Canada Rare Earth Corp.

(Formerly Rare Earth Metals Inc.)
(A Development Stage Enterprise)

Condensed Consolidated Interim Financial Statements

For the nine months ended December 31, 2013

(Stated in Canadian Dollars)

Responsibility for Financial Statements

The accompanying financial statements for Canada Rare Earth Corp. have been prepared by management in accordance with International Financial Reporting Standards ("IFRS) consistently applied. Only changes in accounting policies have been disclosed in these unaudited condensed consolidated interim financial statements. 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, 2013.

CANADA RARE EARTH CORP.
(Formerly Rare Earth Metals Inc.)
(A Development Stage Enterprise)

December 31, 2013

CANADA RARE EARTH CORP.
(Formerly Rare Earth Metals Inc.)
(A Development Stage Enterprise)

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Prepared by Management - Unaudited)

As at	**December 31, 2013 $**	March 31, 2013 $
ASSETS		
Current		
Cash	**442,274**	117,793
Short-term investments (Note 3)	**1,000,000**	3,400,000
Interest and other receivables	**14,898**	47,882
Prepaid expenses and deposits	**7,757**	11,256
Refundable security deposits (Note 7)	**105,024**	-
	1,569,953	3,576,931
Non-Current		
Exploration and evaluation assets (Note 4)	**3,339,990**	3,286,409
Long-term investments (Note 5)	**1,141,720**	-
	4,481,710	3,286,409
Total assets	**6,051,663**	6,863,340
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 8)	**69,434**	116,720
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	**14,340,194**	14,340,194
Reserves (Note 6)	**7,671,782**	7,457,932
Deficit	**(16,029,747)**	(15,051,506)
Total shareholders' equity	**5,982,229**	6,746,620
Total liabilities and shareholders' equity	**6,051,663**	6,863,340

See Note 1 – Nature and Continuance of Operations

These condensed consolidated interim financial statements are authorized for issue by the Board of Directors on February 18, 2014. They are signed on the Company's behalf by:

"Tracy A. Moore" Director

"Bill Purcell" Director

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

CANADA RARE EARTH CORP.
(Formerly Rare Earth Metals Inc.)
(A Development Stage Enterprise)

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Prepared by Management - Unaudited)

	Three Months Ended December 31, 2013 $	Three Months Ended December 31, 2012 $	Nine Months Ended December 31, 2013 $	Nine Months Ended December 31, 2012 $
Exploration costs (Note 4,8)	12,836	3,488	62,514	292,043
Expenses				
Depreciation	-	-	-	16,615
Consulting fees (Note 8)	105,090	93,813	333,815	133,508
Advertising and promotion	1,160	22,756	21,860	33,797
Listing, filing and transfer agent	8,744	18,032	23,252	69,971
Office and miscellaneous (Note 8)	6,710	10,558	20,982	42,485
Professional fees	68,247	32,910	94,753	98,975
Rent (Note 8)	5,400	4,810	16,200	34,678
Share-based payments (Note 6(c))	35,095	269,780	213,850	407,017
Travel and accommodations	19,704	19,579	74,157	28,916
Wages and benefits	50,565	37,546	139,961	345,407
	300,715	509,784	938,830	1,211,369
Loss before the following:	(313,551)	(513,272)	(1,001,344)	(1,503,412)
Interest and investment income	15,957	13,024	23,103	13,310
Adjustment to fair value for fair value through profit and loss investments	-	-	-	16,600
Loss and comprehensive loss for the period	(297,594)	(500,248)	(978,241)	(1,473,502)
Loss per share - basic and diluted	0.00	0.00	(0.01)	(0.01)
Weighted Average Shares Outstanding - basic and diluted	142,762,141	142,761,042	142,762,141	108,698,163

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

CANADA RARE EARTH CORP.
(Formerly Rare Earth Metals Inc.)
(A Development Stage Enterprise)

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
(Prepared by Management - Unaudited)
For the nine months ended December 31, 2013 and 2012

	Share capital		Reserves			
	Number of shares	Share capital	Warrants	Equity settled benefits	Deficit	Total
	#	$	$	$	$	$
Balance at April 1, 2012	85,862,141	12,696,144	148,061	5,793,612	(13,153,104)	5,484,713
Issued for cash:						
Private placements	56,000,000	2,800,000	-	-	-	2,800,000
Value of warrants issued to investors	-	(952,000)	952,000			-
Share issue costs	-	(258,950)	-	-	-	(258,950)
Shares issued on property acquisitions	900,000	55,000	-	-	-	55,000
Share-based payments	-	-	-	407,017	-	407,017
Loss and comprehensive loss for the period	-	-	-	-	(1,473,502)	(1,473,502)
Balance at December 31, 2012	**142,762,141**	**14,340,194**	**1,100,061**	**6,200,629**	**(14,626,606)**	**7,014,278**
Balance at April 1, 2013	142,762,141	14,340,194	952,000	6,505,932	(15,051,506)	6,746,620
Share-based payments	-	-	-	213,850	-	213,850
Loss and comprehensive loss for the period	-	-	-	-	(978,241)	(978,241)
Balance at December 31, 2013	**142,762,141**	**14,340,194**	**952,000**	**6,719,782**	**(16,029,747)**	**5,982,229**

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

CANADA RARE EARTH CORP.
(Formerly Rare Earth Metals Inc.)
(A Development Stage Enterprise)

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Prepared by Management - Unaudited)

	Nine Months Ended December 31, 2013 $	Nine Months Ended December 31, 2012 $
CASH FLOWS PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Loss and comprehensive loss for the period	(978,241)	(1,473,502)
Depreciation	-	16,615
Share-based payments	213,850	407,017
Adjustment to fair value for fair value through profit & loss investments	-	(16,600)
Non-cash wages and benefits	-	116,211
Decrease in interest and other receivables	32,984	180,357
Decrease in prepaid expenses	3,499	27,835
Increase in refundable security deposits	(105,024)	-
Decrease in accounts payable and accrued liabilities	(47,286)	(84,730)
Cash flows used in operating activities	(880,218)	(826,797)
FINANCING ACTIVITIES		
Issuance of capital stock for cash	-	2,800,000
Cash commission (Note 8)	-	(258,950)
Cash flows provided by financing activities	-	2,541,050
INVESTING ACTIVITIES		
Acquisition of exploration and evaluation assets	(53,581)	(247,643)
Acquisition of Long-term investments (Note 5)	(1,141,720)	-
Net redemption (purchase) of short-term investments	2,400,000	(1,513,885)
Cash flows provided by (used in) investing activities	1,204,699	(1,761,528)
Increase (decrease) in cash	324,481	(47,275)
Cash, beginning of period	117,793	71,860
Cash, end of period	442,274	24,585

Supplemental information (see note 9)

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

1. Nature and Continuance of Operations

Canada Rare Earth Corp. ("Canada Rare Earth" or "the Company", formerly Rare Earth Metals Inc.) is a development stage public company developing a vertically integrated business within the rare earth industry from the initial mandate of acquiring and exploring mineral property interests. The Company has yet to determine whether any of its properties contain ore reserves that are economically recoverable. The ability of the Company to meet its commitments as they become payable, including the development of the vertically integrated business and completion of acquisitions, exploration and development of mineral properties and projects, is dependent on the ability of the Company to obtain necessary financing.

On February 7, 2013, the Company changed its name from Rare Earth Metals Inc. to Canada Rare Earth Corp.

The accompanying financial statements have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern. The appropriateness of using the going concern basis is dependent upon, among other things, future profitable operations, and the ability of the Company to raise additional capital. Specifically, the recovery of the Company's investment in exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to develop its properties and establish future profitable production from the properties, or from the proceeds of their disposition. At December 31, 2013 the Company has working capital in the amount of $1,500,519 (March 31, 2013: $3,460,211) and has a deficit in the amount of $16,029,747 (March 31, 2013: $15,051,506). The Company has not earned any revenues to date and is considered to be in the development and exploration stage.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption deemed inappropriate. These adjustments could be material.

2. Significant Accounting Policies

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS") as issued by the IASB (International Accounting Standards Board") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 – Interim Financial Reporting. The accounting policies followed in these condensed consolidated interim financial statements are the same as those applied in the Company's audited annual consolidated financial statements for the year ended March 31, 2013.

The policies applied in these financial statements are based on IFRS issued and outstanding as of February 18, 2014 the date the Audit Committee approved the statements. Any subsequent changes to IFRS after this date could result in changes to the financial statements for the period ended December 31, 2013.

The condensed consolidated interim financial statements do not contain all disclosures required under IFRS and should be read in conjunction with the Company's audited annual financial statements and the notes thereto for the year ended March 31, 2013.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosures of contingent assets and contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period.

Actual results could differ from those estimates. Significant accounts that require estimates as the basis for determining the stated amounts include exploration and evaluation assets, share-based payments, allocation of financing proceeds, and income taxes. Differences may be material.

Investment in VCS Mining, Inc. ("VCS")

VCS owns 98% of Delta Societe Miniere S.A. ("Delta"), a company incorporated pursuant to the laws of Haiti. Delta holds the mining rights pursuant to an Exploitation Permit issued by the Bureau of Mining and Energy covering 2,500 hectares in Northern Haiti (the "Morne Bossa Property") including the rights to 31 hectares of deeded area within the Morne Bossa Property (the "Deeded Land").

As part of its agreement with VCS and Delta, the Company has been given the right to lease, for an initial period of 25 years, 15 acres within the Deeded Land on which it would be suitable to construct a rare earth refinery.

The Company is unable to influence the strategy, operations and financial performance of VCS and may potentially be unable to divest the VCS shares in a timely manner, should it decide to do so in the future.

The investment in VCS is designated as an available-for-sale equity investment, and as such the value of the investment is recorded at cost as there is not a quoted market price in an active market and fair value cannot be reliably measured.

3. Short-term Investments

As at December 31, 2013 the Company held $1,000,000 (March 31, 2013: $3,400,000) in short-term investments consisting of GIC's. The yields on these investments is 1.20% 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 interim financial statements.

4. Exploration and evaluation assets

The Company has capitalized the following acquisition costs of its mineral property interests during the year ended March 31, 2013 and nine months ended December 31, 2013:

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	
Mineral Interests	Lavergne-Springer $	Red Wine $	Clay-Howells $	Coldwell Complex $	Hinton Coal $	Manitouwadge Graphite $	Other $	Total $
Balance, March 31, 2012	444,990	882,667	426,749	122,002	1,020,000	12,800	71,448	2,980,656
Acquisition costs for the year	88,533	193,800	2,706	-	-	20,714	-	305,753
Write-downs	-	-	-	-	-	-	-	-
Balance, March 31, 2013	533,523	1,076,467	429,455	122,002	1,020,000	33,514	71,448	3,286,409
Acquisition costs for the year	53,581	-	-	-	-	-	-	53,581
Write-downs	-	-	-	-	-	-	-	-
Balance, December 31, 2013	587,104	1,076,467	429,455	122,002	1,020,000	33,514	71,448	3,339,990

During the nine month period ended December 31, 2013, the Company incurred the following exploration expenditures that were expensed as incurred:

Exploration Expenditures	Clay-Howells $	Lavergne-Springer $	Coldwell Complex $	Red Wine $	Manitouwadge Graphite $	Total $
Prospecting	-	-	408	-	-	408
Geology	-	19,056	-	9,351	100	28,507
Geophysical	-	-	-	-	-	-
Line cutting	-	-	-	-	-	-
Trenching	-	-	-	-	-	-
Diamond drilling	-	17,097	-	6,912	-	24,009
Other	40	-	-	-	9,550	9,590
Exploration Expenditures for the period	40	36,153	408	16,263	9,650	62,514

During the nine month period ended December 31, 2012, the Company incurred the following exploration expenditures that were expensed as incurred:

Exploration Expenditures	Clay-Howells $	Lavergne-Springer $	Coldwell Complex $	Red Wine $	Manitouwadge Graphite $	Other $	Total $
Prospecting	-	-	2,275	-	6,588	14,659	23,522
Geology	1,585	84,250	580	15,119	40,371	1,527	143,432
Geophysical	-	-	1,463	-	12,037	-	13,500
Line cutting	-	-	-	-	18,900	-	18,900
Trenching	-	-	-	-	10,592	-	10,592
Diamond drilling	2,226	14,800	-	53,971	-	-	70,997
Other	-	-	-	-	1,500	9,600	11,100
Exploration Expenditures for the period	3,811	99,050	4,318	69,090	89,988	25,786	292,043

(a) Lavergne-Springer

(i) Lavergne-Springer project

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.

Terms of the initial agreement to option the mineral rights to the 130 hectare patent (the "Patent"), covering the prospect, include staged payments of $217,000 over three years, including (a) $36,000 on signing (paid), (b) $36,000 on or before April 13, 2012 (paid), (c) $45,000 on or before April 13, 2013 (paid in April 2013), and (d) $100,000 on or before April 13, 2014. The Company must also make the following payments commencing January 12, 2012: (a) $4,000 (paid), (b) $4,000 on or before May 16, 2012 (paid), (c) $5,000 on or before May 16, 2013 (paid in April 2013), and (d) $11,111 on or before May 16, 2014. The owners of the Patent will retain a 1% NSR and the Company will have the right to purchase one-half of this for $1,000,000.

A second agreement was also completed to purchase the surface rights to the eastern half of the Patent for a total of $150,000, in two payments which include (a) $50,000 on signing (paid), and (b) $100,000 on or before October 16, 2011 (paid).

A separate third agreement was negotiated with Zimtu Capital Corp. and two private prospectors (the "Optionors") to option a total of 14 unpatented claim units totaling 644 hectares adjacent to the above-described Patent. Terms of the Zimtu option agreement include total payments of $200,000 and 2,000,000 shares over four years, including initial payments of $50,000 (paid) and 500,000 shares (issued).

On January 13, 2012, terms of the agreement were amended to: (a) a $50,000 initial cash payment (paid) and initial issuance of 500,000 shares (issued), (b) issuance of 500,000 shares prior to December 7, 2011 (issued), (c) issuance of 500,000 shares prior to June 7, 2012, and (d) issuance of 500,000 shares prior to June 7, 2013.

On June 8, 2012, the Company's directors approved an amendment to the June 7, 2011 property option agreement with Zimtu Capital Corp. and two private prospectors where the Company issued 800,000 shares pursuant to this option agreement on June 19, 2012, completing the option and acquiring the above claim units.

The Optionors will retain a 2% NSR on the 644 hectare claim unit property with the Company having the right to purchase one half (1%) of this for $1,000,000.

(b) Red Wine Complex

The Company has acquired, by an option agreement and staking, three properties: Mann #1 (37 claim units), Two Tom Lake (34 claim units) and Dory Pond (167 claim units acquired by staking) in Labrador. The properties, together with the property known as the Zimtu Property, are located in four separate claim groups located over a 30 kilometre length of the Red Wine Complex.

Mann #1, Two Tom Lake

Pursuant to an option agreement dated September 29, 2009 as amended November 3, 2009 between the Company and Roland Quinlan, Marilyn Quinlan, Andrew Quinlan and Eddie Quinlan (the "Mann Optionors"), the Company may acquire a 100% interest in the Mann # 1 and Two Tom Lake properties (the "Optioned Properties"). Pursuant to the agreement, in order to exercise the option and earn a 100% interest in the Optioned Properties, the Company must make the following payments and share issuances to the Mann Optionors: (a) within 60 days of the date of the agreement, pay $25,000 (paid) and issue 60,000 shares (issued); (b) pay $35,000 (paid) and issue 135,000 shares (issued) on or before September 29, 2010; (c) pay $45,000 (paid) and issue 135,000 shares (issued) on or before September 29, 2011; and (d) pay $70,000 and issue 170,000 shares on or before September 29, 2012.

Upon the Company exercising the option, the Mann Optionors will retain a 2% NSR in the Optioned Properties and beginning on September 29, 2014, the Company will issue 20,000 shares per annum to the Mann Optionors as advance royalty payments, all of which will be credited against royalty payments payable once commercial production commences. The Company may at any time purchase one-half (1%) of the NSR from the Mann Optionors for $1,000,000.

In order to complete the acquisition of the property and to eliminate the advance royalty payments, the Company (i) paid and issued to the vendors of the Mann One and Two Tom properties the aggregate of $86,800 (paid October 2012) and 100,000 common shares (issued October 2012) pursuant to an amended option agreement dated September 6, 2012 and the Company now owns the property 100%.

Dory Pond

The Dory Pond prospect, consisting of 167 claims acquired by the Company through staking, contains numerous rare earth element mineralized occurrences that were established through prospecting and follow-up of airborne survey anomalies.

Red Wine Property - Zimtu

Pursuant to an option agreement dated August 31, 2010 between the Company, Zimtu Capital Corp., Gary Lewis, Aubrey Budgell and Neh Pinsent, the Company may acquire a 100% interest in 500 claim units located in the Red Wine/Letitia Lake area of west central Labrador, Canada and known as the Zimtu Property. The Company must make the following cash payments and share issuances to the optionors: (a) payment of $50,000 on signing (paid) and issuance of 1,000,000 shares (issued) on TSX-V approval of the formal agreement; (b) payment of $50,000 (paid) and issuance of 500,000 shares (issued) prior to September 30, 2011; (c) payment of $50,000 and issuance of 500,000 shares prior to September 30, 2012. The optionors will maintain a 2% NSR on the Property; one-half (1%) of which the Company has the right to purchase for $1,000,000 at any time.

In order to complete the acquisition of the property, the Company paid $100,000 to the vendors of the Red Wine Claims pursuant to an amended option agreement dated September 6, 2012 and the Company now owns the property 100%.

(c) Clay-Howells Property

The Clay-Howells property consists of 45 patented claims (mining and surface) of approximately 720 hectares and 49 unpatented claims (mining) of approximately 7171 hectares located 45 kilometres north-northeast of Kapuskasing, Ontario. During fiscal 2010, the Company entered into an option agreement to acquire a 100% interest in the Clay-Howells property which was exercised by the payment of $350,000 to the optionor of the Clay Howells property. The optionor of the Clay Howells property retains a 2-per-cent net smelter returns royalty ("NSR") subject to the right of the Company to purchase at any time one-half (1%) of the NSR for $1 million.

(d) Coldwell Complex

During fiscal 2011, the Company completed the staking of 740 claim units located in the Coldwell Alkaline Complex in Northern Ontario.

(e) Hinton Coal Property

On June 25, 2008, the Company acquired 100% ownership in the Hinton Coal Property (the "Hinton Property") located in the Foothills Region of central Alberta for $1 million and a 5% net profits royalty on any sale of coal from the property. The $1 million purchase price was recorded as a mineral interest in accordance with the Company's accounting policy.

On July 16, 2008, the Company issued 50,000 common shares at a value of $20,000 as a finder's fee in conjunction with the above transaction.

The 5% net profits royalty can be purchased for an amount in Canadian dollars which is equal to 8% of the sales price of the Hinton Property to an unrelated third party through a commercial market process subject to a minimum sales price of $1 million.

The Company continues to own a 100% interest in the Hinton Coal property.

(f) Manitouwadge Graphite Property

During fiscal 2012, the Company completed the staking of the Manitouwadge Graphite property which comprises128 claim units totaling 2,072 hectares located approximately 30 kilometres north of the town of Manitouwadge in northwestern Ontario. The property encompasses the Thomas Lake Road Graphite Occurrence.

(g) Other

Included in Other are the following: Lackner Property, Armstrong Dyno Property, James Bay Property and miscellaneous properties.

5. Long-term investments

The Company currently owns an investment in the common shares of VCS Mining, Inc. ("VCS"), a private Delaware company. VCS is a U.S. based mineral exploration and exploitation company focused on locations in Haiti.

At December 31, 2013, the Company owned 2,348,147 common shares of VCS, which represented a 12% equity interest in VCS. The investment in VCS shares have been recorded at cost of $1,141,720, which reflects total gross consideration paid.

VCS owns 98% of Delta Societe Miniere S.A. ("Delta"), a company incorporated pursuant to the laws of Haiti. Delta holds the mining rights pursuant to an Exploitation Permit issued by the Bureau of Mining and Energy covering 2,500 hectares in Northern Haiti (the "Morne Bossa Property") including the rights to 31 hectares of deeded area within the Morne Bossa Property.

As part of its agreement with VCS and Delta, the Company has been given the right to lease, for an initial period of 25 years, 15 acres within the Deeded Land on which it would be suitable to construct a rare earth refinery (the "Lease"). Pursuant to its agreement with VCS and Delta, the Investment also constitutes a pre-payment of the initial 25 year term of the Lease. The Company has also been given an option to enter into a second 25 year term at the end of the initial term.

In October 2013, VCS completed the acquisition of 100% of the issued and outstanding shares of SONO Global Holdings, Inc. ("SONO"), a company incorporated pursuant to the laws of the State of Nevada.

Considerations for the acquisition was VCS issuing 20% of its then issued shares and by VCS agreeing to advance US$407,533 to SONO to retire certain liabilities, SONO currently has permits on three prospective gold, silver and copper exploration and mining properties. The Haitian government Bureau of Mines issued two of the permits for mining and one for exploration, as follows:

- Terrier Rouge – 5400 hectares – mining exploitation permit;
- Ouanaminthe – 5300 hectares – mining exploitation permit; and
- Mont-Organise – 9400 hectares – mining prospective (exploration) permit.

As a result of the acquisition of SONO, the Company's interest in VCS was diluted to 12% from 15%.

6. Capital and Reserves

(a) Share Capital

Authorized: Unlimited common shares without par value.

Issued: 142,762,141 common shares

(b) Share Purchase Warrants

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

	# of Warrants	Weighted Average Exercise Price $	Expiry
Outstanding at March 31, 2012	3,419,754	0.44	
Expired during the period	(3,419,754)	0.44	
Issued during the period	28,000,000	0.10	September 2014
Outstanding at March 31 and December 31, 2013	28,000,000	0.10	

For all warrants issued during the year ended March 31, 2012, the fair values have been estimated using the Black-Scholes Option Pricing Model and the following assumptions: dividend yield of 0%, expected volatility of 85.25%, a risk-free interest rate of 0.95% and an expected life of 1 year. The value of the warrants reduced the proceeds attributed to share capital and are recognized under shareholders' equity as part of reserves.

For all warrants issued during the year ended March 31, 2013, the fair values have been estimated using the Black-Scholes Option Pricing Model and the following assumptions: dividend yield of 0%, expected volatility of 90.06%, a risk-free interest rate of 1.11% and an expected life of 2 years. The value of the warrants reduced the proceeds attributed to share capital and are recognized under shareholders' equity as part of reserves.

As at December 31, 2013, the following share purchase warrants were outstanding:

Number of common shares issuable	Exercise price $	Date of expiry
28,000,000	0.10	September 11, 2014
28,000,000		

(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. 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.

Two affiliated companies were previously granted options to acquire 5,000,000 shares of the Company at $0.10 per share, exercisable for 5 years and subject to the terms of the Company's Stock Option Plan which includes vesting in four equal installments over 18 months. An additional vesting requirement was imposed on 2,850,000 of these shares under option – 712,500 shares shall be released from the second vesting provision 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.

Stock option transactions for the nine month period ended December 31, 2013 and the year March 31, 2013 are as follows:

	Number	Weighted Average Exercise Price $
Options outstanding at March 31, 2012	8,740,000	0.35
Granted	14,825,000	0.10
Cancelled	(775,000)	0.32
Expired	(50,000)	0.35
Options outstanding at March 31, 2013	22,740,000	0.19
Granted	1,000,000	0.10
Cancelled	(983,607)	0.10
Options outstanding at December 31, 2013	22,756,393	0.19

The weighted-average fair value of options granted during the period ended December 31, 2013 was $0.10. Each option entitles the holder to purchase one common share.

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (yr)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.10 - $0.60	22,756,393	2.47	$ 0.19	19,295,078	$0.20

The following table summarizes information about the options outstanding at December 31, 2013 and March 31, 2013:

Expiry Dates	Exercise Price $	December 31, 2013 # of options	March 31, 2013 # of options
October 2014	0.10	16,393	-
January 2015	0.60	65,000	65,000
January 2015	0.55	2,150,000	2,150,000
April 2015	0.35	350,000	350,000
August 2015	0.35	100,000	100,000
January 2016	0.37	2,525,000	2,525,000
September 2016	0.37	100,000	100,000
January 2017	0.17	2,625,000	2,625,000
November 2017	0.10	14,825,000	14,825,000
		22,756,393	22,740,000

The Company applies the fair value method of accounting for share-based payments using an option pricing model.

Stock options granted to directors, officers and employees vested during the nine month period ended December 31, 2013 as follows:

Grant Date	# of Option Vested	Exercise Price $	Expiry Date	Fair Value Of Option $	Dividend Yield	Volatility	Risk-free Interest Rate	Expected Life
January 18, 2012	125,788	0.17	January 18, 2017	0.09	0%	87%	1.30%	5 yrs
November 8, 2012	4,700,887	0.10	November 9, 2017	0.04	0%	86%	1.32%	5 yrs
	4,826,674							

The Company has calculated $212,866 recorded as share-based payments expense and credited under capital stock as reserves for the 4,826,674 options vesting to directors, officers and employees during the period.

Stock options granted to non-employees vested during the nine month period ended December 31, 2013 as follows:

Grant Date	# of Option Vested	Exercise Price $	Expiry Date	Fair Value Of Option $	Dividend Yield	Volatility	Risk-free Interest Rate	Expected Life
January 18, 2012	4,982	0.17	January 18, 2017	0.09	0%	87%	1.30%	5 yrs
April 12, 2013	16,393	0.10	April 12, 2018	0.05	0%	112%	1.26%	5 yrs
	21,375							

The Company has calculated $984 recorded as share-based payments expense and credited under capital stock as reserves for the 21,375 options vesting to non-employees during the period.

Option pricing models require highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

7. Refundable security deposits

Refundable security deposits of $105,024 (March 31, 2013: $nil) represent amounts paid pursuant to a letter of intent (“LOI”) for the acquisition of its initial site for a rare earth refinery in the Pacific Northwest region of the United States. The first refundable deposit of US$50,000 was paid upon signing the LOI. The second refundable deposit of US$50,000 was paid on July 10, 2013.

8. Related Party Transactions

The Company paid or accrued the following amounts to related parties during the nine month periods ended December 31, 2013 and December 31, 2012:

Payee	Description of Relationship	Nature of Transaction	December 31, 2013 Amount $	December 31, 2012 Amount $
Stares Contracting Corp.	Company controlled by Michael Stares, Director	Payments for premises rental, equipment rentals, supply of labour and reimbursement of exploration expenditures	27,550	50,077
Gordon J. Fretwell Law Corporation	Company controlled by Gordon Fretwell, Secretary	Legal fees charged/accrued during the period	82,803	80,841
Benton Resources Inc.	Company related by common directorships and a common officer	Payments for shared office costs and advertising and promotion	-	5,099
Canadian Horizon Capital Corporation	Company controlled by Tracy A. Moore, President and CEO	Cash commission in connection with private placement	-	258,950
CEC Rare Earth Corporation	Company related by common directorships	Fees for consulting services	225,000	92,045
Moore Consulting Services Inc.	50% of Company owned by Tracy A. Moore, President & CEO	Fees for services as President and CEO	45,000	20,000

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 the amount of consideration established and agreed to by the related parties.

Included in accounts payable and accrued liabilities as at December 31, 2013 is $15,000 (2012 - $30,000) to Gordon J. Fretwell Law Corporation, $4,068 (2012 - $8,549) to Stares Contracting Corp., $nil to Benton Resources Corp. (2012 - $nil) and $25,000 (2012 - $nil) to CEC Rare Earth Corporation. The payment terms are similar to the payment terms of non-related party trade payables.

Key management personnel remuneration during the period included $186,429 (December 31, 2012 - $199,195) in salaries and benefits and $122,754 (December 31, 2012 - $203,544) in share-based payments. During the period ended December 31, 2012, property and equipment with a net book value of $116,211 was transferred to the previous President & CEO pursuant to a severance agreement between the Company and former CEO. The amount was written off in the statement of loss and comprehensive loss in wages and benefits.

9. Supplemental Cash Flow Information

The following transactions did not result in cash flows and have been excluded from operating, financing and investing activities in the cash flow statements:

	December 31, 2013	December 31, 2012
	$	$
Non-cash financing activities		
Common shares issued pursuant to property agreements	-	55,000
Non-cash investing activities		
Common shares issued pursuant to property agreements	-	(55,000)

10. Commitments

The Company has commitments as described in Note 4 with respect to certain agreements on its mineral property interests; however, such future payments remain entirely at the Company's option and only if it intends to maintain its interest in a particular property.