NOTICE TO SHAREHOLDERS

Canada Rare Earth Corp.

(A Development Stage Enterprise)

Condensed Consolidated Interim Financial Statements

For the three months ended June 30, 2014

(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 June 30, 2014.

CANADA RARE EARTH CORP.
(A Development Stage Enterprise)

June 30, 2014 and 2013

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CANADA RARE EARTH CORP.
(A Development Stage Enterprise)

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

As at	**June 30, 2014 $ (Unaudited)**	March 31, 2014 $ (Audited)
ASSETS		
Current		
Cash	**39,013**	232,671
Short-term investments (Note 3)	**1,000,000**	1,000,000
Interest and other receivables	**15,539**	15,766
Prepaid expenses and deposits	**5,082**	7,129
Refundable security deposits (Note 4)	**105,024**	105,024
	1,164,658	1,360,590
Non-Current		
Exploration and evaluation assets (Note 5)	**1,895,004**	1,895,004
Long-term investments (Note 6)	**1,141,720**	1,141,720
	3,036,724	3,036,724
Total assets	**4,201,382**	4,397,314
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 7)	**54,997**	44,111
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	**14,340,194**	14,340,194
Reserves (Note 8)	**7,709,311**	7,698,256
Deficit	**(17,903,120)**	(17,685,247)
Total shareholders' equity	**4,146,385**	4,353,203
Total liabilities and shareholders' equity	**4,201,382**	4,397,314

See Note 1 – Nature and Continuance of Operations

These condensed consolidated interim financial statements are authorized for issue by the Board of Directors on August 22, 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.
(A Development Stage Enterprise)

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

	Three Months Ended June 30, 2014 $	Three Months Ended June 30, 2013 $
Exploration costs (Note 5,7)	21,365	19,212
Expenses		
Consulting fees (Note 7)	90,000	109,500
Advertising and promotion	-	11,137
Listing, filing and transfer agent	16,055	10,617
Office and miscallaneous (Note 7)	7,853	7,673
Professional fees	26,009	10,077
Rent (Note 7)	5,400	5,400
Share-based payments (Note 8(c))	11,055	132,413
Travel and accommodations	(317)	28,639
Wages and benefits	43,445	46,888
	199,500	362,344
Loss before the following:	(220,865)	(381,556)
Interest and investment income	2,992	10,681
Loss and comprehensive loss for the period	(217,873)	(370,875)
Loss per share - basic and diluted	0.00	0.00
Weighted Average Shares Outstanding - basic and diluted	142,762,141	142,762,141

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

CANADA RARE EARTH CORP.
(A Development Stage Enterprise)

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
(Prepared by Management - Unaudited)
For the three months ended June 30, 2014 and 2013

	Share capital		Reserves			
	Number of shares	**Share capital**	**Warrants**	**Equity settled benefits**	**Deficit**	**Total**
	#	**$**	**$**	**$**	**$**	**$**
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	-	-	-	132,413	-	132,413
Loss and comprehensive loss for the period	-	-	-	-	(370,875)	(370,875)
Balance at June 30, 2013	**142,762,141**	**14,340,194**	**952,000**	**6,638,345**	**(15,422,381)**	**6,508,158**
Balance at April 1, 2014	142,762,141	14,340,194	952,000	6,746,256	(17,685,247)	4,353,203
Share-based payments	-	-	-	11,055	-	11,055
Loss and comprehensive loss for the period	-	-	-	-	(217,873)	(217,873)
Balance at June 30, 2014	**142,762,141**	**14,340,194**	**952,000**	**6,757,311**	**(17,903,120)**	**4,146,385**

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

CANADA RARE EARTH CORP.
(A Development Stage Enterprise)

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

	Three Months Ended June 30, 2014 $	Three Months Ended June 30, 2013 $
CASH FLOWS PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Loss and comprehensive loss for the period	(217,873)	(370,875)
Share-based payments	11,055	132,413
Decrease in interest and other receivables	227	6,594
Decrease in prepaid expenses	2,047	3,231
Increase in refundable security deposits	-	(52,059)
Increase (decrease) in accounts payable and accrued liabilities	10,886	(21,603)
Cash flows used in operating activities	(193,658)	(302,299)
INVESTING ACTIVITIES		
Acquisition of exploration and evaluation assets	-	(53,581)
Net redemption (purchase) of short-term investments	-	300,000
Cash flows provided by investing activities	-	246,419
Decrease in cash	(193,658)	(55,880)
Cash, beginning of period	232,671	117,793
Cash, end of period	39,013	61,913

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", 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, among other factors.

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 June 30, 2014 the Company has working capital in the amount of $1,109,661 (March 31, 2014: $1,316,479) and has a deficit in the amount of $17,903,120 (March 31, 2014: $17,685,247). 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, 2014.

The policies applied in these financial statements are based on IFRS issued and outstanding as of August 22, 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 June 30, 2014.

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, 2014.

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.

3. Short-term Investments

As at June 30, 2014 the Company held $1,000,000 (March 31, 2014: $1,000,000) 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. Refundable security deposits

Refundable security deposits of $105,024 (March 31, 2014: $105,024), which represents 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.

5. Exploration and evaluation assets

The Company has capitalized the following acquisition costs of its mineral property interests during the year ended March 31, 2014 and three months ended June 30, 2014:

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	
Mineral Interests	Springer $	Red Wine $	Clay-Howells $	Coldwell Complex $	Hinton Coal $	Manitouwadge Graphite $	Other $	Total $
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	53,753	-	2,706	-	-	-	-	56,459
Write-downs	(537,276)	(702,406)	(23,589)	(108,336)	-	(4,809)	(71,448)	(1,447,864)
Balance, March 31, 2014	50,000	374,061	408,572	13,666	1,020,000	28,705	-	1,895,004
Acquisition costs for the year	-	-	-	-	-	-	-	-
Write-downs	-	-	-	-	-	-	-	-
Balance, June 30, 2014	50,000	374,061	408,572	13,666	1,020,000	28,705	-	1,895,004

During the three month period ended June 30, 2014, the Company incurred the following exploration expenditures that were expensed as incurred:

Exploration Expenditures	Springer $	Red Wine Complex $	Clay-Howells $	Coldwell Complex $	Manitouwadge Graphite $	Other $	Total $
Other	41	6,900	-	-	-	14,424	21,365
Exploration Expenditures for the period	41	6,900	-	-	-	14,424	21,365

During the three month period ended June 30, 2013, the Company incurred the following exploration expenditures that were expensed as incurred:

Exploration Expenditures	Springer $	Red Wine Complex $	Clay-Howells $	Coldwell Complex $	Manitouwadge Graphite $	Total $
Geology	2,970	325	-	-	100	3,395
Diamond drilling	15,777	-	-	-	-	15,777
Other	-	-	40	-	-	40
Exploration Expenditures for the period	18,747	325	40	-	100	19,212

(a) Springer

(i) Lavergne prospect

On June 7, 2011, the Company completed agreements to acquire the mineral rights to one patented claim comprising approximately 130 hectares of the Lavergne-Springer rare earth prospect in Springer Township, located immediately north of the town of Sturgeon Falls and 80 km east of Sudbury, Ontario.

The Company terminated this option and therefore at the March 31, 2014 year end the Company wrote off $243,591 in related acquisition costs.

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). The Company acquired these surface rights in 2012 and retains them.

(ii) Springer - Zimtu

During the year ended March 31, 2014, the Company wrote off $273,130 in related acquisition costs as the company is no longer exploring the property.

(iii) Springer-Field-Pedley

The property is currently comprised of 51 claim units located in Springer Township and the adjacent townships of Field to the north and Pedley to the east.

(b) Red Wine Complex

The Company has acquired, by an option agreement and staking, three properties: Mann #1 (48 claim units), Two Tom Lake (34 claim units) and Dory Pond (155 claim units acquired by staking) in Labrador. The properties, together with the property known as the Zimtu Property, are 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 amended option agreement dated September 6, 2012, the Company owns the property 100%. The Optionors retain a 2% NSR of which the Company has the right to purchase one-half (1%) of the NSR from the Optionors for $1,000,000.

Dory Pond

The Dory Pond prospect consists of 155 claims acquired by the Company through staking.

Red Wine Property - Zimtu

Pursuant to an amended option agreement dated September 6, 2012, the Company owns the property 100%. The Optionors retain a 2% NSR of which the Company has the right to purchase one-half (1%) of the NSR from the Optionors for $1,000,000.

During the year ended March 31, 2014, the Company allowed 450 claim units to lapse or decided not to renew certain claims that were expiring during fiscal 2015, reducing the size of the property to 50 claim units.

(c) <u>Clay-Howells Property</u>

The Clay-Howells property consists of 45 patented claims (mining and surface) of approximately 720 hectares and 32 unpatented claims (mining) 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) <u>Coldwell Complex</u>

During fiscal 2011, the Company completed the staking of 740 claim units located in the Coldwell Alkaline Complex in Northern Ontario. Various claims lapsed during fiscal 2014 reducing the property to 83 claim units.

(e) <u>Hinton Coal Property</u>

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) <u>Manitouwadge Graphite Property</u>

The Manitouwadge Graphite Property, located in Flanders Township within the Thunder Bay Mining Division, Ontario and in Foch Township within the Porcupine Mining Division, consists of 15 claims totaling 200 unpatented claim units acquired by staking and centered around the Thomas Lake Road Graphite Occurrence.

(g) <u>Other</u>

Included in Other are the following: Mata Azul.

6. Long-term investments

The Company currently owns an investment in the common shares of a private Delaware company ("Delaware Co."). Delaware Co. is a U.S. based mineral exploration and exploitation company.

At June 30, 2014, the Company owned 2,348,147 common shares of Delaware Co., which represented a 12% equity interest in Delaware Co. The investment in Delaware Co. shares have been recorded at cost of $1,141,720, which reflects total gross consideration paid.

As part of its agreement to purchase the shares of Delaware Co., the Company also obtained the right to lease, for an initial period of 25 years, 15 acres of deeded land. The Company has also been given an option to enter into a second 25 year term at the end of the initial term.

7. Related Party Transactions

The Company paid or accrued the following amounts to related parties during the three months ended June 30, 2014 and June 30, 2013:

Payee	Description of Relationship	Nature of Transaction	June 30, 2014 Amount $	June 30, 2013 Amount $
Stares Contracting Corp.	Company controlled by Michael Stares, Director	Payments for premises rental, supply of labour and reimbursement of exploration expenditures	5,400	5,400
Gordon J. Fretwell Law Corporation	Company controlled by Gordon Fretwell, Secretary	Legal fees charged/accrued during the period	16,390	5,000
CEC Rare Earth Corporation	Company related by common directorships	Fees for consulting services	75,000	75,000
Moore Consulting Services Inc.	50% of Company owned by Tracy A. Moore, President & CEO	Fees for services as President and CEO	15,000	15,000

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 June 30, 2014 is $15,000 (2013 - $35,000) to Gordon J. Fretwell Law Corporation and $4,068 (2013 - $2,034) to Stares Contracting Corp., The payment terms are similar to the payment terms of non-related party trade payables.

Key management personnel remuneration during the period included $50,938 (June 30, 2013 - $39,548) in salaries and benefits and $5,300 (June 30, 2013 - $62,177) in share-based payments.

8. 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, 2013	28,000,000	0.10	September 2014
Expired during the period	-	-	
Issued during the period	-	-	
Outstanding at March 31 and June 30, 2014	28,000,000	0.10	

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 June 30, 2014, 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 granted options during the 2013 fiscal year 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 three month period ended June 30, 2014 and the year March 31, 2014 are as follows:

	Number	Weighted Average Exercise Price $
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 March 31 and June 30, 2014	22,756,393	0.19

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	1.97	$ 0.19	20,002,393	$0.20

The following table summarizes information about the options outstanding at June 30, 2014 and March 31, 2014:

Expiry Dates	Exercise Price $	June 30, 2014 # of options	March 31, 2014 # of options
October 2014	0.10	16,393	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	22,756,393

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 three month period ended June 30, 2014 as follows:

Grant Date	# of Options Vested	Exercise Price $	Expiry Date	Fair Value Of Option $	Dividend Yield	Volatility	Risk-free Interest Rate	Expected Life
November 8, 2012	208,356	0.10	November 9, 2017	0.04	0%	86%	1.32%	5 yrs
	208,356							

The Company has calculated $11,055 (2013 - $109,813) recorded as share-based payments expense and credited under capital stock as reserves for the 208,356 (2013 – 2,445,333) options vesting to directors, officers and employees during the period.

The Company has calculated $nil (2013 – 22,600) recorded as share-based payments expense and credited under capital stock as reserves for the nil (2013 – 453,425) 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.

9. Commitments

The Company has commitments as described in Note 5 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.

The Company's consulting agreement with CEC Rare Earth Corp. ("REC"), may be terminated with three months' notice. Based on this required notice, the Company has a commitment to pay three months of fees totaling $75,000 to REC in the future.

10. Loss per Share

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.