Canada Rare Earth Corp.

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

Consolidated Financial Statements

For the years ended March 31, 2014 and 2013

(Stated in Canadian Dollars)

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

March 31, 2014 and 2013

DeVISSER GRAY *LLP*
CHARTERED ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Canada Rare Earth Corp.,

We have audited the accompanying consolidated financial statements of Canada Rare Earth Corp. and its subsidiary, which comprise the consolidated statements of financial position as at March 31, 2014 and 2013, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years ended March 31, 2014 and 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canada Rare Earth Corp. and its subsidiary as at March 31, 2014 and 2013 and their financial performance and their cash flows for the years ended March 31, 2014 and 2013 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

De Visser Gray LLP

CHARTERED ACCOUNTANTS
Vancouver, British Columbia
July 14, 2014

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at	**March 31, 2014 $**	March 31, 2013 $
ASSETS		
Current		
Cash	**232,671**	117,793
Short-term investments (Note 3)	**1,000,000**	3,400,000
Interest and other receivables	**15,766**	47,882
Prepaid expenses and deposits	**7,129**	11,256
Refundable security deposits (Note 4)	**105,024**	-
	1,360,590	3,576,931
Non-Current		
Exploration and evaluation assets (Note 5)	**1,895,004**	3,286,409
Long-term investment (Note 6)	**1,141,720**	-
	3,036,724	3,286,409
Total assets	**4,397,314**	6,863,340
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 7)	**44,111**	116,720
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	**14,340,194**	14,340,194
Reserves (Note 8)	**7,698,256**	7,457,932
Deficit	**(17,685,247)**	(15,051,506)
Total shareholders' equity	**4,353,203**	6,746,620
Total liabilities and shareholders' equity	**4,397,314**	6,863,340

See Note 1 – Nature and Continuance of Operations

These consolidated financial statements are authorized for issue by the Board of Directors on July 14, 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 consolidated financial statements

CANADA RARE EARTH CORP.
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CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the years ended March 31,	**2014** **$**	2013 $
Exploration costs (Note 5, 7)	**67,451**	294,443
Expenses		
Depreciation	**-**	16,615
Consulting fees (Note 7)	**424,952**	228,320
Advertising and promotion	**23,152**	65,162
Listing, filing and transfer agent	**24,904**	93,720
Office and miscellaneous (Note 7)	**26,736**	57,195
Professional fees	**113,939**	137,053
Rent (Note 7)	**21,600**	41,878
Share-based payments (Note 8(c))	**240,324**	564,259
Travel and accommodations	**89,871**	50,673
Wages and benefits	**179,009**	390,721
	1,144,487	1,645,596
Loss before the following:	**(1,211,938)**	(1,940,039)
Write-down of exploration and evaluation assets (Note 5)	**(1,447,864)**	-
Interest and investment income	**26,061**	25,037
Adjustment to fair value for fair value through profit and loss investments	**-**	16,600
Loss and comprehensive loss for the year	**(2,633,741)**	(1,898,402)
Loss per share - basic and diluted	**(0.02)**	(0.02)
Weighted Average Shares Outstanding - basic and diluted	**142,762,141**	116,870,632

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

CANADA RARE EARTH CORP.
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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the years ended March 31, 2014 and 2013

	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	-	-	-
Expiry of warrants	-	-	(148,061)	148,061	-	-
Share issue costs	-	(258,950)	-	-	-	(258,950)
Shares issued on property acquisitions	900,000	55,000	-	-	-	55,000
Share-based payments	-	-	-	564,259	-	564,259
Loss and comprehensive loss for the year	-	-	-	-	(1,898,402)	(1,898,402)
Balance at March 31, 2013	**142,762,141**	**14,340,194**	**952,000**	**6,505,932**	**(15,051,506)**	**6,746,620**
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	-	-	-	240,324	-	240,324
Loss and comprehensive loss for the year	-	-	-	-	(2,633,741)	(2,633,741)
Balance at March 31, 2014	**142,762,141**	**14,340,194**	**952,000**	**6,746,256**	**(17,685,247)**	**4,353,203**

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

CANADA RARE EARTH CORP.
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CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31,	2014 $	2013 $
CASH FLOWS PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Loss and comprehensive loss for the year	(2,633,741)	(1,898,402)
Depreciation	-	16,615
Share-based payments	240,324	564,259
Adjustment to fair value for fair value through profit and loss investments	-	(16,600)
Non-cash wages and benefits	-	116,210
Write-down of exploration and evaluation assets	1,447,864	-
Decrease in interest and other receivables	32,116	216,353
Decrease in prepaid expenses and deposits	4,127	17,466
Increase in refundable security deposits	(105,024)	-
Decrease in accounts payable and accrued liabilities	(72,609)	(46,382)
Cash flows used in operating activities	(1,086,943)	(1,030,481)
FINANCING ACTIVITIES		
Issuance of capital stock for cash	-	2,800,000
Cash commission (Note 7)	-	(258,950)
Cash flows provided by financing activities	-	2,541,050
INVESTING ACTIVITIES		
Acquisition of exploration and evaluation assets	(56,459)	(250,753)
Acquisition of long-term investment (Note 6)	(1,141,720)	-
Net redemption (purchase) of short-term investments	2,400,000	(1,213,883)
Cash flows provided by (used in) investing activities	1,201,821	(1,464,636)
Increase in cash	114,878	45,933
Cash, beginning of year	117,793	71,860
Cash, end of year	232,671	117,793

Supplemental information (see note 9)

The accompanying notes form an integral part of these consolidated 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, among other factors.

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 March 31, 2014 the Company has working capital in the amount of $1,316,479 (March 31, 2013: $3,460,211) and has a deficit in the amount of $17,685,247 (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 statement of financial position classifications that would be necessary were the going concern assumption deemed inappropriate. These adjustments could be material.

2. Significant Accounting Policies

Basis of presentation and statement of compliance with IFRS

These consolidated financial statements, including comparatives, have been prepared using accounting policies in compliance with IFRS as issued by the IASB ("International Accounting Standards Board").

The consolidated financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These consolidated financial statements including comparatives have been prepared on the basis of IFRS standards that were in effect on March 31, 2014.

The standards that are effective in the annual consolidated financial statements for the year ending March 31, 2014 are subject to change and may be affected by additional interpretation(s).

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

The consolidated financial statements are presented in Canadian dollars (CDN), which is also the functional currency of the Company.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary REM Metals Corp.

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

Income taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it provides a valuation allowance against the excess.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of taxable income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

Flow-through financing

The Company raises equity through the issuance of flow-through shares. Under such an arrangement, shares are issued which transfer the tax deductibility of mineral property exploration expenditures to investors. The Company allocates the proceeds from the issuance of these shares between the offering of shares and the sale of the tax benefits. The allocation is made based on the difference between the quoted price of the shares and the amount the investor pays for the flow-through shares. A deferred flow through premium liability is recognized for the difference. The liability is reversed when the expenditures are made and is recorded in the statement of loss and comprehensive loss. The spending can also give rise to a deferred tax timing difference between the carrying value and tax value of the qualifying expenditure.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a specified period. The Company has no flow-through obligations at March 31, 2014.

Environmental rehabilitation

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight-line method. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for the restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses.

The Company has no material restoration, rehabilitation and environmental costs as the disturbance to date is minimal.

Impairment

At each financial position reporting date the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value to their present value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash generating units to which the exploration activity relates. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating units to which the asset belongs.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of impairment is recognized immediately in profit or loss.

Loss per share

The Company presents basic and diluted loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

Segment reporting

An operating segment is a component of an entity (i) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), (ii) whose operating results are regularly reviewed by the entity's management, and (iii) for which discrete financial information is available. The Company has only one single reportable operating segment.

Share capital

Share capital represents the fair value of consideration received.

Operating expenses

Operating expenses are recognized in profit or loss upon utilization of the services or at the date of their origin.

Share-based payment transactions

The Company operates an equity-settled share-based remuneration plan for its employees, directors and consultants. None of the Company's plans feature any options for a cash settlement.

All goods and services received in exchange for the grant of any share-based payments are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the equity instruments granted. The fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets and performance conditions).

All share-based remuneration is ultimately recognized as an expense in profit or loss with a corresponding credit to 'reserves'.

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as share premium.

Interest

Interest income and expenses are reported on an accrual basis using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term investments, highly liquid investments that are readily convertible into known amounts or cash and which are subject to an insignificant risk of changes in value.

Exploration and evaluation assets

Exploration and evaluation assets include the costs associated with exploration and evaluation activity (e.g. geological, geophysical studies, exploratory drilling and sampling), and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination or asset purchase. The Company follows the practice of capitalizing all costs related to the acquisition of mineral claims, expensing all costs related to the exploration and evaluation of mineral claims, and crediting all revenue received against the acquisition cost of the claims, with any excess included in profit or loss. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in the statement of loss and comprehensive loss.

Capitalized costs, including general and administrative costs, are only allocated to the extent that these costs can be related directly to operational activities in the relevant area of interest where it is considered likely to be recoverable by future exploration or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

Recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploration, or alternatively, sale of the respective areas of interest.

Financial instruments

Financial assets and financial liabilities are recognized when the company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value adjusted by transaction costs and subsequently accounted for at amortized cost, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets and financial liabilities are measured subsequently as described below.

Financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- Loans and receivables
- Financial assets at fair value through profit or loss
- Held-to-maturity investments
- Available for sale financial assets

The category determines subsequent measurement and whether any resulting income and expense is recognized in profit or loss or in other comprehensive income.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within 'office and general' or 'interest and investment income', except for impairment of trade receivables which is presented within 'other expenses'.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company's deposits, trade and most other receivables fall into this category of financial instruments.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets that are either classified as held-for-trading or that meet certain criteria and are designated at fair value through profit or loss upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply. The Company's cash and short-term investments fall into this category of financial instruments.

Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The fair values of derivative financial instruments are determined by reference to active market transactions or using a valuation technique where no active market exists.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as held-to-maturity if the Company has the intention and ability to hold them until maturity. The Company currently does not hold any investments designated into this category.

Held-to-maturity investments are measured subsequently at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

Available-for-sale investments

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Company's long-term investment is classified as an available-for-sale financial asset.

All other available-for-sale financial assets are measured at fair value. Gains and losses are recognized in other comprehensive income and reported within the available-for-sale reserve within equity, except for impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss. When the asset is disposed of or is determined to be impaired the cumulative gain or loss recognized in other comprehensive income is reclassified from the equity reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income. Interest calculated using the effective interest method and dividends are recognized in profit or loss within 'interest and investment income'.

Reversals of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

Financial liabilities

The Company's financial liabilities include trade and other payables.

Financial liabilities are measured subsequently at amortized cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognized in profit or loss.

All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at fair value through profit or loss.

All interest-related charges, and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within 'office and general' or 'interest and investment income'.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each financial position reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flow of the investment has been impacted. For unlisted shares classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterpart; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as amounts receivable, deposits and prepayments, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of the financial asset is reduced by the impairment loss directly through the use of an allowance account. When an amount receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decreases can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. In respect of available-for-sale equity securities, impairment losses previously recognized through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized directly in equity.

The Company does not have any derivative instruments.

Significant accounting judgments, 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:

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

- the determination that the Company will continue as a going concern for the next year; and
- the determination that there have been no events or changes in circumstances that indicate the carrying amount of exploration and evaluation assets may not be recoverable.

3. Short-term Investments

As at March 31, 2014, 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 are prime less 1.8% (1.20%) per year.

These investments are convertible to cash at the request of the Company, and accordingly they have been classified as a current asset in these consolidated financial statements.

4. Refundable security deposits

Refundable security deposits of $105,024 (US$100,000) (March 31, 2013: $nil) represent amounts paid pursuant to a letter of intent ("LOI") for the acquisition of a 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 to ratify the LOI. After payment of this second deposit, the Company then had a 180-day due diligence period before closing was to occur, with an additional 180-day period granted if the Company paid a further US$100,000 refundable deposit. If this deposit is paid, the initial US$50,000 deposit would become non-refundable.

Although the initial 180-day due diligence period elapsed, the Company received extensions postponing closing of the acquisition from the vendor due to environmental clean-up issues affecting the site. As a result, the LOI remains valid despite no additional deposit to extend the due diligence period being paid and the two deposits totaling US$100,000 remain refundable.

5. Exploration and evaluation assets

The Company has capitalized the following acquisition costs of its mineral property interests during the years ended March 31, 2014 and 2013:

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	
Mineral Interests	Springer $	Red Wine Complex $	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	53,753	-	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

During the year ended March 31, 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 $	Total $
Prospecting	-	-	-	408	-	408
Geology	19,056	14,288	-	-	100	33,444
Diamond drilling	17,097	6,912	-	-	-	24,009
Other	-	-	40	-	9,550	9,590
Exploration expenditures for the year	36,163	21,200	40	408	9,650	67,451

During the year ended March 31, 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 $	Other $	Total $
Prospecting	-	-	-	2,275	6,588	14,659	23,522
Geology	84,250	16,319	1,585	580	40,371	2,727	145,832
Geophysical	-	-	-	1,463	12,037	-	13,500
Line cutting	-	-	-	-	18,900	-	18,900
Trenching	-	-	-	-	10,592	-	10,592
Diamond drilling	14,800	53,971	2,226	-	-	-	70,997
Other	-	-	-	-	1,500	9,600	11,100
Exploration expenditures for the year	99,050	70,290	3,811	4,318	89,988	26,986	294,443

(a) <u>Springer</u>

(i) Lavergne prospect

On June 7, 2011, the Company completed option 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, included 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), and (d) $100,000 on or before April 13, 2014. To exercise the option, the Company also needed to 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), and (d) $11,111 on or before May 16, 2014. The owners of the Patent were to retain a 1% NSR and the Company would have had the right to purchase one-half of this for $1,000,000.

Subsequent to March 31, 2014, the Company terminated this option and therefore at 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 included (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

A separate third agreement was negotiated with Zimtu Capital Corp. and two private prospectors (the "Optionors") to option a total of 40 unpatented claim units totaling 647 hectares adjacent to the above-described Patent. Terms of the Zimtu option agreement included 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 retain a 2% NSR on the property with the Company having the right to purchase one half (1%) of this for $1,000,000.

At the end of 2014, the Company wrote off $273,130 in acquisition costs as the company is no longer actively exploring the property.

(iii) Springer-Field-Pedley

During 2012, the Company completed the staking of 153 claim units located in the Springer Township and the adjacent townships of Field to the north and Pedley to the east.

At the end of 2014, the Company wrote off $20,555 in acquisition costs related to lapsed or inactive claims, with the property currently comprising 51 claim units.

(b) <u>Red Wine Complex</u>

The Company acquired, by an option agreement and staking, three properties: Mann #1 (48 claim units), Two Tom Lake (34 claim units) and Dory Pond (155 claim units acquired by staking) in Labrador. The properties, together with the property known as the Zimtu Property, are located in four separate claim groups located over a 30 kilometre length of the Red Wine Complex.

Mann #1, Two Tom Lake

Pursuant to a 2009 option agreement between the Company and Roland Quinlan, Marilyn Quinlan, Andrew Quinlan and Eddie Quinlan (the “Mann Optionors”), the Company acquired a 100% interest in the Mann # 1 and Two Tom Lake properties (the “Optioned Properties”). Pursuant to the agreement, the Company made the following payments and share issuances to the Mann Optionors: (a) within 60 days of the date of the agreement, paid $25,000 and issued 60,000 shares; (b) paid $35,000 and issued 135,000 shares

before September 29, 2010; (c) paid $45,000 and issued 135,000 shares before September 29, 2011. The Company was also originally required to pay $70,000 and issue 170,000 shares before September 29, 2012 to exercise the option.

The Mann Optionors 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 consists of 155 claims acquired by the Company through staking.

At the end of fiscal 2014, the Company wrote off $166 in acquisition costs related to these claims.

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%.

During 2013 and 2014, the Company allowed 450 claim units to lapse or decided not to renew certain claims that will expire during 2015, reducing the size of the property to 50 claim units. At the end of fiscal 2014, the Company wrote off $702,240 in related acquisition costs.

(c) Clay-Howells Property

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 NSR subject to the right of the Company to purchase at any time one-half (1%) of the NSR for $1 million.

During 2014, the Company allowed 17 unpatented claims to lapse, writing off $23,589 in related acquisition costs.

(d) Coldwell Complex

During 2011, the Company completed the staking of 740 claim units located in the Coldwell Alkaline Complex in Northern Ontario. Various claims lapsed during 2013 and 2014, reducing the property to 83 claim units. At the end of 2014, the Company wrote off $108,336 in related acquisition costs.

(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 proceeds realized on any sale 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

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 about the Thomas Lake Road Graphite Occurrence.

Subsequent to year end, 32 claim units lapsed and the Company wrote off $4,809 in related acquisition costs at the end of 2014.

(g) Other

Included in Other are the following: Lackner Property, Armstrong Dyno Property, James Bay Property and miscellaneous properties. At the end of fiscal 2014, the Company wrote off $71,448 in related acquisition costs.

6. Long-term investment

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 March 31, 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 has 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 years ended March 31, 2014 and March 31, 2013:

Payee	Description of Relationship	Nature of Transaction	March 31, 2014 Amount $	March 31, 2013 Amount $
Stares Contracting Corp.	Company controlled by a Company director	Payments for premises rental, equipment rentals, supply of labour and reimbursement of exploration expenditures	31,150	57,277
Gordon J. Fretwell Law Corporation	Company controlled by the Company's Secretary	Legal fees charged/accrued during the period	97,329	114,198
Benton Resources Inc.	Company related by common directorships and a common officer	Payments for shared office costs and advertising and promotion	-	6,713
Canadian Horizon Capital Corporation	Company controlled by the Company's 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	300,000	167,045
Moore Consulting Services Inc.	50% of Company owned by the Company's President and CEO	Fees for services as President and CEO	60,000	35,000
Eastrock Exploration Inc.	Company controlled by a former Company director	Payments for geological consulting services and reimbursement of exploration expenditures	-	9,735
Felix Geo-Consultants	Company controlled by the Company's former VP Exploration	Payments for geological consulting services and reimbursement of exploration expenditures	-	77,400

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 March 31, 2014 is $15,000 (2013 - $67,339) to Gordon J. Fretwell Law Corporation, $6,102 (2013 - $2,034) to Stares Contracting Corp, and $293 to a Company director (2013 - $9,502). The payment terms are similar to the payment terms of non-related party trade payables.

Key management personnel remuneration during the year included $265,501 (March 31, 2013 - $382,103) in consulting fees and salaries and benefits and $135,450 (March 31, 2013 - $294,212) in share-based payments. During the year ended March 31, 2013, property and equipment with a net book value of $116,210 was transferred to the previous President & CEO pursuant to a severance agreement between the Company and former CEO. The amount was expensed in the statement of loss and comprehensive loss in wages and benefits.

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 years ended March 31, 2014 and 2013 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, 2013 and 2014	28,000,000	0.10	

(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.

A consultant was granted 1,000,000 options during 2014, to vest in four equal amounts over 18 months and pursuant to achieving certain performance milestones. In October 2013, the corresponding consulting agreement was terminated, with the expiry date of 16,393 vested options amended from April 2018 to October 2014, one year after termination.

Stock option transactions for the years ended March 31, 2014 and 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 March 31, 2014	22,756,393	0.19

The weighted-average fair value of options granted during the period ended March 31, 2014 was $0.05 (2013 - $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	2.99	$ 0.19	19,794,037	$0.20

The following table summarizes information about the options outstanding at March 31, 2014 and 2013:

Expiry Dates	Exercise Price $	March 31, 2014 # 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 year ended March 31, 2014 as follows:

Grant Date	# of Options Vested	Exercise Price $	Expiry Date	Fair Value Of Options $	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	5,199,845	0.10	November 9, 2017	0.04	0%	86%	1.32%	5 yrs
	5,325,633							

The Company has recorded $239,340 (2013 - $552,979) as compensation expense and credited shareholders' equity as part of reserves for the 5,325,633 (2012 - 10,522,429) options vesting to directors, officers and employees during the year.

Stock options granted to non-employees vested during the year ended March 31, 2014 as follows:

Grant Date	# of Options Vested	Exercise Price $	Expiry Date	Fair Value Of Options $	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 recorded $984 (2013 - $11,280) as compensation expense and credited shareholders' equity as part of reserves for the 21,375 (2013 - 139,696) options vesting to non-employees during the year.

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.

(d) Private placement

During the year ended March 31, 2013, the Company closed a non-brokered private placement for gross proceeds of $2.8 million by issuing 56,000,000 units at a price of $0.05 per unit. Each unit consists of one common share and one half of one common share purchase warrant. Each full common share purchase warrant entitles the holder to purchase one additional common share of the Company at a price of $0.10 for a period of 24 months following the closing of the private placement. Pursuant to the private placement, cash commission of $258,950 was paid by the Company.

(e)Shares issued on property acquisitions

	# of shares issued	
Property	2014	2013
Red Wine - Mann#1, Two Tom Lake	-	100,000
Springer - Zimtu	-	800,000
	-	900,000

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:

	March 31, 2014	March 31, 2013
	$	$
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.

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.

11. Capital Disclosures

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

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

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

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

There were no changes in the Company's approach to managing capital during the year.
In order to maintain or adjust the capital structure, the Company considers the following:

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

Except as otherwise disclosed, the Company is not subject to any external financial covenants at March 31, 2014.

12. Risk Management

The Company's financial instruments are exposed to certain risks, including credit risk, liquidity risk, interest rate risk and market risk.

a) Credit Risk

Counterparty credit risk is the risk that the financial benefits of contracts with a specific counterparty will be lost if a counterparty defaults on its obligations under the contract. This includes any cash, investments and receivable amounts owed to the Company by those counterparties, less any amounts owed to the counterparty by the Company where a legal right of set-off exists and also includes the fair values of contracts with individual counterparties which are recorded in the financial statements.

i) Trade credit risk

The Company is in the development stage and has not yet commenced production or sales. Therefore, the Company is not exposed to significant credit risk and overall the Company's credit risk has not changed significantly from the prior year.

ii) Cash and short-term investments

In order to manage credit and liquidity risk the Company's cash and short-term investments are held through a large Canadian financial institution. Staking security deposits are held by the Government of Newfoundland.

iii) Derivative financial instruments

As at March 31, 2014, the Company had no derivative financial instruments.

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.

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

c) Interest rate risk

The Company's interest revenue earned on cash and or short-term investments is exposed to interest rate risk. The Company does not enter into derivative contracts to manage this risk. The Company's exposure to interest rate risk is very low as the Company's short-term investments are fully liquid.

The Company limits its exposure to interest rate risk as it invests only in short-term investments at major Canadian financial institutions.

d) Market risk

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

e) Fair value of financial instruments

The fair value of the Company's financial assets and liabilities approximates the carrying amount due to their short term nature and capacity for prompt liquidation.

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

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

The following is an analysis of the Company's financial assets, which are measured at fair value as at March 31, 2014 and March 31, 2013:

	As at March 31, 2014		
	Level 1	Level 2	Level 3
	$	$	$
Cash	232,671	-	-
Short-term investments	1,000,000	-	-
	1,232,671	-	-

	As at March 31, 2013		
	Level 1	Level 2	Level 3
	$	$	$
Cash	117,793	-	-
Short-term investments	3,400,000	-	-
	3,517,793	-	-

13. Income Taxes

The provision for income taxes differs from the amount that would have resulted by applying combined federal and provincial statutory rates of 26.00% (March 31, 2013 – 26.50%) to the Company's loss before income taxes.

A reconciliation of income taxes at statutory rates is as follows:

	2014	2013
	$	$
Net loss for the year before tax recovery	(2,633,741)	(1,898,402)
Expected income tax recovery	(684,773)	(503,077)
Net adjustment for deductible and non-deductible amounts	353,077	169,451
Unrecognized benefit of non-capital losses	331,696	333,626
Total income tax	-	-

The significant components of the Company's deferred income tax liabilities are as follows:

	2014	2013
	$	$
Deferred income tax assets:		
Mineral property, equipment, and share issue costs	2,519,007	2,111,455
Non-capital loss carryforwards	2,024,100	1,708,000
Net deferred tax assets	4,543,107	3,819,455
Valuation allowance	(4,543,107)	(3,819,455)
	-	-

The Company has non-capital losses amounting to $7,785,000 and expiring from 2015 to 2034 available for deduction against future years' taxable income. The Company has not recognized any future benefit for these tax losses, as it is not considered likely that they will be utilized. If unused, these tax losses will expire as follows:

Year	Amount
	$
2015	262,000
2026	506,000
2027	721,000
2028	779,000
2029	292,000
2030	571,000
2031	1,154,000
2032	1,230,000
2033	1,221,000
2034	1,049,000
	7,785,000