

Consolidated Financial Statements of

**UCORE RARE METALS INC.**

Years ended December 31, 2015 and 2014



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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Ucore Rare Metals Inc.

We have audited the accompanying consolidated financial statements of Ucore Rare Metals Inc., which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes comprising 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, 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from 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 our 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, we consider 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 in our audits 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 consolidated financial position of Ucore Rare Metals Inc. as at December 31, 2015 and December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Accountants  
April 28, 2016  
Halifax, Canada

**UCORE RARE METALS INC.**

Consolidated Statements of Financial Position

Expressed in Canadian dollars

	December 31, 2015	December 31, 2014
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	2,733,673	2,328,659
Restricted Cash (note 6)	246,767	207,185
Marketable securities	750	1,000
Other receivables	95,871	139,013
Prepaid expenses and other	295,054	308,467
	<u>3,372,115</u>	<u>2,984,324</u>
<b>Equipment</b> (note 7)	145,352	332,599
<b>Non-refundable advance on technology</b> (note 9)	2,569,041	-
<b>Resource properties and related exploration costs</b> (note 8)	40,002,572	32,664,247
	<u>46,089,080</u>	<u>35,981,170</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	316,878	692,827
<b>Long-term liabilities</b>		
Convertible royalty liability (note 12)	10,735,199	-
	<u>11,052,077</u>	<u>692,827</u>
<b>Shareholders' equity</b>		
Share capital (note 13)	45,865,391	45,859,586
Contributed surplus (note 13)	10,219,858	9,771,525
Warrants (note 13)	5,637,377	5,578,632
Accumulated other comprehensive income	5,747,855	1,987,075
Deficit	(32,433,478)	(27,908,475)
	<u>35,037,003</u>	<u>35,288,343</u>
	<u>46,089,080</u>	<u>35,981,170</u>

Nature of operations (note 1)

Subsequent events (note 15)

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

**Approved on behalf of the Board of Directors***(s) Jim McKenzie**(s) Jos De Smedt*

**UCORE RARE METALS INC.**

Consolidated Statements of Loss and Comprehensive Loss

Expressed in Canadian dollars

For the years ended December 31

	2015	2014
	\$	\$
<b>EXPENSES</b>		
Amortisation	39,060	45,073
Investor relations and marketing	190,013	235,029
Office and premises	240,920	262,905
Professional services	471,368	542,663
Salaries and consultants	1,960,452	1,899,930
Securities and regulatory	175,247	94,779
Share-based payments	419,857	641,895
Travel	202,221	217,333
Impairment of resource properties (note 8)	329,857	-
	<u>4,028,995</u>	<u>3,939,607</u>
<b>OTHER INCOME (LOSS)</b>		
Interest income	5,587	57,029
Foreign exchange	(501,595)	(45,365)
	<u>(496,008)</u>	<u>11,664</u>
<b>LOSS BEFORE INCOME TAXES</b>	(4,525,003)	(3,927,943)
<b>INCOME TAXES RECOVERABLE</b> (note 11)	-	(25,200)
<b>NET LOSS</b>	<u>(4,525,003)</u>	<u>(3,902,743)</u>
<b>Net Loss per share - basic and diluted</b>	<u>(0.02)</u>	<u>(0.02)</u>
<b>Weighted average number of basic and diluted common shares outstanding</b>	<u>197,570,167</u>	<u>191,052,499</u>
<b>COMPREHENSIVE INCOME (LOSS):</b>		
Net loss for the year	(4,525,003)	(3,902,743)
<i>Items which may be subsequently recycled through profit or loss</i>		
Foreign currency translation difference arising on translation of foreign subsidiaries	3,761,030	1,450,455
Unrealised gain (loss) on available for sale securities	(250)	250
	<u>(764,223)</u>	<u>(2,452,038)</u>

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

**UCORE RARE METALS INC.**

Consolidated Statements of Changes in Equity

Expressed in Canadian dollars

	Number of Shares	Share Capital	Contributed Surplus	Warrants	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Equity
<b>Balance at January 1, 2014</b>	173,833,402	\$ 40,699,968	\$ 9,144,336	\$ 2,072,993	\$ 536,370	\$ (24,005,732)	\$ 28,447,935
Net Loss						(3,902,743)	(3,902,743)
Unrealised gain (loss) on available for sale securities					250		250
Foreign currency translation adjustment					1,450,455		1,450,455
Share-based payments (note 13)			700,127				700,127
Financing (net of costs) (note 13)	20,731,912	3,966,075		3,766,205			7,732,280
Shares issued on exercise of warrants	2,448,157	788,539					788,539
Fair value of warrants exercised		260,566		(260,566)			-
Shares issued on exercise of options	550,000	71,500					71,500
Fair value of options exercised		72,938	(72,938)				-
<b>Balance at December 31, 2014</b>	<b>197,563,471</b>	<b>\$ 45,859,586</b>	<b>\$ 9,771,525</b>	<b>\$ 5,578,632</b>	<b>\$ 1,987,075</b>	<b>\$ (27,908,475)</b>	<b>\$ 35,288,343</b>
<b>Balance at January 1, 2015</b>	197,563,471	\$ 45,859,586	\$ 9,771,525	\$ 5,578,632	\$ 1,987,075	\$ (27,908,475)	\$ 35,288,343
Net Loss						(4,525,003)	(4,525,003)
Unrealised gain (loss) on available for sale securities					(250)		(250)
Foreign currency translation adjustment					3,761,030		3,761,030
Share-based payments (note 13)			448,333				448,333
Issuance of broker warrants for royalty based financing (note 12)				60,000			60,000
Shares issued on exercise of warrants	13,000	4,550					4,550
Fair value of warrants exercised		1,255		(1,255)			-
<b>Balance at December 31, 2015</b>	<b>197,576,471</b>	<b>\$ 45,865,391</b>	<b>\$ 10,219,858</b>	<b>\$ 5,637,377</b>	<b>\$ 5,747,855</b>	<b>\$ (32,433,478)</b>	<b>\$ 35,037,003</b>

**UCORE RARE METALS INC.**Condensed Consolidated Statements of Cash Flows  
Expressed in Canadian dollars

	2015	2014
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss for the year	(4,525,003)	(3,902,743)
Adjustments for items not involving cash:		
Amortisation	39,060	45,073
Share-based payments	419,857	641,895
Deferred income tax recovery	-	(25,200)
Impairment of resource properties	329,857	
Unrealized foreign exchange loss on convertible royalty	661,406	
	<u>(3,074,823)</u>	<u>(3,240,975)</u>
 Change in non-cash operating working capital:		
Other receivables	43,142	106,418
Prepaid expenses and other	13,413	(241,826)
Accounts payable and accrued liabilities	(58,132)	(22,193)
	<u>(3,076,400)</u>	<u>(3,398,576)</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of convertible royalty for cash (note 12)	9,750,484	
Issuance of short term debt (note 12)	383,310	
Increase in restricted cash	(39,582)	
Issuance of common shares and warrants for cash	-	7,878,126
Issue costs of common shares and warrants	-	(145,846)
Issuance of common shares on exercise of options and warrants	4,550	860,039
	<u>10,098,762</u>	<u>8,592,319</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of equipment	(80,816)	(215,030)
Purchase of non-refundable advance on technology (note 9)	(2,569,041)	-
Purchase of reclamation bond	-	(207,185)
Resource property interests and options	(3,967,491)	(5,109,124)
Purchase of short-term deposits	-	(7,546,571)
Proceeds from redemption of short-term deposits	-	8,901,056
	<u>(6,617,348)</u>	<u>(4,176,854)</u>
 <b>INCREASE (DECREASE) IN CASH</b>	405,014	1,016,889
<b>CASH, beginning of year</b>	<u>2,328,659</u>	<u>1,311,770</u>
<b>CASH, end of year</b>	<u><u>2,733,673</u></u>	<u><u>2,328,659</u></u>
 Non-cash financing and investment activities:		
Accounts payable and accrued liabilities related to resource properties and related deferred costs	(317,817)	426,359

# UCORE RARE METALS INC.

Notes to Consolidated Financial Statements  
Years ended December 31, 2015 and 2014

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## 1. Nature of operations:

Ucore Rare Metals Inc. ("Ucore" or the "Company") is a Corporation domiciled in Canada. The address of the Company's head office is 210 Waterfront Drive, Suite 106, Halifax N.S., B4A 0H3. The Company is engaged in the exploration for and separation of rare earth elements within Canada and the United States. The Company is in the process of exploring its resource properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. To date, the Company has not earned significant revenues and is considered to be a development stage enterprise.

The ability of the Company to continue as a going concern beyond the next 12 months and the recoverability of amounts shown for resource properties are dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete exploration and development; and the future profitable production or proceeds from disposition of such properties.

## 2. Basis of presentation:

### Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The date the Board of Directors approved the consolidated financial statements is April 28, 2016.

### Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for available for sale financial assets which are measured at cost.

### Functional currency

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the functional and presentation currency of Ucore Rare Metals Inc. The following wholly-owned subsidiaries have a USD functional currency: Landmark Alaska Limited Partnership and Rare Earth One LLC.

### Use of estimates and judgments

The preparation of financial statements requires management to make estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. These estimates are based on historical experience, current and future economic conditions, and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The determination of estimates requires the

# UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2015 and 2014

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## 2. Basis of presentation (continued):

exercise of judgments based on various assumptions and other factors such as historical experience and current and expected economic conditions. Actual results could differ from those estimates.

Critical accounting estimates:

### *Estimate of recovery for non-financial assets*

Events or changes in circumstances may give rise to significant impairment charges or reversals of impairment in a particular year. In accordance with the Company's accounting policy, each non-financial asset unit is evaluated every reporting period to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of recoverable amount is made and an impairment loss is recognized to the extent that carrying amount exceeds recoverable amount. The recoverable amount of an asset or cash generating unit is measured at 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, and is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset and its eventual disposal. Fair value for a mining property is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans, using assumptions that an independent market participant would take into account. Present values are determined using a risk-adjusted pre-tax discount rate appropriate to the risks inherent in the asset.

### *Share-based payments*

Equity-settled share-based payments issued to employees are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. Fair value is measured using the Black-Scholes pricing model and requires the exercise of judgment in relation to variables such as expected volatilities and expected lives based on information available at the time the fair value is measured.

### *Taxation*

The Company's accounting policy for taxation requires management's judgment in assessing whether deferred tax assets are recognized on the balance sheet. Deferred tax assets, including those arising from tax loss carry-forwards, capital losses, and temporary differences are recognized only where it is considered probable that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, mineral prices, reserves, operating costs, restoration and rehabilitation costs, capital expenditure, dividends, and other capital management transactions.



# UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2015 and 2014

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## 2. Basis of presentation (continued):

Judgments are also required about the application of income tax legislation. These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognized on the balance sheet and the amount of other tax losses and temporary differences not yet recognized. In such circumstances, some or all of the carrying amount of recognized deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

## 3. Significant accounting policies:

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

### (a) Consolidation:

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Ucore Resources LP (NS) Inc., Rare Earth One LLC (AK), Mineral Solutions LLC (AK), Landmark Alaska Limited Partnership (AK), Landmark Minerals Inc., 5621 N.W.T. Ltd., Landmark Minerals US Inc., and Ucore Rare Metals (US) Inc. (AK).

#### (i) Subsidiaries

Subsidiaries are those entities over which the Company has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a Company controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the parent company.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Company. A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction.

#### (ii) Transactions eliminated on consolidation

Inter-company balances and transactions, and any unrealised income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

# UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)  
Years ended December 31, 2015 and 2014

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## 3. Significant accounting policies (continued):

### (b) Resource properties and related exploration costs:

Pre-exploration expenditures are expensed as incurred. All direct costs related to the acquisition of resource property interests are capitalised by property. Exploration and evaluation costs are capitalised.

Resource properties are initially measured at cost and classified as tangible assets. These assets include expenditures on acquisition of rights to explore, studies, exploratory drilling, trenching, sampling, metallurgical studies, and other direct costs related to exploration or evaluation of a project. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Where a project is determined to be technically and commercially feasible and a decision has been made to proceed with development with respect to a particular area of interest, the relevant resource property asset is tested for impairment and the balance is reclassified as a resource property in property, plant and equipment.

### (c) Foreign currency translation:

#### i. Foreign currency transactions

In preparing the financial statements of each individual entity, transactions in currencies other than the entity's functional currency ("foreign currencies") are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised in the cumulative translation account and reclassified to profit or loss on repayment of the monetary items.

#### ii. Foreign operations

The results and financial position of all subsidiaries that have a functional currency different from the Canadian Dollar presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate on the date of the statement of financial position;
- Income and expenses for each statement of comprehensive loss presented are translated at average exchange rates for the period;

# UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2015 and 2014

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### 3. Significant accounting policies (continued):

- All resulting exchange differences are recognised in accumulated other comprehensive loss.

On the loss of control of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are recognised in the statement of comprehensive loss as part of the gain or loss on sale.

#### (d) Financial instruments:

##### (i) Financial assets

The Company initially recognises loans and receivables and deposits on the date that they originate. All other financial assets are recognised initially on the trade date at which the Company becomes party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flow from the asset expire, or the rights to receive the contractual cash flows on the financial asset are transferred.

The Company has the following non-derivative financial assets: loans and receivables and available for sale financial assets.

##### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprised cash, short term deposits, and accounts receivable.

##### Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. The Company's investments in marketable securities are classified as available for sale financial assets.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign exchange differences on available for sale equity instruments, are recognised in other comprehensive income and presented within equity. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

# UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)  
Years ended December 31, 2015 and 2014

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### 3. Significant accounting policies (continued):

Fair value is determined based on current bid prices for all quoted investments.

#### (ii) Financial liabilities

The Company initially recognises other financial liabilities on the trade date at which the Company becomes party to the contractual provisions of the instrument. The Company derecognises financial liabilities when its contractual obligations are discharged, cancelled, or expire.

#### a) Non-derivative financial liabilities:

The Company has the following non-derivative other financial liabilities: accounts payable and accrued liabilities and convertible royalty liabilities. These royalty liabilities are convertible into a variable number of common shares at the option of the holder.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

#### b) Embedded derivatives:

Embedded derivatives are contained in non-derivative host contracts and are treated as separate derivatives when they meet the definition of a derivative, and their risks and characteristics are not closely related to those of the host contracts. Embedded derivatives are recorded at fair market value with mark-to-market adjustments recorded in profit or loss.

#### (iii) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognised as a deduction from equity, net of any tax effects.

# UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)  
Years ended December 31, 2015 and 2014

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### 3. Significant accounting policies (continued):

#### (e) Impairment

##### (i) Financial assets (including receivables)

Financial assets, other than those at fair value through profit or loss, are assessed for objective evidence of impairment at the end of each reporting period. Financial assets are considered to be impaired when 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 flows of the investment have been affected.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructure of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for available for sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against accounts receivable. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

##### (ii) Non-financial assets

The carrying amount of the Company's non-financial assets, excluding resource properties, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist, the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets which generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU").

The Company's assets do not generate separate cash inflows. If there is an indication that a company asset may be impaired, the recoverable amount is determined for the CGU to which the asset belongs.

# UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2015 and 2014

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### 3. Significant accounting policies (continued):

An impairment loss is recognised directly against the carrying amount of the asset whenever the carrying amount of an asset, or its CGU, exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGU's are allocated first to the goodwill and then to the carrying amounts of the assets in the unit (group of units) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortisation, if no impairment loss had been recognised.

Resource properties are tested for impairment when development of the property commences or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the resource assets' carrying amount exceeds their recoverable amount. Where the assets are not associated with a specific cash generating unit, the recoverable amount is assessed using fair value less costs to sell for the specific assets.

#### (f) Income taxes:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable on respect of previous years.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

# UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2015 and 2014

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### 3. Significant accounting policies (continued):

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred income tax assets and deferred income tax liabilities of the same taxable entity are offset when they relate to taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities. The principal temporary differences arise from amortisation on equipment, tax losses carried forward, and fair value adjustments on assets acquired in business combinations.

#### (g) Share-based payments:

The Company has a share-based compensation plan which is described in note 13. Awards of options to employees and others providing similar services under this plan are expensed based on the estimated fair value of the options at the grant date, with a corresponding credit to contributed surplus in shareholders' equity. Fair value is measured using the Black-Scholes pricing model. If the options are subject to a vesting period, the compensation cost is recognized over this period, based on the Company's estimate of the shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Equity-settled share-based payment transactions with parties other than employees and those providing similar services are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Consideration paid by employees on the exercise of stock options is credited to share capital together with the amounts originally recorded as share-based compensation in contributed surplus related to the exercised options.

#### (h) Loss per share:

The calculation of basic loss per common share is based on net loss divided by the weighted average number of common shares outstanding during the period. The Company follows the treasury stock method of calculating diluted per share amounts. Since the Company has a net loss for all years being presented, the effect of the exercise of options and warrants has not been included in the calculation as it would be anti-dilutive.

# UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2015 and 2014

### 3. Significant accounting policies (continued):

(i) Equipment:

Equipment is recorded at cost less accumulated amortisation and impairment losses. The Company provides for amortisation using the declining balance and straight line methods at rates designed to amortise the cost of the equipment over their estimated useful lives. The annual amortisation rates are as follows:

Asset	Basis	Rate
Office equipment	Declining balance	30%
Exploration equipment	Declining balance	30%
Leasehold improvements	Straight line	Term of lease

(j) Flow-through shares:

The Company has financed portions of its exploration activities through the issuance of flow-through shares. The income tax attributes of the related exploration expenditures are renounced to investors in accordance with income tax legislation. The proceeds received on the issuance of flow-through shares are allocated between share capital and the obligation to deliver the tax deduction to investors. This allocation is based on the relative fair value of the quoted price of the Company's shares and the premium related to the flow-through tax deductions. The premium liability is removed pro-rata based on the actual amount of flow-through eligible expenditures incurred during the reporting period. The reduction of the premium is recorded as a reduction of deferred tax expense.

(k) Warrants:

From time to time the Company issues warrants in conjunction with share capital. Proceeds are allocated between share capital and warrants based on the relative fair value of each instrument. The fair value of the warrants is estimated using an appropriate option pricing model, as outlined in note 13.

(i) New standards, amendments, and interpretations effective for the first time January 1, 2015:

The following new standards, amendments, and interpretations have been adopted by the Corporation effective January 1, 2015:

IAS 19, Employee Benefits, was amended to clarify benefit and medical cost actuarial assumptions used in the calculation of the present value of defined benefit obligations and current service cost. There was no impact on the Company's consolidated financial statements upon adoption of these amendments.



# UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)  
Years ended December 31, 2015 and 2014

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### 3. Significant accounting policies (continued):

(j) Standards issued but not yet adopted:

For the purposes of preparing and presenting the Company's consolidated financial statements, the Company has adopted all applicable standards and interpretations issued other than those discussed below. These standards have not been adopted because they are not effective for the Company until subsequent to December 31, 2015. Standards and interpretations issued, but not yet adopted include:

	<u>Effective for the Company</u>
Amendments to IAS 28, <i>Investments in Associates and Joint Ventures</i>	January 1, 2016
Amendments to IAS 38, <i>Intangibles</i>	January 1, 2016
Amendments to IFRS 10, <i>Consolidated Financial Statements</i>	January 1, 2016
Amendments to IAS 7, <i>Statement of Cash Flows</i>	January 1, 2017
Amendments to IAS 12, <i>Income Taxes</i>	January 1, 2017
IFRS 15, <i>Revenue from Contracts with Customers</i>	January 1, 2018
IFRS 9, <i>Financial Instruments</i>	January 1, 2018
IFRS 16, <i>Leases</i>	January 1, 2019

In September 2014, the IASB issued amendment to IAS 28, Investments in Associates and Joint Ventures, and IFRS 10, Consolidated Financial Statements. These amendments and address a conflict between IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. These amendments were to be applied for annual periods beginning on or after January 1, 2016, however, on December 17, 2015 the IASB decided to defer the effective date for these amendments indefinitely. The company does not intend to early adopt these amendments in its financial statements.

In January 2017, the IAS issued amendments to IAS 7, Statement of Cash Flows. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities from financing activities. These amendments apply prospectively for annual periods beginning on or after January 1, 2017. The Company intends to adopt the amendments to IAS 7 in its financial statements for the annual period beginning on January 1, 2017. The extent of the impact of adoption of the amendments has not yet been determined.

In January 2017, the IASB issued amendments to IAS 12, Income Taxes. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. The amendments apply retrospectively for annual periods beginning on or after January 1, 2017. The Company intends to adopt the amendments to IAS 12 in its financial statements for the annual period

# UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)  
Years ended December 31, 2015 and 2014

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### 3. Significant accounting policies (continued):

beginning on January 1, 2017. The extent of the impact of adoption of the amendments has not yet been determined.

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. The standard replaces IAS 11, Construction Contracts; IAS 18, Revenue; IFRIC 13, Customer Loyalty Programmes; IFRIC 15, Agreements for the Construction of Real Estate; IFRIC 18, Transfer of Assets from Customers; and SIC 31, Revenue – Barter Transactions Involving Advertising Services. This standard establishes principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contract with customers. This standard is effective for annual periods beginning on or after January 1, 2018, and permits early adoption. The Company is currently evaluating the impact of this standard on the consolidated financial statements.

In July 2014, the IASB issued IFRS 9, Financial Instruments, which will replace IAS 39, Financial Instruments, Recognition and Measurement. The replacement standard provides a new model for the classification and measurement of financial instruments. The IASB has determined the revised effective date for IFRS 9 will be for annual periods beginning on or after January 1, 2018. The Company will evaluate the impact of the change to the consolidated financial statements based on the characteristics of financial instruments outstanding at the time of adoption.

In January 2016, the IASB issued IFRS 16 *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The new standard is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of this standard on the consolidated financial statements.

### 4. Capital management:

The Company's capital consists of shareholders' equity of \$35,037,003 (2014: \$35,288,343). The Company's objective when managing capital is to maintain adequate levels of funding to support the acquisition and exploration of resource properties, the advancement of the Company's separation technology, and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity and royalty based financings. Future financings are dependent on market conditions, and there can be no assurance the Company will be able to raise funds in the future.

The Company invests all capital that is surplus to its immediate operational needs in a high interest savings account. There were no changes to the Company's approach to capital management

# UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)  
Years ended December 31, 2015 and 2014

during the year. The Company is not subject to externally imposed capital requirements.

## 5. Financial instruments:

### Fair value

During the years ended December 31, 2015 and 2014, there were no transfers between level 1, level 2, and level 3 classified assets and liabilities. The fair values of the Company's financial instruments are considered to approximate the carrying amounts. The following table provides the disclosures of the fair value and the level in the hierarchy.

	December 31, 2015			December 31, 2014		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets classified as loans and receivables:						
Cash	2,733,673	-	-	2,328,659	-	-
Restricted Cash	246,767	-	-	207,185	-	-
Other receivables	-	-	95,871	-	-	139,013
Marketable securities	750	-	-	1,000	-	-
Financial liabilities at amortised cost						
Accounts payable	-	-	(316,878)	-	-	(692,827)
Convertible royalty liability	-	-	(10,735,199)	-	-	-
	2,981,190	-	(10,956,206)	2,536,844	-	(553,814)

### Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with the financial liabilities that are settled by delivering cash or another financial asset.

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due and to continue to fund its exploration and evaluation activities. The Company's accounts payable and accrued liabilities are due within six months. Their contractual cash flow is equal to their carrying value. Short term deposits are held in interest bearing instruments that can be converted to cash without penalty at any time and are recorded at fair value. Restricted cash is held in interest bearing instruments which can only be converted to cash with the written consent of a government agency.

### Market risk

Market risk is the risk of loss that may arise from changes in market factors such as foreign currency rates and interest rates.

### Foreign currency risk

A significant portion of the Company's transactions occur in United States dollars and accordingly, the related financial assets and liabilities are subject to fluctuations in the respective exchange rates. To limit exposure to this risk, cash and short-term investments are primarily held with high quality financial institutions in Canada.

The Company's exposure to US dollar currency risk as measured in Canadian dollars was as follows:

# UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2015 and 2014

## 5. Financial instruments (continued):

	2015	2014
Cash	\$ 1,329,307	\$ 32,621
Restricted Cash	246,767	178,500
Trade and other receivables	7,399	5,346
Trade and other payables	(120,643)	(203,863)
Convertible royalty liability	(10,735,199)	-
	\$ (9,727,369)	\$ 12,604

A 10% weakening in the exchange rate would result in a foreign exchange gain of \$927,237 (2014 - \$1,260). A 10% strengthening would have an equal but opposite impact.

### Interest rate risk

The Company has cash and restricted cash that bears interest, and periodically holds short-term deposits. The Company's short-term funds are held in either high interest savings accounts, as it the case at December 31, 2015, or guaranteed investment certificates, the rates of which are fixed for periods ranging up to one year. Therefore, a change in interest rates at the reporting date would not affect interest income or the carrying amount of these instruments.

## 6. Restricted cash:

Restricted cash consists of reclamation bonds required by government agencies to ensure proper decommissioning of structures built at the Bokan property. These bonds accrue interest at a fixed rate that is updated annually. Funds can be released with government approval.

# UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2015 and 2014

## 7. Equipment:

	Office Equipment	Exploration Equipment	Leasehold Improvements	Site Equipment	Total
<b>Cost</b>					
Balance, January 1, 2014	\$ 169,448	\$ 101,152	\$ 170,137	\$ -	\$ 440,737
Additions	31,930	9,296	5,158	168,646	215,030
Balance December 31, 2014	201,378	110,448	175,295	168,646	655,767
Additions	12,075	32,298	4,224	32,219	80,816
Reclassification to resource properties	-	-	-	(200,865)	(200,865)
Balance, December 31, 2015	213,453	142,746	179,519	-	535,718
<b>Accumulated amortisation</b>					
Balance, January 1, 2014	\$ 115,004	\$ 91,946	\$ 48,263	\$ -	\$ 255,213
Amortisation	19,610	2,757	22,706	-	45,073
Capitalized Amortisation	-	1,317	21,564	-	22,881
Balance, December 31, 2014	134,614	96,020	92,533	-	323,167
Amortisation	14,626	1,790	22,644	-	39,060
Capitalized Amortisation	-	2,851	25,288	-	28,139
Balance, December 31, 2015	149,240	100,661	140,465	-	390,366
<b>Net book value</b>					
Balance, December 31, 2014	\$ 66,764	\$ 14,428	\$ 82,762	\$ 168,646	\$ 332,600
Balance, December 31, 2015	\$ 64,213	\$ 42,085	\$ 39,054	\$ -	\$ 145,352

During the year, the Company reclassified site equipment to resource properties and related exploration costs. The assets include a dock and a meteorological monitoring station, which are directly associated with and inseparable from the Bokan Mountain property.

## 8. Resource properties and related exploration costs:

The Company's interests in resource properties consist of:

	December 31, 2014	Acquisition Costs	Deferred Exploration Costs	Reclass from Equipment	Impairment	Movement in exchange rates	December 31, 2015
Bokan Mountain, Alaska	\$ 32,082,396	\$ -	3,706,287	200,865	-	\$ 3,761,030	\$ 39,750,578
Ray Mountains, Alaska	\$ 329,857	-	-	-	(329,857)	-	\$ -
Seagull Tin, Yukon	\$ 251,994	-	-	-	-	-	\$ 251,994
	\$ 32,664,247	\$ -	\$ 3,706,287	\$ 200,865	-\$ 329,857	\$ 3,761,030	\$ 40,002,572
	December 31, 2013	Acquisition Costs	Deferred Exploration Costs	Reclass from Equipment	Impairment	Movement in exchange rates	December 31, 2014
Bokan Mountain, Alaska	\$ 25,291,005	\$ 105,820	\$ 5,235,116	\$ -	\$ -	\$ 1,450,455	\$ 32,082,396
Ray Mountains, Alaska	306,191	-	23,666	-	-	-	\$ 329,857
Seagull Tin, Yukon	-	251,994	-	-	-	-	\$ 251,994
	\$ 25,597,196	\$ 357,814	\$ 5,258,782	-	-	\$ 1,450,455	\$ 32,664,247

# UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)  
Years ended December 31, 2015 and 2014

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## 8. Resource properties and related exploration costs (continued):

### **Bokan Mountain, Alaska**

The Company holds the right to acquire up to a 100% interest in the Bokan Mountain rare earth element property, subject to certain royalties. The Company holds a 100% interest in five separate option agreements to acquire a 100% interest in a parcel of unpatented mineral claims from underlying owners and staked a 100% interest in an additional parcel of prospective ground. The option agreements provide for the Company to acquire a 100% interest in the optioned claims in exchange for total remaining payments of US\$90,000. The five vendors will retain Net Smelter Royalties ("NSR") ranging from 2% to 4% on their specific claims. The Company has the right to purchase between 33% and 100% of the NSR for cash payments of US\$500,000 to US\$1,000,000 per vendor.

### **Seagull Tin, Yukon Ray Mountains, Alaska**

The Company holds an option on a 100% interest in the Seagull Tin property located in the Southwestern Yukon pursuant to an agreement dated September 23, 2014. The options can be exercised on the second anniversary of the agreement for the lesser of 500,000 shares of the Company or 2% of the outstanding shares of the Company at that date. The Company's optional interest is subject to a 1.5% NSR, on which a \$200,000 advance payment is due on the fourth anniversary of the option agreement. The Company was required to perform at least \$250,000 of exploration work before the second anniversary; this work was completed in 2014.

### **Ray Mountains, Alaska**

The Company holds claims on an approximately 11,400 acre claim block in the Northern Ray Mountains region of Central Alaska. The claims were staked by the Company in 2011. Due to uncertain plans for future development, the Company has recorded an impairment charge of \$329,857 in 2015, writing down the carrying value of the Ray Mountains property to \$nil.

## 9. Non-refundable advance on technology:

The Company has an option to make payments of \$2.9 million USD to secure the exclusive, perpetual, full and royalty free license and authorization to use, enjoy and benefit from the proprietary Superlig® Molecular Recognition Technology ("MRT") intellectual property for rare earth purification, tailings remediation, and related recycling applications. To date, the Company has made non-refundable payments totaling \$2,569,041 (\$2,015,000 USD) to IBC Advanced Technologies Inc. ("IBC") with respect to this option. These payments, when complete, will result in the creation of a joint venture entity controlled by the Company which will hold the rights to this technology. The non-refundable payments as well as a commitment to provide a minimum of \$1,000,000 USD in start-up capital will form the basis for its contribution to the joint venture. The expected life of this intangible asset is indefinite; however the amortization method, useful life, and residual value will be assessed annually. The Company has capitalized the option payments as the expenditures meet the criteria for capitalization as intangible assets.

# UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2015 and 2014

## 10. Related party transactions:

### Compensation of key management personnel:

	2015	2014
Director's fees	\$ 97,500	\$ 88,000
Share-based payments to directors	105,717	195,782
Key management short-term benefits	1,229,526	1,133,149
Share-based payments to key management	93,010	165,346
	<u>\$ 1,525,753</u>	<u>\$ 1,582,277</u>

Key management short-term benefits include all salary, bonuses, and health/dental benefits earned by officers during the year.

As at December 31, 2015, the Company has recorded an advance, for corporate expenses, to officers of the Company in the amount of \$204,472 (December 31, 2014 - \$192,088), which is non-interest bearing and is to be repaid over three years. This amount is included in prepaid expenses and other.

During the year ending December 31, 2015, the Company paid \$122,321 (2014 - \$60,067) in consulting fees to directors of the Company. Additionally, travel expenditures in the amount of \$1,337 (2014 - \$1,430) were reimbursed to directors of the Company.

All related party transactions were in the normal course of operations and were valued at the exchange amount agreed to between the parties.

## 11. Deferred income taxes:

Deferred income tax recovery differs from the amount that would be computed by applying the federal and provincial statutory income tax rate of 31% (2014 - 31%) to net loss before income taxes. The reasons for the difference are as follows:

	2015	2014
Computed tax recovery at the statutory rates	\$ (1,402,751)	\$ (1,217,663)
Stock-based compensation, not deductible for tax purposes	130,156	198,987
Changes in tax assets related to deductible temporary differences and unused tax losses not recognized	1,267,485	988,481
Other	5,110	4,995
	<u>\$ -</u>	<u>\$ (25,200)</u>

# UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2015 and 2014

## 11. Deferred income taxes (continued):

The deferred tax assets relating to the following deductible temporary differences and non-capital losses have not been recognised in the consolidated financial statements:

	Dec 31, 2015	Dec 31, 2014
Non-capital losses carried forward	\$ 22,994,000	\$ 19,692,000
Share issue costs	544,000	740,000
Equipment	390,000	323,000
Resource properties	1,236,000	935,000
Convertible royalty liability	661,000	-
Marketable securities	45,000	44,750
	<u>\$ 25,870,000</u>	<u>\$ 21,734,750</u>

The Company has accumulated losses for Canadian tax purposes of approximately \$22,994,000, which may be carried forward and used to reduce taxable income in future years. These losses expire between 2025 and 2035.

## 12. Convertible royalty liability:

The Company has entered into a series of royalty sale financing transactions under royalty sale agreements with existing shareholders.

The purchasers under these royalty financings have the right to convert the total amount of the investment, minus any royalty amounts already then paid, into common shares of the Company at a price formula as outlined below. Subsequent to December 31, 2015, certain holders of the instruments exercised their conversion rights, resulting in the issuance of 43,146,810 common shares, as discussed below.

The proceeds of these transactions have been recorded as financial liabilities, measured at amortized cost. As the liability can be settled, at any time, at the option of the holder, amortized cost is equal to the proceeds received. The liabilities conversion options are considered to be embedded derivatives that have a nominal value at issuance date and at December 31, 2015.



# UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)  
Years ended December 31, 2015 and 2014

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## 12. Convertible royalty liability (continued):

- a) The Company entered into an agreement on May 20, 2015 in which \$5,106,800 (\$4,000,000 USD) was raised through the sale of a royalty on the future sale of products and services related to the processing of rare earth elements and other specialty metals and critical materials utilizing the SuperLig® MRT. Under the terms of the agreement, all payments were received prior to December 31, 2015.

The royalty will be payable on production from future MRT installations and be comprised of a gross royalty of 5% of sales payable until the recapture of the investment; and a net smelter royalty of 2% on the first MRT production client.

The purchaser has the right to convert the total amount of the investment, minus any royalty amounts already then paid, into common shares of the Company. If the purchaser elects to convert such amount, the Company's royalty obligation shall cease, and the conversion amount shall be converted into common shares at the greater of (i) the 30 day volume weighted average share price of the Company's common shares, less a 20% discount, (ii) the market price of the Company's common shares on the day immediately prior to the conversion date, less a 20% discount; or (iii) \$0.25 per common share. This conversion took place subsequent to December 31, 2015, see note 15 for additional details.

- b) On August 6, 2015 the Company entered into a second royalty based financing in which \$1,309,000 (\$1,000,000 USD) was raised and received prior to December 31, 2015. The royalty will be on production from future MRT installations and will be comprised of a gross royalty of 5% of sales payable until the recapture of the investment; and a net smelter royalty of 0.5% on the first MRT production client. This royalty is also convertible into common shares under the same terms as the May 20, 2015 royalty discussed above, and was also converted subsequent to December 31, 2015.
- c) On October 10, 2015 the Company entered into a third royalty based financing in which \$383,310 (\$300,000 USD) of short term debt was forgiven in exchange for a royalty on production from future MRT installations. This royalty is comprised of a gross royalty of 0.15% of sales payable until the recapture of the investment; and a net smelter royalty of 0.15% on the first MRT production client. This royalty is convertible to common shares under the same terms as the previous two royalty based financings and was also converted subsequent December 31, 2015.

On December 8, 2015 the Company entered into a fourth royalty based financing in which \$5,000,000 USD was raised, of which \$3,274,684 (\$2,500,000 USD) was received prior to December 31, 2015 and the second payment of \$2,500,000 USD is due on April 30, 2016. The royalty will be on production from future MRT installations and will be comprised of a gross royalty of 5% of sales payable until the recapture of the investment; and a net smelter royalty of 2.5% (increasing to 5% upon payment of the second \$2,500,000 USD) on the first MRT production client. The investor has the option to increase the amount of the Investment by up to \$1,000,000 USD in exchange for a larger royalty. If, prior to April 30, 2016, the Investor provides written notice to the Company that it would like to increase the Investment, it can do so in

# UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2015 and 2014

## 12. Convertible royalty liability (continued):

- d) tranches of \$500,000 USD in exchange for a pro-rata increase in its royalty. Each \$500,000 USD additional investment will result in an increase in the NSR by a factor of 0.50%.

The purchaser has the right to convert the total amount of the investment, minus any royalty amounts already then paid, into common shares of the Company. If the purchaser elects to convert such amount, the Company's royalty obligation shall cease, and the conversion amount shall be converted into common shares at the greater of (i) the 30 day volume weighted average share price of the Company's common shares, less a 20% discount, (ii) the market price of the Company's common shares on the day immediately prior to the conversion date, less a 20% discount; or (iii) \$0.20 per common share. The \$2,500,000 USD received prior to December 31, 2015 was also converted subsequent to December 31, 2015. See note 15 for additional details.

The Company's convertible royalty liability balance is made up of the following:

	December 31, 2014	Additions	Foreign exchange loss	December 31, 2015
Convertible royalty liability - May 20, 2015	\$ -	5,106,800	429,200	\$ 5,536,000
Convertible royalty liability - August 17, 2015	\$ -	1,309,000	75,000	\$ 1,384,000
Convertible royalty liability - October 10, 2015	\$ -	383,310	31,890	\$ 415,200
Convertible royalty liability - December 17, 2015	\$ -	3,274,683	125,316	\$ 3,399,999
	\$ -	\$10,073,793	\$ 661,406	\$ 10,735,199

## 13. Share capital:

Authorized:

- Unlimited number of common voting shares
- Unlimited number of first preferred non-voting shares issuable in series
- Unlimited number of second preferred non-voting shares issuable in series

### (a) Financing

On April 17, 2014 the Company completed the third and final tranche of a non-brokered private placement for cumulative gross proceeds of \$7,878,126 which were received in three tranches on April 11, 2014, April 16, 2014, and April 17, 2014. The offering consisted of 20,731,912 units priced at \$0.38 per unit. Each unit sold comprises one common share in the capital of the Company and one common share purchase warrant. Each warrant will entitle the holder to purchase one Common Share at a price of \$0.50 per common share for a period of 36 months. All common shares and warrants issued in connection with the private placement are subject to a statutory hold period that expires four months after the issuance of each tranche.

The Company paid finder's fees totaling \$26,942 and issued a total of 140,900 finder's warrants pursuant to certain subscriptions. Each finder's warrant issued entitles the holder to acquire one Common Share at a price of \$0.38 per unit for a period of 24 months from the date of issuance.

# UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2015 and 2014

## 13. Share capital (continued):

Other costs associated with the private placement totaled \$118,904 for total costs of \$145,846. The value allocated to the warrants was based on the Black-Scholes model, using an assumed volatility of 83% and an expected life of 3 years, resulting in the following allocation of proceeds and costs between common shares and warrants.

	Shares	Warrants	Total
Proceeds	\$4,066,867	\$3,811,259	\$7,878,126
Cash costs	(75,289)	(70,557)	(145,846)
Broker warrants	(25,503)	25,503	-
	\$3,966,075	\$3,766,205	\$7,732,280

### (b) Stock options

The Company has adopted an incentive stock option plan whereby options may be granted from time to time to directors, officers, employees, and consultants of the Company ("the Plan"). Pursuant to the terms of the Plan, up to 10% of the issued and outstanding common shares have been reserved for issuance as options, with no one individual being granted more than 5% of the issued and outstanding common shares. Options granted under the Plan generally vest over periods between 18 months and 2 ½ years. Stock options expire up to five years after the date of grant.

Stock options may also be granted to agents in certain public and private placements. Options granted to agents vest immediately and generally expire two years after the date of grant.

For the year ended December 31, 2015, the Company recognized share-based compensation expense of \$448,333 (2014 - \$700,126) for options granted to directors, employees, and non-employees of which \$28,476 (2014 - \$58,232) was capitalized in resource properties and related deferred costs and \$419,857 (2014 - \$641,895) was charged to income.

The fair value of options granted during the year has been estimated using the Black-Scholes option pricing model. The weighted average assumptions used in the pricing model for options granted during the year are as follows:

# UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2015 and 2014

## 13. Share capital (continued):

	2015	2014
Risk-free interest rate	1.03%	1.13%
Expected life	3 years	3 years
Expected volatility	83%	83%
Expected dividends	nil	nil
Weighted average grant date fair value	\$0.15	\$0.16
Rate of forfeiture	10%	10%

Expected volatility is estimated by considering historic average share price volatility.

A summary of changes in stock options during the year is as follows:

	2015		2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of year	13,825,000	\$ 0.37	10,525,000	\$ 0.40
Granted	3,750,000	0.28	4,350,000	0.28
Exercised	-	-	(550,000)	0.13
Forfeited	(1,970,000)	0.56	(500,000)	0.60
Balance, end of year	15,605,000	\$ 0.35	13,825,000	\$ 0.37

There were no options exercised during 2015. The weighted average share price on the date on which options were exercised during 2014 was \$0.38.

# UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2015 and 2014

## 13. Share capital (continued):

The following table summarizes information about the stock options outstanding and exercisable at December 31, 2015:

Exercise price per share	Number of outstanding options	Expiry date	Number of exercisable options
0.23	500,000	November 3, 2020	-
0.25	500,000	May 13, 2018	500,000
0.26	3,685,000	June 11, 2018	3,685,000
0.26	250,000	October 30, 2018	250,000
0.27	150,000	February 17, 2019	150,000
0.27	2,900,000	June 2, 2019	2,900,000
0.28	250,000	May 14, 2017	250,000
0.28	2,850,000	September 11, 2020	-
0.32	500,000	June 30, 2019	500,000
0.33	100,000	August 6, 2020	-
0.38	650,000	April 25, 2019	650,000
0.38	300,000	June 12, 2020	100,000
0.40	150,000	September 14, 2017	150,000
0.41	300,000	March 30, 2017	300,000
0.46	300,000	January 29, 2018	300,000
0.55	1,770,000	November 7, 2016	1,770,000
0.56	150,000	November 17, 2016	150,000
0.75	300,000	July 29, 2016	300,000
	15,605,000		11,955,000

### (c) Share purchase warrants

The fair value of warrants has been estimated using the Black-Scholes option pricing model. The weighted average assumptions used in the pricing model for the warrants granted during the each year are as provided below.

	2015	2014
Risk-free interest rate	1.03%	1.13%
Expected life	3 years	3 years
Expected volatility	81%	83%
Expected dividends	nil	nil

# UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2015 and 2014

## 13. Share capital (continued):

A summary of the Company's share purchase warrants at December 31, 2015 and 2014, and the changes for the years then ended is as follows:

	2015		2014	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance, beginning of year	39,502,249	\$ 0.43	21,077,594	\$ 0.34
Granted (note 12)	500,000	0.23	20,872,812	0.50
Exercised	(13,000)	0.35	(2,488,157)	0.32
Expired	-	-	-	-
Balance, end of year	39,989,249	\$ 0.42	39,502,249	\$ 0.43

The Company granted 500,000 warrants as a finder's fee associated with the royalty based financing issued on December 8, 2015.

The weighted average share price on the date on which warrants were exercised during the year was \$0.41 (2014 - \$0.42).

The following table summarizes information about the warrants outstanding and exercisable at December 31, 2015.

Exercise price per share	Expiry date	Number of exercisable warrants
\$0.25	May 13, 2016	394,437
\$0.35	May 13, 2016	18,222,000
\$0.38	April 11 – April 17, 2017	140,900
\$0.50	April 11 – April 17, 2017	20,731,912
\$0.23	December 8, 2018	500,000
		39,989,249

# UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2015 and 2014

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## 13. Share capital (continued):

### (c) Deferred share units

The Company has adopted a Deferred Share Unit Plan for the directors and senior officers of the Company. Pursuant to the terms of the plan, The maximum number of Deferred Share Units issued to any individual, within any one year period, cannot exceed 1% of the issued and outstanding Shares as of the relevant Award Date, and the maximum number of Deferred Share Units issued to any individual, within any one year period, when aggregated with the number of Shares underlying all other awards made to such individual under all other Security Based Compensation Arrangements in such year period, cannot exceed 5% of the issued and outstanding Shares as of the relevant Award Date.

Awards granted under the Plan generally vest 25% immediately on the award date, 25% on the one year anniversary of the award date, 25% on the two year anniversary of the award date and 25% on the three year anniversary of the award date. Early vesting is provided in the event of termination without cause, resignation at the request of the Company, death, or on the occurrence of a change of control of the Company.

The Company issued 392,800 (2014 – nil) deferred share units during the year ended December 31, 2015 for a total expense of \$41,163 (2014 - nil). This has been recorded in share based compensation expense as discussed in note 13 (b).

## 14. Commitments:

In February 2012, the Company entered into a five year operating lease for its head office premises in Halifax which began October 2012. As of December 31, 2015, these commitments required total payments including estimated common expenses, as follows:

Year	
Year ending December 31, 2016	149,896
Year ending December 31, 2017	95,119
Year ending December 31, 2018	1,771
Year ending December 31, 2019	-
Year ending December 31, 2020	-
	\$ 246,786

# UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2015 and 2014

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## 15. Subsequent events:

- a) On January 15, 2016 two investors exercised their right to convert their royalty investment (see note 12) into common shares of the Company. The investors initially paid \$5.3 million USD for the royalties which were converted at a rate of \$0.25 per share. At the conversion date, the liabilities were converted into 30,470,760 common shares of the Company.
- b) On February 23, 2016 the Company extended the term of share purchase warrants of the Company. A total of 20,000,000 share purchase warrants were originally issued by the Company pursuant to the closing of the equity offering as originally announced on May 13, 2013. Each share purchase warrant entitled the holder to purchase one common share of the company at a price of \$0.35 per common share for a period of 36 months. A total of 18,222,000 of these Warrants remained outstanding at December 31, 2015. As a result of market conditions during the term of the Warrants and the capital raising opportunity represented by the Warrants, the Board of Directors of the Company has approved an amendment to the term of the original Warrant so that the term will be extended from May 13, 2016 to December 31, 2016.
- c) On March 4, 2016 an investor exercised their right to convert their royalty investment (see note 12) into common shares of the Company. The investor initially paid \$2.5 million USD (approximately \$3.3 million CAD) for the royalty which was converted at a rate of \$0.26625 per share. At the conversion date, the liabilities were converted into 12,676,050 common shares of the Company. In addition, the investor made a commitment to increase the \$2.5 million USD royalty payment due in April 2016 by an additional \$2.5 million USD, therefore preserving the terms of underlying royalty agreement. Finally, the investor made a commitment to exercise their option to increase the royalty by \$1 million USD per the terms of the agreement as more fully outlined in note 12.