CANADA RARE EARTH CORP.

Condensed Consolidated Interim Financial Statements

(Stated in Canadian Dollars)

For the Three Months Ended June 30, 2018

CANADA RARE EARTH CORP.

June 30, 2018

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CANADA RARE EARTH CORP.
Condensed Consolidated Interim Statements of Financial Position

As at	Note	June 30 2018 $	March 31 2018 $
ASSETS			
Current			
Cash		1,294,208	1,502,098
Accounts receivable		127,453	-
Interest and other receivables	9	4,804	17,192
Prepaid expenses and deposits		318,293	323,113
Total current assets		1,744,758	1,842,403
Non-current			
Intangible assets	7	124,341	139,262
Mata Azul participation right	9	1	1
Promissory note	8	1	1
		124,343	139,264
Total assets		1,869,101	1,981,667
LIABILITIES			
Current			
Accounts payable and accrued liabilities	11	332,604	307,092
Convertible note	10	362,790	410,436
Derivative liability – warrants	10	256,250	459,900
Deferred revenue	14, 16	617,515	617,515
Total current liabilities		1,569,159	1,794,943
Non-current			
Accounts payable and accrued liabilities	11	250,000	250,000
Convertible note	10	507,906	516,622
Derivative liability – warrants	10	358,750	197,100
		1,116,656	963,722
Total liabilities		2,685,815	2,758,665
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	12	14,997,632	14,823,754
Reserves	12	8,057,587	8,009,100
Deficit		(23,871,933)	(23,609,852)
Total shareholders' equity (deficiency)		(816,714)	(776,998)
Total liabilities and shareholders' equity/deficiency		1,869,101	1,981,667

Note 2 c) – Going concern of operations
Note 17 – Commitments and contingent liabilities
Note 20 – Events after the reporting period

On behalf of the Company:

"Tracy A. Moore" Director — Tracy A. Moore
"Peter Shearing" Director — Peter Shearing

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

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

Three months ended June 30	Note	2018 $	2017 $
Revenue	18	127,453	525,495
Expenses			
Cost of sales	5,7,11,17	135,185	481,245
Consulting fees	11	114,500	37,500
Advertising and promotion		-	962
Listing, filing and transfer agent		1,007	879
Office and miscellaneous	11	3,438	6,047
Professional fees	11	-	4,999
Rent	11	10,212	7,884
Share-based payments	11	48,487	5,309
Travel and accommodations	11	17,167	2,017
Wages and benefits		-	817
		329,996	547,659
Loss before other items		(202,543)	(22,164)
Other income (expense)			
Foreign exchange gain (loss)	8, 9	50,087	(40,118)
Change in fair value of derivative liability	10	57,000	-
Accretion of interest on convertible note	10	(132,516)	-
Interest expense	10	(34,112)	-
Interest and investment income	8, 9	-	8,667
Net loss and comprehensive loss for the period		(262,081)	(53,615)
Loss per share – basic and diluted per common share	19	(0.00)	(0.00)
Weighted average shares outstanding, basic and diluted		169,841,240	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 (Deficiency)
(Prepared by Management – Unaudited)

	Share capital		Reserves	Deficit	Total
	Number of shares	Share capital $	$	$	$
Balance at March 31, 2017	166,940,141	14,823,754	7,868,329	(20,802,228)	1,889,855
Share-based payments	-	-	5,309	-	5,309
Loss and comprehensive loss for the period	-	-	-	(53,615)	(53,615)
Balance at June 30, 2017	166,940,141	14,823,754	7,873,638	(20,855,843)	1,841,549
Balance at March 31, 2018	166,940,141	14,823,754	8,009,100	(23,609,852)	(776,998)
Shares issued on note conversion	6,000,000	173,878	-	-	173,878
Share-based payments	-	-	48,487	-	48,487
Loss and comprehensive loss for the period	-	-	-	(262,081)	(262,081)
Balance at June 30, 2018	172,940,141	14,997,632	8,057,587	(23,871,933)	(816,714)

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)

Three months ended June 30	2018 $	2017 $
Cash flows provided by (used in):		
Operating activities		
Net loss and comprehensive loss for the period	(262,081)	(53,615)
Adjustments for:		
Share-based payments	48,487	5,309
Amortization	14,921	4,974
Changes in fair value of derivative liabilities	(57,000)	-
Unrealized foreign exchange loss on promissory note	-	38,640
Unrealized foreign exchange loss on interest receivable on promissory note	-	(656)
Unrealized foreign exchange loss on loan payable	-	(1,610)
Interest accrued on convertible loan	132,516	-
Interest and investment income	-	(6,232)
Changes in non-cash working capital items:		
Foreign exchange loss on cash	20,248	6,210
Accounts receivable	(127,453)	35,858
Interest and other receivables	12,388	1,210
Prepaid expenses and deposits	4,820	(35,745)
Accounts payable and accrued liabilities	25,512	9,802
Cash flows provided by / used in operating activities	(187,642)	4,145
Financing activities		
Repayment of loan, related party	-	(66,415)
Loan advances, related party	-	27,350
Cash flows used in financing activities	-	(39,065)
Effect of foreign exchange on cash	(20,248)	(6,210)
Change in cash during the period	(207,890)	(41,130)
Cash, beginning of period	1,502,098	45,599
Cash, end of period	1,294,208	4,469

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

1. Corporate Information

Canada Rare Earth Corp. ("Canada Rare Earth" or the "Company"), was incorporated under the laws of British Columbia on July 8, 1987. The Company is a development stage company developing a vertically and horizontally integrated business within the global rare earth industry. Historically, the Company was engaged in the exploration and development of precious metal and base metal mineral properties. More recently, its focus has been directed to properties with the potential to host rare earth elements. As the Company has become more involved in the rare earth sector and has gained greater knowledge of the global rare earth supply chain, management's attention has extended to the down-stream processing and sale of rare earth products. The Company's shares trade on the TSX Venture Exchange ("TSX-V") under the symbol "LL".

These condensed consolidated interim financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern (see note 2c).

The address of the Company's corporate office and principal place of business is 15th Floor – 1040 West Georgia Street, Vancouver, British Columbia, Canada, V6E 4H1.

2. Basis of Presentation

a) Statement of compliance

These condensed consolidated interim financial statements for the three month period ended June 30, 2018 have been prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with the Company's March 31, 2018 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, 2018 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 board of directors approved the release of these consolidated financial statements on August 29, 2018.

b) Basis of measurement

These consolidated interim financial statements have been prepared on a historical cost basis, as modified by the revaluation of available-for-sale financial assets and at fair value through profit or loss ("FVTPL"). The consolidated interim financial statements are presented in Canadian dollars, which is also the Company's functional currency.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

2. Basis of Presentation (continued)

c) Going concern of operations

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company incurred a loss of $262,081 during the three months ended June 30, 2018 (June 30, 2017 - $53,615) and, as of that date, the Company's deficit was $23,871,933 (March 31, 2018 - $23,609,852). The Company is dependent on its ability to raise additional debt, equity or general revenues to raise sufficient cash resources to meet its current financial obligations and plans including establishing an integrated business within the rare earth industry. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future. The Company had cash of $1,294,208 at June 30, 2018 (March 31, 2018 – $1,502,098) to meet current financial obligations of $951,644 (March 31, 2018 - $1,177,428).

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.

d) Basis of consolidation

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

3. Adoption of New Accounting Pronouncements and Recent Developments

The accounting policies applied in the preparation of these interim financial statements are consistent with those applied and disclosed in note 3 to the annual consolidated financial statements with exception of the following:

a) IFRS 9 *Financial Instruments*

On April 1, 2018, the Company adopted IFRS 9 - Financial Instruments ("IFRS 9") which replaced IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking 'expected loss' impairment model. IFRS 9 also includes significant changes to hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018. The Company adopted the standard using the modified retrospective approach. IFRS 9 did not impact the Company's classification and measurement of financial assets and liabilities. The standard also had negligible impact on the carrying amounts of the Company's financial instruments at the transition date.

The following summarizes the significant changes in IFRS 9 compared to the current standard:

• IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value. The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments for principal and interest. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. The change did not impact the carrying amounts of any of the Company's financial assets on transition date.

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

• The adoption of the new "expected credit loss" impairment model under IFRS 9, as opposed to an incurred credit loss model under IAS 39, had a negligible impact on the carrying amounts of the Company’s financial assets on the transition date given the Company transacts exclusively with a large established refinery and other organizations with strong credit ratings and the negligible historical level of customer default.

• The new general hedge accounting requirements retain the three types of hedge accounting mechanisms previously available under IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced. The Company had not designated any of its financial instruments as hedges as at March 31, 2018, or upon adoption of IFRS 9.

b) IFRS 15 *Revenue from Contracts*

On April 1, 2018, the Company adopted IFRS 15 - Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 18 - Revenue ("IAS 18"). IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2018. The Company adopted the standard on April 1, 2018, using the full retrospective approach without applying any practical expedients.

IFRS 15 requires entities to recognize revenue when ‘control’ of goods or services transfers to the customer whereas the previous standard, IAS 18, required entities to recognize revenue when the ‘risks and rewards’ of the goods or services transfer to the customer. The Company concluded there is no change in the timing of revenue recognition of its sale of oxides and rare earth concentrate under IFRS 15 compared to the previous standard as the point of transfer of risks and rewards of goods and services and transfer of control occur at the same time. As such, no adjustment was required to the Company's financial statements.

Additionally, IFRS 15 requires entities to apportion the transaction price attributable to contracts from customers to distinct performance obligations on a relative standalone selling price basis. The Company has evaluated its sales agreements and concluded delivery of individual sale of oxides and rare earth concentrate shipments are the only performance obligations in the contracts and accordingly there will be no change in the amount or timing of revenue recognition under the new standard.

Standards, amendments and interpretations not yet effective

c) IFRS 16 Leases

IFRS 16 was issued in January 2017 and specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

This standard is effective for reporting periods beginning on or after January 1, 2019.

IFRS 16 is applicable to all leases, including leases of “right-of-use assets” in a sublease. As disclosed in Note 19, the Company is both a lessee and lessor of commercial office property pursuant to sublease agreements. On April 1, 2019, the date of initial application, the Company must apply IFRS 16 either (i) retrospectively to each prior period presented in the financial statements or (ii) retrospectively with the cumulative effect of initial application being recognized as an adjustment to opening deficit without restatement of comparative information.

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

Under option (ii), the lease liability and right-of-use asset to be recognized on the statement financial position at the date of initial application are measured as follows:

- lease liability – at the present value of the remaining lease payments discounted using the Company's incremental borrowing rate at the date of initial application; and
- right-of-use asset – at either (i) its carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Company's incremental borrowing rate at the date of initial application; or (ii) an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognized in the statement of financial position immediately before the date of initial application.

Under option (ii), applicable disclosures under IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* are required.

The Company does not expect to early adopt standards, amendments, and interpretations not yet effective.

4. Critical Accounting Judgements, Estimates and Assumptions

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical judgments in applying accounting policies:

Critical Judgments

Going concern of operations

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

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.

Significant Estimates and Assumptions

Convertible note / Derivative liability

Management has made significant assumptions in the application of the Black-Scholes option-pricing model when calculating the fair value of the derivative liability and the residual fair value of the convertible note.

5. Acquisition of CEC Rare Earth Corp. Assets

In September 2015, the Company acquired assets from CEC Rare Earth Corp. ("REC"), an affiliated private British Columbia company.

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:

- *Royalty Stream A* – a royalty stream consisting of 5% of the first US$70 million or equivalent of non-refundable gross cash collected;
- *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.
- *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's major shareholder.

Effective August 31, 2016, the Company and REC entered into a Clarification Agreement for the purpose of calculating the royalty on trading activities. The royalty on trading activities is 13% of gross profit, with gross profit being defined as gross selling price less gross purchase price in $CDN.

As agreed between the Company and REC, the unearned rights option fee received is not considered to be "gross cash collected" for the purpose of royalty calculation.

For the three months ended June 30, 2018, the Company accrued $1,252 (June 30, 2017 - $5,752) of royalties payable to former shareholders of REC, reflected in the cost of sales.

6. Exploration and Evaluation Assets

Title to mineral property interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

During the three months ended June 30, 2018, and June 30, 2017, the Company did not incur any exploration expenditures and wrote off all capitalized acquisition costs.

During the year ended March 31, 2018, the Company allowed all the claims relating to the Springer property and 11 claims relating to the Red Wine Complex to lapse. As of June 30, 2018, the Company held an interest in the Red Wine Complex and Hinton Coal properties. The Company is seeking business opportunities for all its existing exploration and evaluation assets.

7. Intangible Assets

	Supply Agreements	Contracts	Memorandum Of Understanding	Customer Relationships	Total
	$	$	$	$	$
Cost					
March 31, 2017	99,472	29,842	3,979	99,472	232,765
Accumulated amortization and impairment					
At March 31, 2017	19,894	-	3,979	-	23,873
Amortization expense	19,894	6,632	-	33,157	59,683
Impairment provision	-	9,947	-	-	9,947
At March 31, 2018	39,788	16,579	3,979	33,157	93,503
Amortization expense	4,974	1,658	-	8,289	14,921
At June 30, 2018	44,762	18,237	3,979	41,446	108,424
Net book value					
At March 31, 2017	79,578	29,842	-	99,472	208,892
At March 31, 2018	59,684	13,263	-	66,315	139,262
At June 30, 2018	54,710	11,605	-	58,026	124,341

Supply Agreements

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

Contracts

The Company acquired a design, build and operating agreement to build a 3,000 tons 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.

Customer Relationships

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

Amortization expense of $14,921 (2017 - $4,974) is included in cost of sales.

8. Promissory Note

In September 2013, the Company acquired a 15% interest (2,348,147 common shares) in a private Delaware company ("Delaware Co."). Delaware Co. is a mineral exploration and exploitation company. The Master Agreement comprised a Common Stock Purchase Agreement ("CSPA") and a Land Lease Agreement ("LLA"). Pursuant to the CSPA, the Company paid US$1,100,000 ($1,141,720) for its 15% interest 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 Delaware Co., 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. In addition, 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.

On April 10, 2017, the Company entered into a restructuring agreement (the "2017 Restructuring Agreement") with Delaware Co. to convert the promissory note into shares of two private Haitian companies and one private US company once certain conditions are met.

During the year ended March 31, 2018, it was determined that collectability of the promissory note were uncertain and, accordingly, the promissory note was written down to $1 at March 31, 2018 and the related accrued interest receivable was written off.

See Note 20.

9. Mata Azul Participation Right

In July 2014, the Company paid US$35,000 ($38,548) to Mineracao Mata Azul S.A. ("Mata Azul") and entered into a long-term rights agreement to purchase all of the rare earth concentrate to be produced from the Mata Azul property. Pursuant to the longer term supply/sales agreement, the Company has the right but not the obligation to purchase all of the rare earth concentrate produced from the Mata Azul property. The duration of the agreement is for 20 years commencing with production plus automatic extensions under certain situations.

During the year ended March 31, 2018, it was determined that recoverability of the participation right and collectability of the US$12,500 loan advanced in November 2014 were uncertain. Accordingly, the participation right and the loan were each written down to $1 at March 31, 2018 and the related accrued interest receivable was written off.

10. Convertible Note

On January 1, 2018, the Company entered into a Convertible Loan Agreement (the "CLA") with Talaxis Limited ("Talaxis" or the "Lender") pursuant to which Talaxis advanced $1,500,000 to the Company on January 30, 2018 (the "Advance Date") for the purpose of providing working capital. Pursuant to the CLA, the loan:

- is comprised of two tranches – tranche A ($800,000) due and payable 12 months after the Advance Date and tranche B ($700,000) due and payable 24 months after the Advance Date;
- bears interest at 12% per annum, payable semi-annually, not in advance, accruing without compounding until the maturity date with the first interest payment being due six months after the Advance Date and the final payment of the relevant tranche being made on the maturity date;
- is unsecured and evidenced by the CLA and a convertible promissory note; and
- is repayable or convertible into units and common shares of the Company at the Lender's sole discretion as follows:
    - tranche A loan – the first $300,000 is convertible into units at $0.05 per unit and the next $500,000 at $0.075 per unit during the first 12 months of the Advance Date or must be repaid in full on the 12 month after the Advance Date; and
    - tranche B loan – the first $533,333 is convertible into units at $0.10 per unit and the next $166,667 at $0.10 per share unit during the first 24 months of the Advance Date or must be repaid in full on the 24 month after the Advance Date.

Each unit is comprised of one common share of the Company plus one half of a warrant. Each share purchase warrant is exercisable at the greater of (i) $0.10 and (ii) the 10-day value weighted average price of the Company's common shares on the TSX Venture Exchange less 15%, for a period of 30 months from the Advance Date.

Upon providing the Lender with 15 days written notice, the Company has the right to repay the loan at any time with minimum payments of $500,000 subject to the Lender's conversion rights in respect to the proposed repayment amount.

In June 2018, the Company issued to Talaxis 6 million common shares and 3 million warrants in consideration of Talaxis converting the first $300,000 of tranche A (see Note 12). The conversion is recorded at the carrying amount of debt and the conversion option. The Company has potentially additional 6,000,000 warrants issuable if all of the remaining loan is converted.

Pursuant to IFRS (*IAS 32 – Financial Instruments: Presentation*), the convertible promissory note is comprised of two components, being a liability host contract (the convertible note) plus a separate conversion feature. Because the conversion feature does not meet the "fixed-for-fixed" criterion, it fails equity classification which means that it is a financial liability. The conversion feature is a derivative liability because it is a written option that provides the Lender with a choice over whether the convertible note is exchanged for shares or cash. This links with the definition of a derivative in IAS 39 – *Financial Instruments: Recognition and Measurement* with all three characteristics of a derivative being met. The conversion feature is accounted for separately from the host contract, because the fair value of the conversion feature is affected by changes in the fair value of the Company's shares and the fair value of the host loan is not. Accordingly, the conversion feature is not "closely related" to the host contract. The effect of this is that the convertible note has been accounted for at amortized cost, with the embedded derivative being measured at fair value with changes in fair value being recorded in profit or loss. Pursuant to IAS 39, the fair value of the embedded derivative liability is calculated first and the residual value is assigned to the debt host liability component.

10. Convertible Note (continued)

At inception, the proceeds of $1,500,000 were allocated between the fair value of the convertible note ($834,000) and the fair value of the derivative liability ($666,000). The convertible note is being accreted to its face value over the term of the obligation. The accretion charge for the three months ended was $132,516 (March 31, 2018 - $93,058) and is recorded as interest expense. At June 30, 2018, $34,112 (March 31, 2018 - $29,589) in accrued interest is included in accounts payable and accrued liabilities. At June 30, 2018, the carrying amount of the convertible note was as follows:

	June 30, 2018 $	March 31, 2018 $
Convertible note issued/carried forward	927,058	1,500,000
Fair value of derivative liability	-	(666,000)
Accretion	132,516	93,058
Converted to equity	(188,878)	-
	870,695	927,058
Current portion	(362,790)	(410,436)
Long-term portion	507,905	516,622
Principal	1,200,000	1,500,000
Future accretion	(329,305)	(572,942)
Carrying amount	870,695	927,058

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

	June 30, 2018	March 31, 2018
Volatility	192.68% - 219.37%	228.71 – 229.50%
Expected life	2.08 – 2.45 years	2.33 – 2.50 years
Risk-free interest rate	1.91%	1.71 – 1.76%
Dividend yield	0%	0%

11. Related Party Transactions

Key management personnel compensation was:

Three Months ended June 30	2018 $	2017 $
Short-term benefits	109,500	37,500
Share-based payments	46,194	3,136
	155,694	40,636

The short-term benefits were paid or accrued to management and directors of the Company or to companies controlled by management and directors.

The Board of Directors approved executive compensation plans ("ECPs") for the Chief Executive Officer ("CEO") and Chief Operating Officer ("COO") of the Company for the years ended March 31, 2017 and 2018 in December 2017 and March 2018 respectively. Prior to the approval of the ECPs, the CEO and COO each received annual base compensation of $60,000. Pursuant to the ECPs, the base compensation was increased to $204,000.

11. Related Party Transactions (continued)

Each ECP has a one-year term, with the follow on ECP usually being negotiated and finalized prior to the expiry of, and being no less favourable than, the current one. Pursuant to the ECPs, the CEO and COO are entitled to the following bonus compensation:

- a performance bonus to a maximum of $156,000 based on achieving specified annual milestones approved by Board of Directors;
- a public market performance bonus to a maximum of $45,000 based on achieving specified levels of market capitalization;
- a minimum of 500,000 in stock options priced at market (but not less than $0.05 per share) vesting over 18 months; and
- additional bonuses at the discretion of the Board of Directors.

The Company also paid or accrued $18,527 (June 30, 2017 - $25,836) to certain officers and directors or to companies controlled by certain officers and directors for reimbursement of travel and other related expenses.

During the three months ended June 30, 2018, $8,054 (June 30, 2017 - $8,077) 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. See Note 17.

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 $467,892 included in accounts payable and accrued liabilities that was payable to related parties as at June 30, 2018 (March 31, 2018 - $443,892). The payment terms are similar to the payment terms of non-related party trade payables. Of this amount, the CEO and COO have each agreed to defer payment of $125,000 in consulting fees until October 2019. Accordingly, $250,000 has been presented as long-term.

12. Share Capital and Reserves

a) Share Capital

Authorized: Unlimited common shares without par value.

Issued: 172,940,141 (March 31, 2018 – 166,940,141) common shares.

Share Issuance

In June 2018, the Company issued to Talaxis 6 million common shares and 3 million warrants in consideration of Talaxis converting the first $300,000 of Tranche A under the convertible note (see Note 10).

b) Stock Options

The Company may grant options to the Company's directors, officers, employees and service providers under the Company's stock option plan. In March 2017, the shareholders of the Company approved an increase in the number of options reserved for issuance under the plan to 33,880,028. The plan was amended so that the number of shares reserved for issuance is 20% of the Company's outstanding shares. The Company recognizes share-based payments in connection with stock options granted over their respective vesting periods, with stock options typically vesting in various increments and having a maximum term of five years.

In April 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 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 of the Company to purchase up to 100,000 common shares at a price of $0.05 until April 3, 2022. The options vest in four equal instalments over 18 months.

In December 2017, the Company granted stock options to officers, directors and consultants to purchase up to 7,925,000 common shares at an exercise price of $0.05 until December 4, 2022. The options vest in four equal instalments over eighteen months. Of these options, 2,800,000 options have additional 'earn out' vesting conditions.

The weighted average grant-date fair value of options awarded in the three months ended June 30, 2018 was $nil (June 30, 2017 - $0.03). The Company employed the Black-Scholes option-pricing model using the following weighted average assumptions:

	2018	2017
Volatility	-	157%
Expected life	-	5 years
Risk-free interest rate	-	1.10%
Dividend yield	-	0%

12. Share Capital and Reserves (continued)

b) Stock Options (continued)

A summary of stock option activity to June 30, 2018 is as follows:

	Number	Weighted Average Exercise Price $
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 March 31, 2018 and June 30, 2018	16,450,000	0.05

The Company's outstanding and exercisable stock options at June 30, 2018 were:

	Outstanding Options			Exercisable Options	
Expiry Date	Number	Weighted Average Remaining Life	Weighted Average Exercise Price $	Number	Weighted Average Exercise Price $
February 2020	250,000	1.63	0.05	250,000	0.05
July 2020	7,575,000	2.02	0.05	7,575,000	0.05
April 2021	300,000	2.76	0.05	300,000	0.05
February 2022	300,000	3.65	0.05	225,000	0.05
April 2022	100,000	3.76	0.05	75,000	0.05
December 2022	7,925,000	4.43	0.05	3,962,500	0.05
	16,450,000	3.48	0.05	12,387,500	0.05

Also see Note 20.

c) Warrants

The Company's outstanding warrants at June 30, 2018 were:

	Number of warrants	Weighted average exercise price $	Expiry Date
March 31, 2018	-	-	
Issued	3,000,000	0.10	July 31, 2020
June 30, 2018	3,000,000	0.10	

The Company has potentially additional 6,000,000 warrants issuable if all of the remaining loan is converted (see Note 10).

13. Agreement to Purchase a Rare Earth Refinery

In May 2016, the Company entered into an agreement to purchase 60% of the issued and outstanding shares of a company based in Laos ("LaosCo"). LaosCo owns a full capability rare earth refinery that is designed to process rare earth concentrate and separate the concentrate into the entire spectrum of commercially traded rare earths including light and heavy elements. LaosCo's future development plans include extending operating capabilities and rare earth metal making.

In August 2017, the Company, LaosCo and the current owner of LaosCo entered into a Purchase and Sale Agreement (the "PSA") replacing all previous agreements between the parties pertaining to the refinery. Pursuant to the PSA:

i) the Company will continue to take responsibility for the application and issuance of the final operating permits ("FOPs") authorizing the operation of the refinery;

ii) if and when the FOPs are issued the Company will have earned:

    i) the right of first refusal to sell concentrate to LaosCo to the full extent of the refinery's requirements;

    ii) the right of first refusal to sell products produced by the refinery to the full extent of production; and

    iii) the right to purchase 60% of the issued and outstanding shares of LaosCo (the "CREC Option") for an amount and price of equity to be negotiated between the parties based on market conditions, capabilities of the refinery, working capital requirements of the refinery and the amount of funds raised by the Company.

iii) simultaneous with the permitting efforts, the Company will seek to raise between US$50 million and US$110 million to purchase LaosCo equity and to contribute to the working capital requirements through a special purpose vehicle so as to not dilute shareholders of the Company. After the purchase of the LaosCo shares, the shareholders of LaosCo will be required to contribute working capital to LaosCo for the operations of the refinery in proportion to their respective equity holdings; and

iv) the Company and its financiers will have six months from the receipt of the FOPs to complete negotiations for the purchase of the LaosCo shares, to pay for the LaosCo shares and to contribute to the working capital requirements.

In February 2018, the Company entered into a Rights Agreement (the "RA") with an arm's length company with an officer who is also a director of the Company (the "Investor Group") whereby the Company granted the Investor Group the exclusive right to acquire 83.33% of the CREC Option in consideration for a non-refundable option fee of US$500,000 ($617,515). Pursuant to the RA, if the Investor Group exercises its right it must, subject to the terms and conditions of the agreement noted below:

- raise working capital to support operations of the refinery with the assistance of the Company; and
- pay the entire amount required by the Company to exercise the CREC Option within five months of the issuance of the FOPs or as mutually agreed.

The deferred revenue of US$500,000 ($617,515) is not a financial liability.

If the Investor Group successfully exercises its right, it will be granted a similar exclusive right for the next available refinery optioned to the Company. If that right is successfully exercised, then a similar follow on option will be granted. If the FOPs are not issued by August 31, 2018, the Company will grant the Investor Group a similar option for the next available refinery optioned to it.

The Company will recognize the non-refundable option fee as revenue on the earliest to occur of (i) the date of issuance of the FOPs and (ii) September 30, 2018.

14. Agreement to Purchase a Rare Earth Refinery (continued)

In May 2018, the current owner of LaosCo, the Investor Group and the Company further documented their relationship regarding LaosCo through a term sheet (the Term Sheet") which supersedes all previous correspondence, agreements and understandings between the parties except for the RA and the PSA. Pursuant to the Term Sheet, the key terms were confirmed and certain requirements were modified or specified including:

- the Investor Group is to provide a certain amount of working capital within 30 and 60 days of the issuance of the FOPs;
- if the FOPs are not received by September 30, 2018, the Company, in addition to this transaction, will grant the Investor Group a similar right to purchase an interest in the next available refinery optioned to the Company; and
- the Term Sheet will remain in force until the earlier of (i) the execution of the definitive agreement, (ii) five months after the issuance of the FOPs and (iii) June 1, 2019.

As at June 30, 2018, the FOPs had not been issued.

The RA will terminate on the earliest of a written agreement to terminate, failure to close the transaction within five months of issuance of the FOPs or as mutually agreed, or upon notice to the defaulting party by the other party.

15. Capital Disclosures

The Company's objectives when managing capital are as follows:

- To safeguard the Company's ability to continue as a going concern;
- To raise sufficient capital to finance its trading activities; and
- To raise sufficient capital to meet its general and administrative expenditures.

The Company manages its capital structure and makes adjustments to it based on the general economic conditions and its short-term working capital requirements. The Company may increase its capital by issuing flow-through or non-flow-through common shares, or by obtaining additional financing.

The Company utilizes annual capital and operating expenditure budgets to facilitate the management of its capital requirements. These budgets are approved by management and updated for changes in the underlying assumptions as necessary.

There were no changes in the Company's approach to managing capital during the year.

In order to maintain or adjust the capital structure, the Company considers the following:

i. Incremental investment and acquisition opportunities;
ii. Equity and debt capital available from capital markets;
iii. Equity and debt credit that may be obtainable from the marketplace as a result of growth in mineral reserves;
iv. Sale of assets;
v. Limiting the size of the exploration programs; and
vi. New share issuances if available on favourable terms.

Except as otherwise disclosed, the Company is not subject to any external financial covenants at June 30, 2018.

16. 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, accounts receivable, deposits, promissory note and interest 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 monitors and controls its risks and exposures through financial and credit based systems and to a large extent through personal relationships and, accordingly, believes that it has procedures in place for evaluating and limiting the credit risks to which it is

a) Credit risk (continued)

i) Trade credit risk (continued)

subject. Credit is subject to ongoing management review.

ii) Cash

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

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet is financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure. The Company monitors and reviews current and future cash requirements and matches the maturity profile of financial assets and liabilities. At March 31, 2018, the Company had cash of $1,294,208 to meet current financial liabilities of $951,644.

Deferred revenue is not a financial liability (see Note 14).

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

c) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices and is comprised of currency risk, interest rate risk, and other price risk. The Company currently does not have any financial instruments that would be impacted by changes in market prices.

d) Foreign currency exchange rate risk

The Company is exposed to foreign currency fluctuations as it has cash, prepaid expenses and deposits and promissory note 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 $163,000.

Financial instruments denominated in foreign currencies are:

At June 30, 2018	US Dollars
Assets	1,334,045
Liabilities	-
Exchange rate / $1.00 =	.7594

16. Risk Management (continued)

At March 31, 2018	US Dollars
Assets	1,393,384
Liabilities	18,516
Exchange rate / $1.00 =	.7756

e) Risk of economic dependency

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

f) Fair value of financial instruments

The fair value of the Company's financial assets and liabilities, excluding the convertible note and derivative liability – warrants, approximates the carrying amount due to their short term nature and capacity for prompt liquidation. See Note 10 for the fair value of the derivative liability - warrants. Deferred revenue is not a financial liability.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The following is an analysis of the Company's financial assets and liabilities which are measured at fair value as at June 30, 2018 and March 31, 2018:

	As at June 30, 2018		
	Level 1 $	Level 2 $	Level 3 $
Cash	1,294,208	-	-
Derivative liability - warrants	-	-	594,000

	As at March 31, 2018		
	Level 1 $	Level 2 $	Level 3 $
Cash	1,502,098	-	-
Derivative liability - warrants	-	-	615,000

There were no transfers between Level 1, 2 or 3 during the three months ended June 30, 2018 and year ended March 31, 2018.

17. Commitments and Contingent Liabilities

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 March 31, 2018 are:

Year ending March 31	$
2019	46,719
2020	66,864
2021	67,280
2022	5,607
	186,470

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% of gross profit on trading activities to REC shareholders (see Note 5).

Pursuant to the Company's contracts for the sale of concentrate to a rare earth company in Asia, the buyer has the right to the following claims within 90 days and 12 months after arrival of the goods at destination based on an inspection certificate issued by the relevant government inspection authority:

- within 90 days – the right to claim for replacement with new goods or for compensation if the quality, specification or quantity is not in conformity with the contract; and
- within 12 months – as regarding quality based on the Company's guarantee that if damages occur in the course of operation as a result of inferior quality, bad workmanship or the use of inferior materials, the right to claim for immediate replacement of the defect, complete or partial replacement of the commodity, devaluation of the commodity according to the state of the defect(s) or, where necessary, elimination of the defects at the Company's expense.

18. Revenue

During the three months ended June 30, 2018, 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. The price of the rare earth concentrate is fully hedged at the onset of the purchase of each shipment.

Following is an analysis of Company's revenue for the three months ended June 30, 2018 and 2017:

Three months ended June 30	2018 $	2017 $
Revenue from sale of oxides and rare earth concentrate	127,453	525,495

During the three months ended June 30, 2018 and 2017, substantially all of the Company's revenue from the sale of oxides and rare earth concentrate was from one company in Asia.

19. Loss Per Share

Three months ended June 30	2018	2017
Net loss for the period ($)	(262,081)	(53,615)
Weighted average number of common shares outstanding	169,841,240	166,940,141
Loss per share, basic and diluted ($ per share)	(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.

20. Events After the Reporting Period

a) In July 2018, the Company entered into an agreement to revise the 2017 Restructuring Agreement (the “2018 Restructuring Agreement”) based on details provided by management of Delaware Co. including estimated assumptions pertaining to mine life, ore recovery and sales over a six year period. Details of the latest restructuring include:

- converting the Company’s position into a certain equity percentage of two companies which hold prospective gold, silver and copper properties;
- obtaining the right to receive a specified percentage of net profit interest received from the two prospective properties until US$1.3 million has been recouped and then receive distributions in proportion to its equity holdings; and
- reinstating the original land lease for 25 years with an option for a further 25 years on previously agreed terms, in the event the Company does not recover at least US$675,000 within two years from commencement of commercial mining operations or commercial mining operations do not commence within five years of the effective date of the anticipated new Mining Act affecting the two properties.

See Note 8.

b) In July 2018, the Company entered into a consulting agreement with a third party consultant whereby the consultant, who has been providing on going specified business development services and, if successful, was to be compensated through the issuance of 3 million common shares of the Company and the grant of options enabling the purchase of 2 million common shares. The consulting agreement, which was subject to regulatory approval, was not approved and was cancelled. Subsequently, the Company entered into a new consulting agreement with the third party recognizing that the consultant has provided services since June 1, 2017 and will continue to do so until December 31, 2019. In consideration, the Company granted to the Consultant options to acquire 3,400,000 shares of the Company, exercisable at $0.065 per share until December 31, 2019. The options vest based on a milestone achievement.

c) In July 2018, management was advised of a potential quality issue that may have occurred during shipment of a batch of rare earths concentrate during the year. Management is investigating to determine the validity of the issue and actions required to resolve the issue. At this point, management cannot make a determination of an amount, if any, required to resolve the issue and, accordingly, has not recorded a provision in the financial statements at June 30, 2018.