	9	12,704	102,032	39,917	103,519
Travel and accommodations		9,906	1,043	27,782	11,545
Wages and benefits		12,059	27,078	25,783	45,938
		<u>97,767</u>	<u>202,386</u>	<u>245,137</u>	<u>440,426</u>
Loss before other items		(97,328)	(202,386)	(244,698)	(348,063)
Other income (expense)					
Write-down of exploration and evaluation assets	6	(9,632)	(1,040,252)	(9,632)	(1,099,006)
Unrealized foreign exchange gain		25,895	14,503	12,946	13,918
Interest and investment income		7,873	43	15,562	1,597
		<u>7,873</u>	<u>43</u>	<u>15,562</u>	<u>1,597</u>
Net loss and comprehensive loss for the period		<u>(73,192)</u>	<u>(1,228,092)</u>	<u>(225,822)</u>	<u>(1,431,554)</u>
Loss per share – basic and diluted per common share					
	16	(0.00)	(0.01)	(0.00)	(0.01)
Weighted average shares outstanding, basic and diluted					
		166,940,141	144,076,163	166,940,141	143,422,742

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

CANADA RARE EARTH CORP.

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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, 2015	142,762,141	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
Balance at March 31, 2016	166,940,141	14,823,754	952,000	6,875,235	(20,486,540)	2,164,449
Share-based payments	-	-	-	39,917	-	39,917
Loss and comprehensive loss for the period	-	-	-	-	(225,822)	(225,822)
Balance at September 30, 2016	166,940,141	14,823,754	952,000	6,915,152	(20,712,362)	1,978,544

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	2016 \$	2015 \$
Cash flows provided by (used in):			
Operating activities			
Loss and comprehensive loss for the period		(225,822)	(1,431,554)
Adjustments for:			
Unrealized foreign exchange loss		-	(13,918)
Share-based payments		39,917	103,519
Unrealized foreign exchange loss/(gain) on promissory note		(15,600)	-
Unrealized foreign exchange loss/(gain) on interest on promissory note		(281)	-
Interest and investment income		(15,562)	-
Changes in non-cash working capital items:			
Write-down of exploration and evaluation assets		-	1,099,006
Foreign exchange loss on cash		2,937	-
Receivables		-	137,995
Interest and other receivables		(235)	17,015
Prepaid expenses and deposits		(35,383)	(2,790)
Accounts payable and accrued liabilities		5,377	(25,775)
Cash flows used in operating activities		(244,652)	(116,502)
Investing activities			
Recovery (acquisition of exploration and evaluation assets)		-	(10,623)
Net redemption of short-term investments		-	320,000
Cash flows provided by financing activities		-	309,377
Effect of foreign exchange on cash		(2,937)	13,918
Change in cash during the period		(247,589)	206,793
Cash, beginning of period		323,471	52,617
Cash, end of period		75,882	259,410

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

CANADA RARE EARTH CORP.

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Notes to the Condensed Consolidated Interim Financial Statements

Six Months Ended September 30, 2016

(Prepared by Management – Unaudited)

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 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”.

In September 2015, the Company acquired various assets from CEC Rare Earths Corp. (“REC”), an affiliated company (see note 5).

In October 2015, the Company executed a commercial agreement with a company in China. Pursuant to this agreement, the Company has been appointed the exclusive sales agent and distributor for products in Europe, the Americas, India and Russia, and the non-exclusive sales agent and distributor in Asia. This agreement will be extended in two-year increments in perpetuity so long as the Company purchases minimum amounts of products, as defined in the agreement, during sequential two-year periods.

In May 2016, the Company entered into an agreement to acquire 60% of the shares of a company based in Laos (“LaosCo”) that owns a full capability rare earth refinery.

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 2d).

The address of the Company’s corporate office and principal place of business is 15th Floor – 1040 West Georgia Street, Vancouver, BC, Canada V6E4H1.

2. Basis of Presentation

a) Statement of compliance

These condensed consolidated interim financial statements for the six month period ended September 30, 2016 have been prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with the Company’s March 31, 2016 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, 2016 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.

The Company’s audit committee approved the release of these condensed consolidated interim financial statements on November 23, 2016.

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 LTDA, a Brazilian corporation 100% owned by CREC South American Holdings Corp.

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

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(Prepared by Management – Unaudited)

c) Basis of measurement

These condensed consolidated interim financial statements have been prepared on a historical cost basis. 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.

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 and buying and selling an immaterial amount of rare earth concentrate during the six months ended September 30, 2016, the Company has not generated revenue from operations. The Company incurred a loss of \$225,822 during the six months ended September 30, 2016 and, as of that date the Company's deficit was \$20,712,362. 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 on hand of \$75,882 at September 30, 2016 (March 31, 2016 - \$323,471). 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 Procurements and Recent Developments

Standards, amendments and interpretations not yet effective

The following new standards, interpretations and amendments, which have not been applied in these financial statements, will or may have an effect on the Company's future financial statements for accounting periods beginning on or after January 1, 2018, with early adoption permitted:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers

The potential impact of the adoption of these standards on consolidated financial statements of the Company has not yet been determined.

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Six Months Ended September 30, 2016

(Prepared by Management – Unaudited)

4. Critical Accounting Judgements, Estimates and Assumptions

The preparation of the Company's condensed consolidated interim 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 interim financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical judgments in applying accounting policies:

Critical Judgments

Going concern of operations

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

Intangible assets

Management is in the process of evaluating the business arrangements acquired from REC (see note 5) and assessing whether they have finite or infinite lives.

The application of the Company's accounting policy for intangible assets requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after an intangible asset is capitalized, information becomes available suggesting that the recovery of the value of the asset is unlikely, the amount capitalized is written off to profit or loss in the period the new information becomes available.

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(Prepared by Management – Unaudited)

5. Acquisition of CEC Rare Earth Corp Assets

In September 2015, the Company acquired assets from 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 a 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.

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

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

- a) Common Shares – the Company issued 24,178,000 common shares subject to an escrow provision over 18 months.
- b) Royalty Streams – the Company will pay three royalty streams, for the implementation and execution of contracts and business arrangements and the disposition of the assets acquired by the Company, as follows:
 - i) Royalty Stream A – a royalty stream consisting of 5% of the first US\$70 million or equivalent of non-refundable gross cash collected;
 - ii) Royalty Stream B – for a period of 12 years from closing, a royalty stream consisting of 5% of the non-refundable gross cash collected plus 10% of dividends received from equity ownership in rare earth businesses derived from the acquired assets. For a period of three years from closing, the Company retains the right to buy out the obligation for payments of this royalty stream and dividends for the amount of US\$15 million less 50% of payments previously made pursuant to this royalty stream; and
 - iii) Royalty Stream C – a royalty stream consisting of 3% of the first US\$70 million or equivalent of non-refundable gross cash collected. For a period of two years from closing, the Company has the right, subject to shareholder and/or regulatory approval, to purchase or otherwise cancel this royalty stream by issuing 15,712,000 escrow shares to REC.

In addition, 5,000,000 options shall remain exercisable at \$0.10 per share until November 8, 2017 and the Company 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, based on the Company's share price.

As at March 31, 2016, the Company wrote off the \$60,000 value of inventory acquired.

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Six Months Ended September 30, 2016

(Prepared by Management – Unaudited)

6. Exploration and Evaluation Assets

	Springer	Red Wine Complex	Clay-Howells	Coldwell Complex	Hinton Coal	Manitouwadge Graphite	Total
	\$	\$	\$	\$	\$	\$	\$
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-off	(50,620)	(374,336)	(411,399)	(14,216)	(989,632)	-	(1,840,203)
March 31, 2016	-	-	-	-	-	-	-
Acquisition costs for the year	-	-	-	-	9,632	-	-
Write-off	-	-	-	-	(9,632)	-	-
September 30, 2016	-	-	-	-	-	-	-

During the six months ended September 30, 2016 and September 30, 2015 the company did not incur any exploration expenditures.

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.

a) Springer

Lavergne prospect

The Company paid \$150,000 to purchase the surface rights to the eastern half of a patented claim comprising part 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 intends to sell these surface rights or relinquish its rights if the Company is unable to sell them.

Springer-Field-Pedley

This property is currently comprised of 8 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, 2016, the Company wrote off \$50,620 in related acquisition costs.

b) Red Wine Complex

The Company 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. During the year ended March 31, 2016, the Company wrote off \$374,336 in related acquisition costs.

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Six Months Ended September 30, 2016

(Prepared by Management – Unaudited)

6. Exploration and Evaluation Assets (continued)

Mann #1, Two Tom Lake

Pursuant to an option agreement in September 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 option agreement in September 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. Currently the property is comprised of 7 claim blocks totalling 50 units.

c) Clay-Howells Property

Pursuant to an option agreement executed in 2010, the Company acquired 100% ownership in the Clay-Howells Property, consisting of 45 patented claims. The Optionors retain a 2% NSR subject to the right of the Company to purchase at any time one-half (1%) of the NSR for \$1,000,000. The property also currently includes 28 unpatented claim units acquired via staking. During the year ended March 31, 2014, the Company allowed 17 unpatented claims to lapse. During the year ended March 31, 2016, the Company allowed 4 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.

In the year ended March 31, 2015, the Company entered into an agreement to option the Hinton Property for \$1,020,000 and received non-refundable deposits of \$40,000.

On June 24, 2015, the agreement to option the Hinton property expired due to non-payment. In the year ended March 31, 2016, the Company wrote off \$989,632 in related acquisition costs.

During the six months ended September 30, 2016, the Company incurred and wrote off \$9,632 of property taxes.

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Six Months Ended September 30, 2016

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7. Promissory Note

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

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

At September 30, 2016, the fair value of the promissory note was approximately \$1,574,040 (approximately US\$1,173,955). Fair value was determined using an income approach. An income approach is a present value technique that takes into account the future cash flows that would be expected to be received from holding the promissory note. Present value was calculated using the following attributes: future lump sum payment of US\$1,323,389, including principal and interest, at the three-year anniversary date of the promissory note, 26 months to maturity, and a discount rate of 6%.

8. 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.

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 allowed for the Company to control the exploration and development of the Mata Azul property and ratified 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 January 2016, the joint venture agreement expired, although the long-term rights agreement continues.

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Six Months Ended September 30, 2016

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8. Mata Azul Participation Right (continued)

In November 2014, the Company also advanced a loan in the amount of US\$12,500 (\$14,196) to Mata Azul. The loan carries an interest rate of 6%, which matured in November 2015 and then was extended to November 2016.

9. Related Party Transactions

Key management personnel compensation was:

Six months ended September 30	2016	2015
	\$	\$
Short-term benefits	75,000	76,890
Share-based payments	26,716	5,301
	101,716	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 \$39,415 (September 30, 2015 - \$12,603) 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, 2016, the Company paid \$nil (September 30, 2015 - \$135,000) in consulting fees to a company related by common directors.

The Company also paid or accrued legal fees of \$nil (September 30, 2015 - \$8,568) to a company controlled by an officer of the Company.

During the six months ended September 30, 2016, the Company earned \$nil (September 30, 2015 - \$92,363) in corporate finance fees from a company controlled by a former 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 \$3,000 included in accounts payable and accrued liabilities that was payable to related parties as at September 30, 2016 (September 30, 2015 - \$nil). The payment terms are similar to the payment terms of non-related party trade payables.

10. Share Capital and Reserves

a) Share Capital

Authorized: Unlimited common shares without par value.

Issued: 166,940,141 (March 31, 2016 – 166,940,141) common shares

b) Stock Options

The Company may grant options to the Company's directors, officers, employees and service providers under the Company's stock option plan. In 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.

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Notes to the Condensed Consolidated Interim Financial Statements

Six Months Ended September 30, 2016

(Prepared by Management – Unaudited)

10. Share Capital and Reserves (continued)

In April 2016, the Company granted stock options to a director of the Company to purchase up to 300,000 common shares at an exercise price of \$0.05 and exercisable until April 4, 2021. 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, 2016 was \$0.03 (September 30 2015 - \$0.03). The Company employed the Black-Scholes option-pricing model using the following weighted average assumptions:

Six Months Ended September 30	2016	2015
Volatility	185%	151%
Expected life	5 years	5 years
Dividend yield	0%	0%
Risk-free interest rate	0.07%	1%

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, 2016 is as follows:

	Number	Weighted Average Exercise Price \$
Options outstanding at March 31, 2015	16,700,000	0.12
Granted	8,375,000	0.05
Cancelled	(500,000)	0.05
Expired	(825,000)	0.37
Options outstanding at March 31, 2016	23,750,000	0.09
Granted	300,000	0.05
Cancelled	(200,000)	0.10
Expired	(275,000)	0.17
Options outstanding at September 30, 2016	23,575,000	0.08

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10. Share Capital and Reserves (continued)

The Company's outstanding and exercisable stock options at September 30, 2016 were:

Expiry Date	Outstanding Options			Exercisable Options	
	Number	Weighted Average Remaining Life	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
January 2017	525,000	0.30	0.17	525,000	0.17
June 2017 ⁽¹⁾	500,000	0.67	0.07	425,000	0.07
November 2017	14,425,000	1.11	0.10	14,425,000	0.10
February 2020	250,000	3.38	0.05	250,000	0.05
July 2020	7,575,000	3.77	0.05	5,681,250	0.05
April 2021	300,000	4.51	0.05	75,000	0.05
	23,575,000	1.61	0.08	21,381,250	0.09

(1) On March 22, 2016, the Company amended the expiry date of 500,000 options, including 200,000 options originally due to expire in November 2017 and 300,000 options originally due to expire in July 2020, to June 2017, pursuant to a consulting agreement with a former director.

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11. 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, 2016.

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12. 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

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

iii) Derivative financial instruments

As at September 30, 2016, the Company had no derivative financial instruments.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its 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. At September 30, 2016, the Company did not have any short-term investments.

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.

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Notes to the Condensed Consolidated Interim Financial Statements

Six Months Ended September 30, 2016

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12. 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, 2016 and March 31, 2016:

	As at September 30, 2016		
	Level 1	Level 2	Level 3
	\$	\$	\$
Cash	75,882	-	-
	75,882	-	-

	As at March 31, 2016		
	Level 1	Level 2	Level 3
	\$	\$	\$
Cash	323,471	-	-
	323,471	-	-

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13. Commitments

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 September 30, 2016 are:

Year ending March 31	\$
2017	31,146
2018	62,292
2019	62,292
2020	66,864
2021	67,280
Subsequent	5,607
	<u>259,481</u>

The Company entered into a written sub-lease agreement with a related party whereby the related party sublets 50% of this office space and pays 50% of the office rent costs.

14. 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 ending September 2015. In consideration, the Company received a retainer of US\$25,000 per month for the duration of the mandate. The engagement and payments ceased with mutual consent in June 2015, and the parties entered into new negotiating which culminated in the agreement to purchase 60% of LaosCo in May 2016 (Note 1).

15. Sales

During the six months ended September 30, 2016, the Company purchased rare earth concentrate from a supplier in Asia and sold the concentrate to buyers in North America and Europe. The Company also purchased inventory which will be sold under a hedged sales contract.

16. Loss Per Share

	Three months ended		Six months ended	
	2016	September 30 2015	2016	September 30 2015
Net loss for the period (\$)	(73,192)	(1,228,092)	(225,822)	(1,431,554)
Weighted average number of common shares outstanding	166,940,141	144,076,163	166,940,141	143,422,742
Loss per share, basic and diluted (\$ per share)	(0.00)	(0.01)	(0.00)	(0.01)

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 would be anti-dilutive, diluted loss per common share is equivalent to basic loss per common share.