Consolidated Financial Statements of

UCORE RARE METALS INC.

Years ended December 31, 2017 and 2016

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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, 2017 and December 31, 2016, 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, 2017 and December 31, 2016 its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to note 2 in the consolidated financial statements which indicates that Ucore Rare Metals Inc. experienced losses in 2017 and 2016, has no significant sources of revenue and does not have sufficient capital to fund its operations beyond the third quarter of 2018. These conditions, along with other matters set forth in note 2 in the consolidated financial statements, indicate the existence of material uncertainties that cast significant doubt about Ucore Rare Metals Inc.'s ability to continue as a going concern.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
April 26, 2018
Halifax, Canada

UCORE RARE METALS INC.
Consolidated Statements of Financial Position
Expressed in Canadian dollars

	December 31, 2017	December 31, 2016
	$	$
ASSETS		
Current assets		
Cash	2,065,664	3,114,200
Marketable securities	1,000	1,000
Other receivables	47,255	63,156
Prepaid expenses and other	182,016	285,179
	2,295,935	3,463,535
Plant and equipment (note 8)	3,626,031	749,517
Derivative asset (note 11)	254,619	462,577
Restricted cash (note 7)	223,677	239,403
Resource properties and related exploration costs (note 9)	36,022,271	40,308,855
Non-refundable advance on technology (note 10)	3,353,446	3,353,446
	45,775,979	48,577,333
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	661,241	129,582
Long-term liabilities		
Finance lease obligation (note 14)	2,514,000	-
	3,175,241	129,582
Shareholders' equity		
Share capital (note 16)	58,720,457	60,843,236
Contributed surplus (note 16)	12,950,920	10,714,134
Warrants (note 16)	10,167,621	9,679,444
Accumulated other comprehensive income	3,474,950	5,040,805
Deficit	(42,713,210)	(37,829,868)
	42,600,738	48,447,751
	45,775,979	48,577,333

Going concern (note 2)

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

Approved on behalf of the Board of Directors

(s) Jim McKenzie
Jim McKenzie, Director

(s) Geoff Clarke
Geoff Clarke, Director

UCORE RARE METALS INC.

Consolidated Statements of Loss and Comprehensive Loss
Expressed in Canadian dollars
For the years ended December 31

	2017	2016
	$	$
EXPENSES		
Amortisation	27,182	38,809
Investor relations and marketing	346,588	337,081
Office and premises	319,561	324,970
Professional services	641,324	863,707
Salaries and consultants	2,041,239	2,057,567
Securities and regulatory	131,855	165,187
Share-based payments	723,730	420,442
Travel	240,468	315,566
Fair value adjustment of derivative asset (note 11)	207,958	378,473
Impairment of resource properties (note 9)	-	251,994
	4,679,905	5,153,796
OTHER INCOME (LOSS)		
Interest income	7,828	10,152
Interest expense	(157,500)	-
Foreign exchange	(53,765)	(252,746)
	(203,437)	(242,594)
LOSS BEFORE INCOME TAXES	(4,883,342)	(5,396,390)
INCOME TAXES RECOVERABLE (note 13)	-	-
NET LOSS	(4,883,342)	(5,396,390)
Net Loss per share - basic and diluted	(0.02)	(0.02)
Weighted average number of basic and diluted common shares outstanding	270,142,589	250,917,756
COMPREHENSIVE LOSS:		
Net loss for the year	(4,883,342)	(5,396,390)
Items which may be subsequently recycled through profit or loss		
Foreign currency translation difference arising on translation of foreign subsidiaries	(1,565,855)	(707,300)
Unrealized gain (loss) on available-for-sale securities	-	250
	(6,449,197)	(6,103,440)

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
Balance at January 1, 2016	197,576,471	$ 45,865,391	$ 10,219,858	$ 5,637,377	$ 5,747,855	$ (32,433,478)	$ 35,037,003
Net Loss						(5,396,390)	(5,396,390)
Unrealized gain (loss) on available for sale securities					250		250
Foreign currency translation adjustment					(707,300)		(707,300)
Share-based payments (note 16)			441,475				441,475
Shares issued on exercise of warrants	1,807,300	568,691					568,691
Fair value of warrants exercised		187,574		(187,574)			-
Shares issued on exercise of options	166,667	38,333					38,333
Fair value of options exercised		19,667	(19,667)				-
Financing (net of costs) (note 16)	26,844,828	4,364,657		2,940,343			7,305,000
Shares issued to settle liabilities (note 16)	600,000	228,000					228,000
Shares issued on conversion of liabilities (note 15)	43,146,811	10,932,689					10,932,689
Extension of warrants (note 16)		(1,361,766)		1,361,766			-
Expiry of warrants (net of tax) (note 16)			72,468	(72,468)			-
Balance at December 31, 2016	270,142,077	$ 60,843,236	$ 10,714,134	$ 9,679,444	$ 5,040,805	$ (37,829,868)	$ 48,447,751
Balance at January 1, 2017	270,142,077	$ 60,843,236	$ 10,714,134	$ 9,679,444	$ 5,040,805	$ (37,829,868)	$ 48,447,751
Net Loss						(4,883,342)	(4,883,342)
Foreign currency translation adjustment					(1,565,855)		(1,565,855)
Share-based payments (note 16)			602,184				602,184
Fair value of options exercised	8,120	2,030	(2,030)				-
Extension of warrants (note 16)		(2,124,809)		2,124,809			-
Expiry of warrants (note 16)			1,636,632	(1,636,632)			-
Balance at December 31, 2017	270,150,197	$ 58,720,457	$ 12,950,920	$ 10,167,621	$ 3,474,950	$ (42,713,210)	$ 42,600,738

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

UCORE RARE METALS INC.

Condensed Consolidated Statements of Cash Flows

Expressed in Canadian dollars

	2017	2016
	$	$
CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES		
Net loss for the year	(4,883,342)	(5,396,390)
Adjustments for items not involving cash:		
Amortisation	27,182	38,809
Share-based payments	723,730	420,442
Interest expense	157,500	-
Foreign exchange loss on convertible royalty	-	197,490
Fair value adjustment of derivative asset	207,958	378,473
Impairment of resource properties	-	251,994
Unrealized foreign exchange loss	28,725	7,364
	(3,738,247)	(4,101,818)
Change in non-cash operating working capital:		
Other receivables	15,901	32,715
Prepaid expenses and other	103,163	9,875
Accounts payable and accrued liabilities	546,124	(61,783)
	(3,073,059)	(4,121,011)
CASH FLOWS FROM (USED BY) FINANCING ACTIVITIES		
Proceeds from finance lease of property and equipment (note 14)	2,501,000	-
Interest paid on finance lease	(157,500)	-
Issuance of common shares and warrants for cash	-	7,305,000
Issuance of common shares on exercise of options and warrants	-	607,024
	2,343,500	7,912,024
CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES		
Purchase of plant and equipment	(1,400)	(647,694)
Purchase of non-refundable advance on technology and other	-	(784,405)
Premium paid for IBC purchase option	-	(841,050)
Additions to resource properties and related exploration costs	(317,577)	(1,137,337)
	(318,977)	(3,410,486)
INCREASE (DECREASE) IN CASH	(1,048,536)	380,527
CASH, beginning of year	3,114,200	2,733,673
CASH, end of year	2,065,664	3,114,200
Non-cash financing and investment activities:		
Accounts payable and accrued liabilities related to resource properties and related exploration costs	(14,465)	(102,487)
Issue of common shares on settlement of debt	-	228,000
Issue of common shares on conversion of convertible royalty liability	-	10,932,689

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

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.

2. Going concern:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards applicable to a going concern, which assumes the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, as described in the following paragraphs.

The Company has no sources of revenue, experienced significant losses and negative cash flows from operations in 2017 and 2016 and has a deficit. Management estimates current working capital may not be sufficient to fund all of the Company's planned expenditures in 2018. The ability of the Company to continue as a going concern, realize its assets and discharge its liabilities in the normal course of business and continue with, or expand upon its exploration programs is contingent upon securing financing or monetizing assets. The timing and availability of additional financing will be determined largely by market conditions and the results of the Company's ongoing exploration programs. There is no certainty that the Company will be able to raise funds as they are required in the future.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary to the carrying value of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used.

3. Basis of presentation:

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

3. Basis of presentation (continued):

The date the Board of Directors approved the consolidated financial statements is April 26, 2018.

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 U.S. dollar ("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 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.

3. Basis of presentation (continued):

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.

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.

Derivative financial instruments

The Company records the fair value of derivative assets using valuation models where the fair value cannot be determined in active markets. The inputs used in the fair value models contain inherent uncertainties, estimates and use of judgment as certain valuation inputs are unobservable.

4. 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.

(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.

4. Significant accounting policies (continued):

Resource properties are initially measured at cost and classified as tangible and intangible 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, including the cost of certain site equipment. Such equipment is recorded at cost less accumulated amortisation and impairment losses. The Company provides for amortisation using the declining balance method at rates between 10% to 30% designed to amortise the cost of the equipment over their estimated useful lives. 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 mineral 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;

4. 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.

4. Significant accounting policies (continued):

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

(ii) Derivative financial assets

Derivative financial assets are recorded at fair value with changes in fair value recorded in profit or loss.

(iii) 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 contacts 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.

(iv) 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.

4. 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.

4. 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. Such circumstances would include expiration of rights to explore with no right or expectation of renewal; substantive expenditure on further exploration and evaluation in the specific area is neither budgeted nor planned or the entity has decided to discontinue such activities in the specific area; or if sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale. 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.

4. 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 16. Awards of options to employees and others providing similar services under this plan are expensed based on the estimated fair value of the options or deferred share units 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 and deferred share units are subject to vesting periods, 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.

4. 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 16.

(l) New and revised IFRS accounting pronouncements:

a) The following amendments were adopted by the Company in the fiscal year:

In January 2016, 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.

Expressed in Canadian dollars, except where otherwise indicated

4. Significant accounting policies (continued):

The Company has adopted this amendment and has provided the necessary disclosures in these financial statements.

In January 2016, 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 has adopted this amendment with no impact on the financial statements.

b) 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, 2017. Standards and interpretations issued, but not yet adopted include:

	Effective for the Company
Amendments to IFRS 2, *Share-based Payments*	January 1, 2018
IFRS 15, *Revenue from Contracts with Customers*	January 1, 2018
IFRS 9, *Financial Instruments*	January 1, 2018
IFRS 16, *Leases*	January 1, 2019
IFRIC 23, Uncertainty over income Tax Treatments	January 1, 2019

In June 2016, the IASB issued amendment to IFRS 2, Shares-based Payments, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; b) share-based payment transactions with a net settlement feature for withholding tax obligations; and c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. The Company intends to adopt the amendments to IFRS 2 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard 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. The standard contains a single model that applies to contracts with

4. Significant accounting policies (continued):

customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. This standard is effective for annual periods beginning on or after January 1, 2018, and permits early adoption.

The Company intends to adopt IFRS 15 and the clarifications in its financial statements for the annual period beginning on January 1, 2018. As the Company does not currently generate revenue the only anticipated impact of adopting IFRS 15 is with respect to the sale-leaseback transaction in 2017. Under IFRS 15, the transaction will be accounted for as a financing arrangement and not a sale.

In July 2014, the IASB issued IFRS 9, Financial Instruments, which will replace IAS 39, Financial Instruments, Recognition and Measurement. IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The Company is currently evaluating the impact of this standard on the consolidated financial statements.

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.

On June 7, 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Early application is permitted. The interpretation clarifies the accounting for income tax treatments (current and deferred tax) that have yet to be accepted by the tax authorities. The Company intends to adopt the Interpretation in its financial statement for the annual period beginning on January 1, 2019 and does not expect the Interpretation to have a material impact on the financial statements.

Expressed in Canadian dollars, except where otherwise indicated

5. Capital management:

The Company's capital consists of shareholders' equity of $42,600,738 (2016: $48,447,751). 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 during the year. The Company is not subject to externally imposed capital requirements.

6. Financial instruments:

Fair value

During the years ended December 31, 2017 and 2016, 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, 2017			December 31, 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets:						
Cash	2,065,664	-	-	3,114,200	-	-
Restricted cash	223,677	-	-	239,403	-	-
Other receivables	-	-	47,255	-	-	63,156
Marketable securities	1,000	-	-	1,000	-	-
Derivative asset	-	-	254,619	-	-	462,577
Financial liabilities:						
Accounts payable	-	-	(661,241)	-	-	(129,582)
Finance lease obligation	-	-	(2,514,000)	-	-	-

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.

6. Financial instruments (continued):

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:

	2017	2016
Cash	$ 1,558,953	$ 36,647
Restricted cash	223,677	239,403
Trade and other receivables	-	7,178
Trade and other payables	(131,283)	(45,384)
Finance lease	(2,514,000)	-
	$ (862,653)	$ 237,844

A 10% weakening in the exchange rate would result in a foreign exchange gain of $86,265 (2016 - $23,784). 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 a high interest savings account, as is the case at December 31, 2017, 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.

7. Restricted cash:

Restricted cash consists of US dollar 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.

Expressed in Canadian dollars, except where otherwise indicated

8. Plant and equipment:

	Office Equipment	Exploration Equipment	Leasehold Improvements	PGM Facility	Pilot Plant Under Capital Lease	Total
Cost						
Balance, January 1, 2016	$ 213,453	$ 142,746	$ 179,519	$ -	$ -	$ 535,718
Additions	6,210	-	-	641,484	-	647,694
Balance December 31, 2016	219,663	142,746	179,519	641,484	-	1,183,412
Additions	1,400	-	-	-	-	1,400
Transfer	-	-	-	-	2,914,106	2,914,106
Balance, December 31, 2017	221,063	142,746	179,519	641,484	2,914,106	4,098,918
Accumulated amortisation						
Balance, January 1, 2016	$ 149,240	$ 100,661	$ 140,465	$ -	$ -	$ 390,366
Amortisation	14,705	1,398	22,707	-	-	38,810
Capitalized Amortisation	-	1,936	2,783	-	-	4,719
Balance, December 31, 2016	163,945	103,995	165,955	-	-	433,895
Amortisation	10,040	3,578	13,564	-	-	27,182
Capitalized Amortisation	2,793	9,017	-	-	-	11,810
Balance, December 31, 2017	176,778	116,590	179,519	-	-	472,887
Net book value						
Balance, December 31, 2016	$ 55,718	$ 38,751	$ 13,564	$ 641,484	$ -	$ 749,517
Balance, December 31, 2017	$ 44,285	$ 26,156	$ -	$ 641,484	$2,914,106	$ 3,626,031

The Company has not begun to amortize the Pilot Plant under capital lease as it has not been recommissioned to accept third party feedstock as at December 31, 2017 and is therefore not considered available for use.

9. Resource properties and related exploration costs:

The Company's interests in resource properties consist of:

	December 31, 2016	Acquisition costs	Deferred exploration costs	Transfer under sale leaseback	Impairment	Movement in exchange rates	December 31, 2017
Bokan Mountain, Alaska	$ 40,308,855	$ -	$ 193,377	$ (2,914,106)	$ -	$ (1,565,855)	$ 36,022,271
	$ 40,308,855	$ -	$ 193,377	$ (2,914,106)	$ -	$ (1,565,855)	$ 36,022,271

	December 31, 2015	Acquisition costs	Deferred exploration costs	Transfer under sale leaseback	Impairment	Movement in exchange rates	December 31, 2016
Bokan Mountain, Alaska	$ 39,750,578	$ -	$ 1,265,576	$ -	$ -	$ (707,300)	$ 40,308,855
Seagull Tin, Yukon	251,994	-	-	-	(251,994)	-	-
	$ 40,002,572	$ -	$ 1,265,576	$ -	$ (251,994)	$ (707,300)	$ 40,308,855

Included in resource properties is capitalized equipment, with a net book value of $251,029 at December 31, 2017 (December 31, 2016 - $3,191,048). There were no additions to equipment in either fiscal 2017 or 2016. Amortisation of $11,801 (December 31, 2016 - $4,719) was recorded and capitalised to the resource properties as deferred exploration costs.

9. 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. Due to uncertain plans for future development, the Company has recorded an impairment charge of $251,994 in 2016, writing down the carrying value of the Seagull Tin property to $nil.

10. 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 $2,445,291 ($1,915,000 USD) to IBC Advanced Technologies Inc. ("IBC") with respect to this option. Under the terms of the advance agreement these payments, when complete, are expected to result in the creation of a joint venture which will hold the rights to this technology. The joint venture would be owned 40% by Ucore, 40% by IBC, and 20% by a financing partner. Ucore will be responsible for either providing initial capital for the new venture as the financing partner, or finding a third party investor to provide the required investment. If Ucore were to invest the capital directly, it would result in Ucore controlling the entity. 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 Ucore's contribution to the joint venture. The amortization method, useful life, and residual value of the underlying asset or assets related to the license will be determined upon formation of the joint venture.

The Company has made a number of payments, totalling $908,155 ($690,000 USD) for certain considerations from IBC, including the devotion of IBC's resources to the development of the joint venture's potential business opportunities. These payments will be assigned to the joint venture

Expressed in Canadian dollars, except where otherwise indicated

10. Non-refundable advance on technology (continued):

discussed above upon formation and will be paid back to Ucore preferentially on any distributions from the joint venture.

The Company has capitalized the option payments as the expenditures meet the criteria for capitalization as an intangible asset.

11. Financial derivative:

The Company has made $841,050 ($650,000 USD) in non-refundable payments in respect of a purchase option from IBC, a private company. This option (the "IBC option") allows the Company to purchase 100% of the outstanding shares of IBC in exchange for cash considerations totalling $10,000,000 USD and an issuance of 4,000,000 Units of Ucore. Each Unit consisting of one common share of Ucore plus one half of a common share purchase warrant.

Each full warrant shall entitle the holder to acquire one additional common share of Ucore at a strike price equal to the market price of the common shares of Ucore as of the date on which the option is exercised. This option expires March 14, 2019.

Upon the exercise of the IBC option, IBC key personnel shall become entitled to receive performance incentives and payments totaling 7% of annual EBITDA for each of the first 5 years of IBC's operations subsequent to the exercise of the option.

Shareholders representing the majority of the outstanding and fully diluted shares of IBC are parties to, and bound by the IBC option agreement. In the event that any IBC shareholder that is not a party to the option agreement elects not to sell their shares to the Company, consideration to be paid would be adjusted to reflect the percentage of the Company that is not acquired.

The option is a derivative financial asset that is recorded at fair value, with changes in fair value recognized through profit or loss. The premium paid for the derivative at inception of $841,050 represents the initial fair value.

The fair value has been estimated based on amortizing the premium on a straight-line basis over the term of the option agreement. Changes in the fair value are summarized as follows:

	December 31, 2016	Market value adjustment	December 31, 2017
IBC Option	$ 462,577	$ (207,958)	$ 254,619
	$ 462,577	$ (207,958)	$ 254,619

	Fair value at inception	Market value adjustment	December 31, 2016
IBC Option	$ 841,050	$ (378,473)	$ 462,577
	$ 841,050	$ (378,473)	$ 462,577

Expressed in Canadian dollars, except where otherwise indicated

12. Related party transactions:

Compensation of key management personnel:

	2017	2016
Director's fees	$ 163,000	$ 149,750
Share-based payments to directors	169,073	99,949
Key management short-term benefits	1,108,910	1,147,638
Share-based payments to key management	172,588	122,233
	$ 1,613,571	$ 1,519,569

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

As at December 31, 2017, the Company has recorded advances receivable from officers of the Company in the amount of $83,907 (December 31, 2016 - $180,407), which are non-interest bearing and are to be repaid over three years. The amounts are included in prepaid expenses and other.

During the year ending December 31, 2017, the Company paid $104,881 (2016 - $248,156) in fees to a law firm of which a director of the Company is a partner. Additionally, travel expenditures in the amount of $3,222 (2016 - $4,293) were reimbursed to directors of the Company.

During the year the Company completed a $2,000,000 USD finance lease with Orca Holdings, LLC a shareholder with holdings greater than 10% of the outstanding common shares 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.

13. Deferred income taxes:

Deferred income tax recovery differs from the amount that would be computed by applying the combined Canadian federal and Nova Scotia provincial statutory income tax rate of 31% (2016 - 31%) to net loss before income taxes. The reasons for the difference are as follows:

	2017	2016
Computed tax recovery at the statutory rates	$ (1,513,836)	$ (1,672,881)
Stock-based compensation, not deductible for tax purposes	224,356	130,337
Changes in tax assets related to deductible temporary differences and unused tax losses not recognized	1,268,980	1,534,809
Other	20,500	7,735
	$ -	$ -

Expressed in Canadian dollars, except where otherwise indicated

13. 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, 2017	Dec 31, 2016
Non-capital losses carried forward	$ 32,161,000	$ 27,512,000
Capital loss carried forward	-	827,000
Share issue costs	643,000	1,020,000
Plant and equipment	408,000	369,000
Resource properties	1,477,000	1,485,000
Derivative asset	586,000	378,000
Marketable securities	45,000	45,000
	$ 35,320,000	$ 31,636,000

The Company has accumulated losses for Canadian tax purposes of approximately $32,161,000, which may be carried forward and used to reduce taxable income in future years. These losses expire between 2025 and 2037.

14. Finance lease:

During the year the Company has completed a sale and leaseback of its Pilot Plant with Orca Holdings, LLC (“the lessor”). The terms of the agreement resulted in the Company selling the Pilot Plant for cash proceeds of $2,501,000 ($2,000,000 USD) (“the purchase price”). The Company has leased the Pilot Plant over a 3-year term at an annual lease rate of 15% (the “term”) and retains all existing operating rights and obligations. The leased assets are recorded within property and equipment (note 9). The excess of $413,106 of the net book value of the asset over the cash proceeds remains in the carrying amount of the leased asset as the asset was determined not be impaired at the time of the transaction. The transaction is being accounted for as a financing transaction with the asset remaining recorded and the present value of the lease payments reflected as a liability. The Company is required to make monthly interest only payments to the lessor of $25,000 USD. At the option of the Company or the lessor, the lease may be terminated upon the payout by the Company of the purchase price at any time commencing the second year of the term. At the end of the term the Company will purchase the Pilot Plant from the lessor for the purchase price.

The Company recognized a finance lease obligation and an asset under finance lease with an opening balance of $2,501,000. This amount represents the present value of future minimum lease payments using a discount rate of 15%.

The following table reconciles the changes in cash flows from financing activities attributable to finance lease obligation:

Expressed in Canadian dollars, except where otherwise indicated

14. Finance lease (continued):

Finance lease obligation, beginning of year:	$ -
Proceeds on sale of property and equipment	2,501,000
Total cash flows from financing activities	2,501,000
Other components of finance lease obligation	
Effects of foreign exchange	13,000
Total finance lease obligation, end of year:	$ 2,514,000

15. Convertible royalty liability:

During the year ended December 31, 2015, the Company entered into a series of royalty sale financing transactions under royalty sale agreements with existing shareholders.

The purchasers under these royalty financings had the right to convert the total amount of the investment, minus any royalty amounts already then paid, into common shares of the Company subject to price formulas specific to each agreement. During the year ended December 31, 2016, each of the holders of the instruments exercised their conversion rights, resulting in the issuance of 43,146,811 common shares, as discussed below.

The proceeds of these transactions were recorded as financial liabilities, measured at amortized cost. As the liabilities could be settled, at any time, at the option of the holder, the fair value of the financial liabilities was determined to be their face value. The conversion options were embedded derivatives that had a nominal value from issue date to their subsequent conversion.

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.

   The purchaser had the right to convert the total amount of the investment, minus any royalty amounts already then paid, into common shares of the Company.

   On January 15, 2016 this investor exercised their right to convert their royalty investment into common shares of the Company. The liability was converted at a rate of $0.25 per share, resulting in an issuance of 22,996,800 common shares of the Company.

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.

   On January 15, 2016 this investor exercised their right to convert their royalty investment into common shares of the Company. The liability was converted at a rate of $0.25 per share,

   resulting in the issuance of 5,749,200 common shares of the Company.

Expressed in Canadian dollars, except where otherwise indicated

15. Convertible royalty liability (continued):

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 was convertible to common shares under the same terms as the two royalty based financings outlined in (a) and (b) above.

On January 15, 2016 this investor exercised their right to convert their royalty investment into common shares of the Company. The liability was converted at a rate of $0.25 per share, resulting in the issuance of 1,724,761 common shares of the Company.

d) On December 8, 2015 the Company entered into a fourth royalty based financing for $5,000,000 USD, of which $3,274,684 ($2,500,000 USD) was received prior to December 31, 2015. The royalty was on production from future MRT installations. The investor had the option to increase the amount of the Investment by up to $1,000,000 USD in exchange for a larger royalty. The second tranche of $2,500,000 USD and the incremental $1,000,000 USD are discussed in note 16 (a).

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.

The $2,500,000 USD received prior to December 31, 2015 was converted into common shares on March 4, 2016. The royalty was converted at a rate of $0.26625 per share, resulting in the issuance of 12,676,050 common shares of the Company.

The change in the Company's convertible royalty liability balance and issuances of common shares on conversions during 2016 is summarized as follows:

		Fair value		Common shares
Conertible royalty liabilities	Issue date	At issue date	At conversion date	issued on conversion
a) USD $4,000,000	May 20, 2015	$ 5,106,800	$ 5,749,200	22,996,800
b) USD $1,000,000	August 6, 2015	1,309,000	1,437,300	5,749,200
c) USD $300,000	October 10, 2015	383,310	431,190	1,724,761
d) USD $2,500,000	December 8, 2015	3,274,684	3,314,999	12,676,050
		$ 10,073,794	$ 10,932,689	43,146,811

16. 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 May 27, 2016, the Company amended the terms to the $2,500,000 USD payment owing to the Company on the December 8, 2015 royalty agreement (note 15(d)). Under the terms of the amended agreement, the investor increased the USD $2,500,000 balance owing to USD $5,000,000. Additional amendments included the reduction of the gross royalty and the net smelter royalty was reduced from 5% to 2%, and the increase in the conversion rate to the greater of: (i) the market price of the Company's common shares on the day immediately prior to the conversion date, less a 20% discount; or (ii) $0.29 per common share. The amended agreement additionally allowed the royalty to be converted to units consisting of one common share of the Company plus a common share purchase warrant. Each common share purchase warrant entitles the investor to acquire 1 new common share from the Company at a price of CAD$0.38 per common share for a period of 3 years from the issuance date of the warrant.

Additionally, under the terms of the original agreement, the investor had the option to increase the amount of the investment by up to USD $1,000,000, in exchange for a larger royalty, provided that written notice of such exercise was provided prior to August 31, 2016. The investor exercised that option, and the investment was accordingly increased by USD $1,000,000, bringing the cumulative investment to USD $6,000,000.

In accordance with the conversion terms of the amended agreement, on May 27, 2016, 25,344,828 units were issued at $0.29 per unit for total proceeds of CAD$7,349,998 (representing approximately USD $5.7 million of the USD $6 million discussed above). A second closing of this financing took place on July 22, 2016 in which 1,500,000 units were issued at $0.30 per unit for total proceeds of CAD $450,002 (the remaining USD $300,000).

The Company paid issue costs totaling $495,000 and issued a total of 1,658,621 broker warrants in conjunction with the financing. Each brokers warrant issued entitles the holder to acquire one common share at a price of $0.29 per share for a period of 36 months from the date of issuance. The value allocated to warrants was determined using a Black-Scholes model.

A summary of the transactions, which are incremental to the amounts described in note 15(d), are as follows:

	Allocation of proceeds			Numbers issued	
	Total	Shares	Warrants	Shares	Warrants
USD $6,000,000 financing	$ 7,800,000	$ 5,106,479	$ 2,693,521	$ 26,844,828	$ 26,844,828
Issue costs	(495,000)	(322,191)	(172,809)	-	-
Broker warrants	-	(419,631)	419,631	-	1,658,621
	$ 7,305,000	$ 4,364,657	$ 2,940,343	$ 26,844,828	$ 28,503,449

Expressed in Canadian dollars, except where otherwise indicated

16. Share capital (continued):

(b) Shares for debt

For the year ended December 31, 2016 the Company settled certain payables in the amount of $195,000 through the issuance of 600,000 shares. The market price of common shares of the Company on the date of settlement was $0.38 per share. As a result, the Company incurred a loss on settlement of $33,000 which was included in the expense and the value attributed to the issued shares. The total value attributed to the shares was $228,000.

(c) 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 a period of 18 months. 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, 2017, the Company recognized share-based compensation expense of $826,391 (2016 - $441,475) for options granted to directors, employees, and consultants of which $2,654 (2016 - $21,033) was capitalized to resource properties and related deferred costs. During 2017 the Company recorded a forfeiture recovery to share-based compensation expense of $100,007 and $124,200 to resource properties and related deferred costs as a result of options forfeited prior to their expiry date. As a result of the transactions during the year $723,730 (2016 - $420,442) 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:

	2017	2016
Risk-free interest rate	1.35%	1.15%
Expected life	3 years	3 years
Expected volatility	67%	76%
Expected dividends	nil	nil
Weighted average grant date fair value	$0.12	$0.15
Rate of forfeiture	10%	10%

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

Expressed in Canadian dollars, except where otherwise indicated

16. Share capital (continued):

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

	2017			2016		
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Balance, beginning of year	16,318,333	$	0.29	15,605,000	$	0.35
Granted	8,450,000		0.265	3,100,000		0.30
Exercised	-		-	(166,667)		0.23
Forfeited	(2,100,000)		0.30	(2,220,000)		0.58
Balance, end of year	22,668,333	$	0.28	16,318,333	$	0.29

No options were exercised during the year ended December 31, 2017. The weighted average share price on the date on which options were exercised during the year ended December 31, 2016 was $0.41.

The following table summarizes information about the stock options outstanding and exercisable at December 31, 2017:

Exercise price per share	Number of outstanding options	Expiry date	Number of exercisable options
0.23	333,333	November 3, 2020	333,333
0.25	500,000	May 13, 2018	500,000
0.26	3,185,000	June 11, 2018	3,185,000
0.26	250,000	October 30, 2018	250,000
0.27	150,000	February 17, 2019	150,000
0.265	8,450,000	August 21, 2022	-
0.27	2,500,000	June 2, 2019	2,500,000
0.28	2,500,000	September 11, 2020	2,500,000
0.30	2,650,000	November 4, 2021	1,766,667
0.30	300,000	November 4, 2021	300,000
0.32	500,000	June 30, 2019	500,000
0.33	100,000	August 6, 2020	100,000
0.38	300,000	June 12, 2020	300,000
0.38	650,000	April 25, 2019	650,000
0.46	300,000	January 29, 2018	300,000
	22,668,333		13,335,000
Weighted average remaining life			2.96 years

Expressed in Canadian dollars, except where otherwise indicated

16. Share capital (continued):

(d) 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.

During the year ended December 31, 2017, 20,731,912 warrants, with an exercise price of $0.50 scheduled to expire on several dates between April 11, 2017, and April 17, 2017, were extended until dates between April 11, 2019, and April 17, 2019 and the exercise price was amended to $0.305. The value of this modification totalled $2,124,809 and was charged to equity.

	2017	2016
Risk-free interest rate	1.00%	1.15%
Expected life	2 years	3 years
Expected volatility	66%	80%
Expected dividends	nil	nil

A summary of the Company's share purchase warrants at December 31, 2017 and 2016, and the changes for the years then ended is as follows:

	2017			2016		
	Number of warrants		Weighted average exercise price	Number of warrants		Weighted average exercise price
Balance, beginning of year	66,188,701	$	0.41	39,989,249	$	0.42
Granted (Note 15)	-		-	28,503,449		0.37
Exercised	-		-	(1,807,300)		0.31
Expired	(16,953,340)		0.35	(496,697)		0.29
Balance, end of year	49,235,361	$	0.35	66,188,701	$	0.41

During the year ended December 31, 2016, 496,697 broker warrants from financings completed in 2013 and 2014 expired unexercised. This resulted in a decrease to warrants and an increase to contributed surplus of $72,468.

During 2016, the remaining 17,070,340 warrants of the 20,000,000 issued on May 13, 2013, originally expiring May 13, 2016, were extended until December 31, 2016. The value of this modification totalled $802,306 and was charged to equity. These same warrants, of which 16,953,340 remained outstanding at December 31, 2016 were extended a second time in

Expressed in Canadian dollars, except where otherwise indicated

16. Share capital (continued):

2016 until June 30, 2017. The second modification totalled $559,460 and was charged directly to equity in 2016.

During the year ended December 31, 2017, the 16,953,340 expired unexercised. This resulted in a decrease to warrants and an increase to contributed surplus of $1,636,632.

The weighted average share price on the date on which warrants were exercised during the year ended 2016 was $0.37.

The following table summarizes information about the warrants outstanding and exercisable at December 31, 2017.

Exercise price per share	Expiry date	Number of exercisable warrants
$0.29	July 22, 2019	1,658,621
$0.38	July 22, 2019	1,500,007
$0.38	May 27, 2019	25,344,821
$0.305	April 11 – April 17, 2019	20,731,912
		49,235,361
Weighted average remaining life		1.36 years

(e) 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.

During the year ended December 31, 2017 there were no deferred share units issued. The Company issued 195,000 deferred share units during the year ended December 31, 2016.

Expressed in Canadian dollars, except where otherwise indicated

16. Share capital (continued):

There are currently 557,100 (2016 – 587,800) deferred share units outstanding, resulting in total expense of $22,813 (2016 - $39,194). This has been recorded in share based compensation expense as discussed in note 16 (c).

During the year ended December 31, 2017, 11,600 deferred share units were exercised at $0.25 per share and 19,100 deferred share units were forfeited. No deferred share units were exercised or forfeited during 2016.

17. Commitments:

In February 2012, the Company entered into a five year operating lease for its head office premises in Halifax which began in October 2012. This lease was extended until October 2020. The Company entered into a lease in Utah for an MRT research facility in February 2016 which expires in January 2018. This lease was extended until January 2019.

In addition, the Company entered into a sale leaseback transaction of its Pilot Plant in July 2017 which expires in July 2020. Under the terms of the sale leaseback agreement the Company has agreed to repurchase the Pilot Plant for $2,000,000 USD upon termination of the lease in July 2020.

As of December 31, 2017, these commitments required total payments including estimated common expenses, as follows:

Year	
Year ending December 31, 2018	566,334
Year ending December 31, 2019	483,768
Year ending December 31, 2020	2,810,415
Year ending December 31, 2021	-
Year ending December 31, 2022	-
	$ 3,860,517