

CANADA RARE EARTH CORP.

Condensed consolidated interim financial statements

(Stated in Canadian Dollars)

For the Nine Months Ended December 31, 2017

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 December 31, 2017.

CANADA RARE EARTH CORP.

December 31, 2017

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CANADA RARE EARTH CORP.
Condensed Consolidated Interim Statements of Financial Position
Prepared by Management - Unaudited

As at	Note	December 31 2017 \$	March 31 2017 \$
ASSETS			
Current			
Cash		26,778	45,599
Accounts receivable		-	62,420
Interest and other receivables	5	22,570	21,414
Prepaid expenses and deposits		184,883	179,235
Total current assets		<u>234,231</u>	<u>308,668</u>
Non-current			
Promissory note	6	1,497,600	1,595,880
Interest receivable on promissory note	6	68,542	42,621
Intangible assets	7	193,971	208,892
Mata Azul participation right	5	38,548	38,548
		<u>1,798,661</u>	<u>1,885,941</u>
Total assets		<u>2,032,892</u>	<u>2,194,609</u>
LIABILITIES			
Current			
Accounts payable and accrued liabilities	10	179,991	143,836
Loan	9	62,725	66,495
Loans, related parties	10	111,964	94,423
		<u>354,680</u>	<u>304,754</u>
SHAREHOLDERS' EQUITY			
Share capital	11	14,823,754	14,823,754
Reserves	11,12	7,951,171	7,868,329
Deficit		(21,096,713)	(20,802,228)
Total shareholders' equity		<u>1,678,212</u>	<u>1,889,855</u>
Total liabilities and shareholders' equity		<u>2,032,892</u>	<u>2,194,609</u>

Note 2 e) – Going concern of operations

Note 16 – Commitments

Note 19 – Subsequent Event

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 December 31		Nine months ended December 31	
	Note	2017	2016	2017	2016
		\$	\$	\$	\$
Revenue					
Sales and business development	17	429,481	107,010	1,569,158	109,771
Expenses					
Cost of sales	7,17	394,047	35,244	1,435,124	37,566
Consulting fees	10	42,500	37,500	117,500	136,499
Advertising and promotion		6,993	-	9,855	2,840
Listing, filing and transfer agent		1,320	788	6,432	5,176
Office and miscellaneous	10	8,172	5,928	24,546	23,628
Professional fees	10	4,500	25,360	15,500	37,313
Rent	10	12,019	7,874	28,654	23,649
Share-based payments	10	74,073	10,102	82,842	50,019
Travel and accommodations		26,143	4,280	46,358	32,062
Wages and benefits		-	13,608	-	39,391
		569,767	140,684	1,766,811	388,143
Loss before other items		(140,286)	(33,674)	(197,653)	(278,372)
Other income (expense)					
Write-down of exploration and evaluation assets	8	-	-	(9,632)	(9,632)
Unrealized foreign exchange gain (loss)		(6,830)	37,777	(117,039)	50,723
Interest and investment income		13,207	8,108	29,839	23,670
Net income (loss) and comprehensive income (loss) for the period		(133,909)	12,211	(294,485)	(213,611)
Income (loss) per share – basic and diluted per common share	18	0.00	0.00	(0.00)	(0.00)
Weighted average shares outstanding, basic and diluted		166,940,141	166,940,141	166,940,141	166,940,141

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
Prepared by Management - Unaudited

	Share capital		Reserves	Deficit	Total
	Number of shares	Share capital \$	\$	\$	\$
Balance at March 31, 2016	166,940,141	14,823,754	7,827,235	(20,486,540)	2,164,449
Share-based payments	-	-	50,019	-	50,019
Loss and comprehensive loss for the period	-	-	-	(213,611)	(213,611)
Balance at December 31, 2016	166,940,141	14,823,754	7,877,254	(20,700,151)	2,000,857
Balance at March 31, 2017	166,940,141	14,823,754	7,868,329	(20,802,228)	1,889,855
Share-based payments	-	-	82,842	-	82,842
Loss and comprehensive loss for the period	-	-	-	(294,485)	(294,485)
Balance at December 31, 2017	166,940,141	14,823,754	7,951,171	(21,096,713)	1,678,212

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

CANADA RARE EARTH CORP.
Condensed Consolidated Interim Statements of Cash Flows
Prepared by Management - Unaudited

Nine months ended December 31	2017	2016
	\$	\$
Cash flows provided by (used in):		
Operating activities		
Net loss and comprehensive loss for the period	(294,485)	(213,611)
Adjustments for:		
Share-based payments	82,842	50,019
Amortization	14,921	-
Unrealized foreign exchange loss on promissory note	98,280	(52,800)
Unrealized foreign exchange loss on interest receivable on promissory note	2,928	(952)
Unrealized foreign exchange loss on loan payable	(3,770)	-
Unrealized foreign exchange loss on loan, related parties	(3,370)	-
Interest and investment income	(28,849)	(23,670)
Changes in non-cash working capital items:		
Foreign exchange loss on cash	4,450	3,052
Accounts receivable	62,420	(70,760)
Interest and other receivables	(1,156)	1,100
Prepaid expenses and deposits	(5,648)	(23,913)
Accounts payable and accrued liabilities	36,155	26,515
Cash flows provided by / used in operating activities	(35,282)	(305,020)
Financing activities		
Repayment of loans, related parties	(107,881)	-
Loan advances, related party	128,792	-
Cash flows provided by financing activities	20,911	-
Effect of foreign exchange on cash	(4,450)	(3,052)
Change in cash during the period	(18,821)	(308,072)
Cash, beginning of period	45,599	323,471
Cash, end of period	26,778	15,399

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

CANADA RARE EARTH CORP.

Notes to the Condensed Consolidated Interim Financial Statements

Nine Months Ended December 31, 2017

(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”.

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 2e).

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 nine month period ended December 31, 2017 have been prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with the Company’s March 31, 2017 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, 2017 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 February 20, 2018.

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.

c) Change in Presentation of Financial Statements

In the period ended December 31, 2017, the Company changed its statement of loss presentation to present cost of sales being included under expenses instead of as a separate line item. Presentation changes have been made to the comparable 2016 financial information to conform to the current period presentation.

CANADA RARE EARTH CORP.

Notes to the Condensed Consolidated Interim Financial Statements

Nine Months Ended December 31, 2017

(Prepared by Management – Unaudited)

2. Basis of Presentation (continued)

d) 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.

e) 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. During the nine months ended December 31, 2017, the Company generated revenue of \$1,569,158 from its trading activities and incurred a gross profit of \$134,034. The gross profit was insufficient to cover the administrative costs and the Company incurred a loss of \$294,485 during the nine months ended December 31, 2017 and, as of that date the Company's deficit was \$21,096,713. 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 had cash of \$26,778 at December 31, 2017 (March 31, 2017 – \$45,599). 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. (See note 19)

3. Adoption of New Accounting Pronouncements 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
- IFRS 16 Leases

The Company does not expect these standards will have significant impact on its consolidated financial statements.

CANADA RARE EARTH CORP.

Notes to the Condensed Consolidated Interim Financial Statements

Nine Months Ended December 31, 2017

(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

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.

5. 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 also advanced a loan in the amount of US\$12,500 (\$15,600) to Mata Azul. The loan carries an interest rate of 6% and matured in November 2015 and the amount became overdue and by mutual agreement was further extended to November 2016. As at December 31, 2017, the Company has recorded \$3,123 of interest receivable on the loan and the parties are negotiating a further extension of the loan.

CANADA RARE EARTH CORP.

Notes to the Condensed Consolidated Interim Financial Statements

Nine Months Ended December 31, 2017

(Prepared by Management – Unaudited)

6. 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 prior 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 December 31, 2017, the fair value of the promissory note was approximately \$1,566,000 (approximately US\$1,255,000). 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, 11 months to maturity, and a discount rate of 6%.

In April 2017, the Company entered into an agreement with the Delaware Co. to convert the promissory note into shares of two private Haitian companies and one private US company once certain conditions are met.

CANADA RARE EARTH CORP.

Notes to the Condensed Consolidated Interim Financial Statements

Nine Months Ended December 31, 2017

(Prepared by Management – Unaudited)

7. Intangible Assets

	Supply Agreements	Contracts	Memorandum Of Understanding	Customer Relationships	Total
	\$	\$	\$	\$	\$
Cost					
At March 31, 2016, and March 31, 2017	99,472	29,842	3,979	99,472	232,765
Accumulated amortization and impairment					
At March 31, 2016	-	-	-	-	-
Amortization expense	19,894	-	-	-	19,894
Impairment provision	-	-	3,979	-	3,979
At March 31, 2017	19,894	-	3,979	-	23,873
Amortization expense	14,921	-	-	-	14,921
At December 31, 2017	34,815	-	3,979	-	38,794
Net book value					
At March 31, 2016	99,472	29,842	3,979	99,472	232,765
At March 31, 2017	79,578	29,842	-	99,472	208,892
At December 31, 2017	64,657	29,842	-	99,472	193,971

Supply Agreements

The Company has supply agreements to sell rare earth concentrate to refineries held by CREC's partners.

Contracts

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

Memorandum of Understanding ("MOU")

The Company holds a non-binding MOU with a company for a complete design and build of a rare earth complex. Following the execution of the MOU, geopolitical issues in the region led to the project being put on hold. The Company does not expect the project to restart and as such the asset has been impaired.

Customer Relationships

The Company has acquired relationships with customers in the rare earth market that were developed by REC.

Amortization expense of \$14,921 (2016 - \$nil) is included in cost of sales.

CANADA RARE EARTH CORP.

Notes to the Condensed Consolidated Interim Financial Statements

Nine Months Ended December 31, 2017

(Prepared by Management – Unaudited)

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.

During the nine months ended December 31, 2017, the Company capitalized/wrote off \$9,632 (year ended March 31, 2017 - \$9,632) of acquisitions costs relating to the Hinton Coal property.

During the nine months ended December 31, 2017 and December 31, 2016 the company did not incur any exploration expenditures.

During the nine months ended December 31, 2017, the Company allowed all the claims relating to the Springer property and 11 claims relating to the Red Wine Complex to lapse. As of December 31, 2017, 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.

9. Loan

At December 31, 2017, the Company had a loan outstanding in the amount of \$62,725 (US\$50,000) (2016 - \$nil). The loan is repayable on demand, bears interest of US\$2,500 until May 17, 2017 and 18% per annum thereafter until repaid.

CANADA RARE EARTH CORP.

Notes to the Condensed Consolidated Interim Financial Statements

Nine Months Ended December 31, 2017

(Prepared by Management – Unaudited)

10. Related Party Transactions

Key management personnel compensation was:

	Three months ended December 31		Nine months ended December 31	
	2017	2016	2017	2016
	\$	\$	\$	\$
Short-term benefits	37,500	37,500	112,500	112,500
Share-based payments	75,639	6,582	81,173	32,398
	113,139	44,082	193,673	144,898

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 \$61,890 (December 31, 2016 - \$46,491) to certain officers and directors or to companies controlled by certain officers and directors for travel, exploration, office rent, loan interest and other related expenses.

During the nine months ended December 31, 2017, the Company paid or accrued \$25,198 (December 31, 2016 - \$nil) for office rent and related expenses to a company related by common party. The common party is currently a director of the Company and is an officer of the lessor.

During the nine months ended December 31, 2017, \$25,198 (December 31, 2016 - \$26,457) of the office rental and related costs have been paid by an officer of the Company as per an agreement to share such expenses equally between the Company and the officer.

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 had \$88,022 included in accounts payable and accrued liabilities that was payable to related parties as at December 31, 2017 (March 31, 2017 - \$82,467). The payment terms are similar to the payment terms of non-related party trade payables.

During the nine months ended December 31, 2017, the Company had loans outstanding in the amount of \$111,964 (US\$89,250) (March 31, 2017 - US\$71,000 to two directors) to a director of the Company. The amounts are unsecured, bearing interest at a rate of 6% per annum calculated daily and are due on demand. During the nine months ended, the Company paid \$3,542 of interest and repaid US\$82,500 of the loans to the directors.

11. Share Capital and Reserves

a) Share Capital

Authorized: Unlimited common shares without par value.

Issued: 166,940,141 (March 31, 2017 – 166,940,141) common shares

b) Reserves

Reserves comprise the fair value of stock option grants and warrants prior to exercise.

12. Share-Based Payments

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. 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

CANADA RARE EARTH CORP.

Notes to the Condensed Consolidated Interim Financial Statements

Nine Months Ended December 31, 2017

(Prepared by Management – Unaudited)

12. Share-Based Payments (continued)

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 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.

In February 2017, the Company granted stock options to a consultant of the Company who later became a director to purchase up to 300,000 common shares at a price of \$0.05 until February 17, 2022. The options vest in four equal instalments over 18 months.

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

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.

The weighted average grant-date fair value of options awarded in the nine months ended December 31, 2017 was \$0.03 (December 31, 2016 - \$0.03). The Company employed the Black-Scholes option-pricing model using the following weighted average assumptions:

Nine Months Ended December 31	2017	2016
Volatility	156%	185%
Expected life	5 years	5 years
Dividend yield	0%	0%
Risk-free interest rate	1.60%	0.07%

CANADA RARE EARTH CORP.

Notes to the Condensed Consolidated Interim Financial Statements

Nine Months Ended December 31, 2017

(Prepared by Management – Unaudited)

12. Share-Based Payments (continued)

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

A summary of stock option activity to December 31, 2017 is as follows:

	Number	Weighted Average Exercise Price \$
Options outstanding at March 31, 2016	23,750,000	0.09
Granted	600,000	0.05
Cancelled	(200,000)	0.10
Expired	(800,000)	0.17
Options outstanding at March 31, 2017	23,350,000	0.08
Granted	8,025,000	0.05
Expired	(14,925,000)	0.10
Options outstanding at December 31, 2017	16,450,000	0.05

The Company's outstanding and exercisable stock options at December 31, 2017 were:

Expiry Date	Outstanding Options			Exercisable Options	
	Number	Weighted Average Remaining Life	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
February 2020	250,000	2.13	0.05	250,000	0.05
July 2020	7,575,000	2.52	0.05	7,575,000	0.05
April 2021	300,000	3.26	0.05	300,000	0.05
February 2022	300,000	4.15	0.05	150,000	0.05
April 2022	100,000	4.26	0.05	50,000	0.05
December 2022	7,925,000	4.93	0.05	1,981,250	0.05
	16,450,000	3.73	0.05	10,306,250	0.05

CANADA RARE EARTH CORP.

Notes to the Condensed Consolidated Interim Financial Statements

Nine Months Ended December 31, 2017

(Prepared by Management – Unaudited)

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 rare earth concentrate and separate the concentrate into the entire spectrum of commercially traded rare earths. LaosCo's future development plans include extending operating capabilities and rare earth metal making.

In September 2017, Canada Rare Earth and LaosCo restructured the agreement for Canada Rare Earth to purchase a majority interest in the company that owns the refinery (the "RefineryCo") such that:

Canada Rare Earth will continue to take responsibility for the application for permits.

If and when the permits are issued:

- i) Canada Rare Earth will have earned the right of first refusal to sell concentrate to the refinery to the full extent of the refinery's requirements;
- ii) Canada Rare Earth will have earned the right of first refusal to sell products produced by the refinery to the full extent of production;
- iii) Canada Rare Earth will have earned the right to purchase a minimum of 60% of the issued and outstanding shares of RefineryCo (the "Purchase Shares") for a price to be negotiated between the owner, the Company and the financiers who facilitate the acquisition of the Purchase Shares based on: market conditions, capabilities of the refinery, working capital requirements of the refinery and the amount of funds raised by Canada Rare Earth. Shareholders of the refinery will be required to contribute to the refinery's working capital requirements in proportion to their respective equity holdings; and
- iv) Canada Rare Earth and its financiers will have six months from the receipt of final operating permits to complete negotiations for the purchase of the Purchase Shares, to pay for the Purchase Shares and to contribute to the working capital requirements.

CANADA RARE EARTH CORP.

Notes to the Condensed Consolidated Interim Financial Statements

Nine Months Ended December 31, 2017

(Prepared by Management – Unaudited)

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 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 December 31, 2017.

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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

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) Promissory note, interest receivable

The Company is able to minimize its risk on the promissory note and interest receivable by exercising its right to convert the outstanding amount into equity investment in the Delaware Co.

As at December 31, 2017, 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

Interest rate risk pertains to interest income earned on the promissory note and a receivable. The Company actively manages its interest rate exposure, where possible. The interest rate on the Company's promissory note is at 2% per annum for the first 24 months and 6% per annum for the final 12 months. Interest on the receivable is at 6% per annum until the receivable has been repaid. At December 31, 2017, the receivable and the accrued interest are overdue.

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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15. Risk Management (continued)

e) Foreign currency exchange rate risk

The Company is exposed to foreign currency fluctuations as it has cash, accounts receivables, interest and other receivables, prepaid expenses and deposits, promissory note, interest receivable on promissory note, Mata Azul participation right, loan and loans, related parties denominated in US dollars. There are no exchange rate contracts in place. A 10% change in the US dollar will affect profit/loss by approximately \$148,000.

Financial instruments denominated in foreign currencies are:

At December 31, 2017	US Dollars
Assets	1,320,512
Liabilities	139,250
Exchange rate - \$1.00 =	.7971

At March 31, 2017	US Dollars
Assets	1,458,924
Liabilities	125,270
Exchange rate - \$1.00 =	.7519

f) 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.

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15. Risk Management (continued)

f) Fair value of financial instruments (continued)

The following is an analysis of the Company's financial assets, which are measured at fair value as At December 31, 2017 and March 31, 2017:

	As at December 31, 2017		
	Level 1	Level 2	Level 3
	\$	\$	\$
Cash	26,778	-	-
	26,778	-	-

	As at March 31, 2017		
	Level 1	Level 2	Level 3
	\$	\$	\$
Cash	45,599	-	-
	45,599	-	-

16. 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 December 31, 2017 are:

Year Ending March 31	\$
2018	15,573
2019	62,292
2020	66,864
2021	67,280
2022	5,607
	217,616

The Company has a written agreement with a related party to sublease to the related party 50% of this office space. The related party will split premises costs on a 50/50 basis with the Company for the duration of the lease. Each party pays its 50% share.

The Company has a commitment to pay US\$20/ton to a maximum of 30,000 tons as finders' fee for rare earth concentrate sourced from a certain entity.

The Company has a commitment to pay 13% royalty on gross profits generated from trading activities.

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17. Revenue

During the nine months ended December 31, 2017, the Company earned revenue for procuring rare earth concentrate for a buyer. The Company's trading activities involved sourcing the rare earth concentrate from sellers to match the buyer's specifications. The Company has no commitments to its buyer or sellers other than operating under certain guidelines. All the price risk relating to trading activities is covered under back to back contracts with the buyer and seller.

18. Income (loss) Per Share

	Three months ended December 31		Nine months ended December 31	
	2017	2016	2017	2016
Net income (loss) for the period (\$)	(133,909)	12,211	(294,485)	(213,611)
Weighted average number of common shares outstanding	166,940,141	166,940,141	166,940,141	166,940,141
Income (loss) per share, basic and diluted (\$ per share)	(0.00)	0.00	(0.00)	(0.00)

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.

19. Subsequent Event

In January 2018, the Company entered into a \$1,500,000 convertible loan facility with Talaxis Limited ("Talaxis" or the "Lender") as a component of the strategic business and financing arrangements with Talaxis. The Loan is convertible into 1,666,670 shares and 18,000,000 units (the "Units") with each Unit consisting of one share and half warrant. The Units are convertible into 18,000,000 shares of the Company over the next 12 and 24 months at prices averaging 7.6 cents per share. The 9,000,000 warrants are exercisable at a minimum of 10 cents per share.

Terms of the loan facility are summarized as follows:

- \$800,000 is repayable by the Company 12 months from the date the funds are advanced (the "Advance Date") and \$700,000 is repayable by the Company 24 months from the Advance Date;
- The Lender may convert, in whole or in part, the Loan into shares and Units to the extent the Loan has not been repaid, as follows:

Shares

- \$166,667 at \$0.10 per share within 24 months of January 30, 2018 ("Advance Date") resulting in the issuance of 1,666,670 shares and no warrants;

Units

- \$300,000 at \$0.05 per Unit within 12 months of the Advance Date resulting in the issuance of 6,000,000 shares and 3,000,000 warrants;
- \$500,000 at \$0.075 per Unit within 12 months of the Advance Date resulting in the issuance of 6,666,667 shares and 3,333,333 warrants;
- \$533,333 at \$0.10 per Unit within 24 months of the Advance Date resulting in the issuance of 5,333,330 shares and 2,666,667 warrants;

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19. Subsequent Event (continued)

- Each full warrant is exercisable for 30 months from the Advance Date into one share of the Company at an exercise price of the greater of (i) 10 cents per share and (ii) the 10 day volume weighted adjusted price determined over the preceding 10 days less 15%; and
- the Company may, from time to time, prompt conversion by providing a 15-day notice to repay a minimum of \$500,000 before the due date(s). During this notice period, the Lender may exercise its conversion privilege(s).

The purpose of the Loan is for general working capital purposes. The Loan bears interest at 12% per annum payable semi-annually in arrears and no finder's fees are payable regarding the Loan.