

Consolidated Financial Statements of

UCORE RARE METALS INC.

Years ended December 31, 2014 and 2013



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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, 2014 and December 31, 2013, 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, 2014 and December 31, 2013, and 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. has no sources of revenue, has experienced losses and negative cash flows from operations in 2014 and 2013 and does not expect to have sufficient working capital to fund its operations beyond the fourth quarter of 2015. These conditions, along with other matters as set forth in note 2 in the consolidated financial statements indicate the existence of a material uncertainty that may cast significant doubt about Ucore Rare Metals Inc.'s ability to continue as a going concern.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a long, horizontal, slightly curved line that extends to the right.

Chartered Accountants

April 29, 2015

Halifax, Canada

UCORE RARE METALS INC.

Consolidated Statements of Financial Position

Expressed in Canadian dollars

	December 31, 2014	December 31, 2013
	\$	\$
ASSETS		
Current assets		
Cash	2,328,659	1,311,770
Restricted Cash (note 7)	207,185	-
Short-term deposits (note 7)	-	1,354,485
Marketable securities	1,000	750
Other receivables	139,013	245,431
Prepaid expenses and other	308,467	66,641
	<u>2,984,324</u>	<u>2,979,077</u>
Equipment (note 8)	332,599	185,524
Resource properties and related exploration costs (note 9)	32,664,247	25,597,196
	<u>35,981,170</u>	<u>28,761,797</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	692,827	288,662
Other liability (note 12)	-	25,200
	<u>692,827</u>	<u>313,862</u>
Shareholders' equity		
Share capital (note 12)	45,859,586	40,699,968
Contributed surplus (note 12)	9,771,525	9,144,336
Warrants (note 12)	5,578,632	2,072,993
Accumulated other comprehensive income	1,987,075	536,370
Deficit	(27,908,475)	(24,005,732)
	<u>35,288,343</u>	<u>28,447,935</u>
	<u>35,981,170</u>	<u>28,761,797</u>

Going concern (note 2)

Subsequent events (note 14)

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

	2014	2013
	\$	\$
EXPENSES		
Amortisation	45,073	47,673
Investor relations and marketing	235,029	162,612
Office and premises	262,905	261,499
Professional services	542,663	343,919
Salaries and consultants	1,899,930	1,488,782
Securities and regulatory	94,779	127,834
Share-based payments	641,895	594,703
Travel	217,333	185,930
Impairment of resource properties (note 9)	-	800,000
	<u>3,939,607</u>	<u>4,012,952</u>
OTHER INCOME (LOSS)		
Interest income	57,029	16,233
Foreign exchange	(45,365)	(14,555)
	<u>11,664</u>	<u>1,678</u>
LOSS BEFORE INCOME TAXES	(3,927,943)	(4,011,274)
INCOME TAXES RECOVERABLE (note 11)	(25,200)	(444,088)
NET LOSS	<u>(3,902,743)</u>	<u>(3,567,186)</u>
Net Loss per share - basic and diluted	<u>(0.02)</u>	<u>(0.02)</u>
Weighted average number of basic and diluted common shares outstanding	<u>191,052,499</u>	<u>165,345,731</u>
COMPREHENSIVE INCOME (LOSS):		
Net loss for the year	(3,902,743)	(3,567,186)
<i>Items which may be subsequently recycled through profit or loss</i>		
Foreign currency translation difference arising on translation of foreign subsidiaries	1,450,455	1,067,190
Unrealised gain (loss) on available for sale securities	250	(3,000)
	<u>(2,452,038)</u>	<u>(2,502,996)</u>

The accompanying notes form an integral part of ² 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, 2013	152,633,402	\$ 38,311,650	\$ 5,875,314	\$ 3,062,679	\$ (527,820)	\$ (20,438,546)	\$ 26,283,277
Net Loss						(3,567,186)	(3,567,186)
Unrealised gain (loss) on available for sale securities					(3,000)		(3,000)
Foreign currency translation adjustment					1,067,190		1,067,190
Share-based payments (note 12)			650,431				650,431
Financing (net of costs) (note 12)	20,000,000	2,166,577		2,072,993			4,239,570
Issuance of flow-through shares (net of costs and tax) (note 12)	1,200,000	221,741					221,741
Expiry of warrants (net of tax)			2,618,591	(3,062,679)			(444,088)
Balance at December 31, 2013	173,833,402	\$ 40,699,968	\$ 9,144,336	\$ 2,072,993	\$ 536,370	\$ (24,005,732)	\$ 28,447,935
Balance at January 1, 2014	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 12)			700,127				700,127
Financing (net of costs) (note 12)	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)				-
Balance at December 31, 2014	197,563,471	\$ 45,859,586	\$ 9,771,525	\$ 5,578,632	\$ 1,987,075	\$ (27,908,475)	\$ 35,288,343

UCORE RARE METALS INC.

Condensed Consolidated Statements of Cash Flows

Expressed in Canadian dollars

	2014	2013
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	(3,902,743)	(3,567,186)
Adjustments for items not involving cash:		
Amortisation	45,073	47,673
Share-based payments	641,895	594,703
Deferred income tax recovery	(25,200)	(444,088)
Impairment of resource properties	-	800,000
	<u>(3,240,975)</u>	<u>(2,568,898)</u>
 Change in non-cash operating working capital:		
Trade and other receivables	106,418	131,447
Prepaid expenses	(241,826)	72,368
Accounts payable and accrued liabilities	(22,193)	(40,347)
	<u>(3,398,576)</u>	<u>(2,405,430)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common shares and warrants for cash	7,878,126	5,252,000
Issue costs of common shares and warrants	(145,846)	(765,489)
Issuance of common shares on exercise of options and warrants	860,039	-
	<u>8,592,319</u>	<u>4,486,511</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(215,030)	(87,507)
Purchase of reclamation bond	(207,185)	-
Resource property interests and options	(5,109,124)	(1,468,289)
Purchase of short-term deposits	(7,546,571)	(1,349,332)
Proceeds from redemption of short-term deposits	8,901,056	1,833,697
	<u>(4,176,854)</u>	<u>(1,071,431)</u>
 INCREASE (DECREASE) IN CASH	1,016,889	1,009,650
CASH, beginning of year	1,311,770	302,120
CASH, end of year	<u>2,328,659</u>	<u>1,311,770</u>
 Non-cash financing and investment activities:		
Accounts payable and accrued liabilities related to resource properties and related deferred costs	426,359	(259,776)

UCORE RARE METALS INC.

Notes to Consolidated Financial Statements
Years ended December 31, 2014 and 2013

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 rare earth elements within Canada and the United States.

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 is in the exploration stage and is subject to the risks and challenges similar to other companies in a comparable stage of exploration. These risks include, but are not limited to, dependence on key individuals, successful exploration results and the ability to secure adequate financing to meet the minimum capital required to successfully advance the projects and continue as a going concern.

The Company has no sources of revenue, experienced significant losses and negative cash flows from operations in 2014 and 2013 and has a deficit. Management estimates current working capital is only sufficient to fund the Company's planned expenditures until the fourth quarter of 2015. 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 equity financing, entering joint venture agreements 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.

UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)
Years ended December 31, 2014 and 2013

3. 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 29, 2015.

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 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.

UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)
Years ended December 31, 2014 and 2013

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.

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

UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2014 and 2013

4. Significant accounting policies (continued):

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.

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.

UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)
Years ended December 31, 2014 and 2013

4. Significant accounting policies (continued):

(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;
- 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.

UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2014 and 2013

4. Significant accounting policies (continued):

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.

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.

The Company has the following non-derivative other financial liabilities: accounts payable and accrued liabilities.

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.

UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)
Years ended December 31, 2014 and 2013

4. Significant accounting policies (continued):

(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.

(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").

UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2014 and 2013

4. Significant accounting policies (continued):

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.

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, 2014 and 2013

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 11. 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, 2014 and 2013

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 11.

(i) New standards, amendments, and interpretations effective for the first time January 1, 2014:

The following new standards, amendments, and interpretations have been adopted by the Corporation effective January 1, 2014:

IFRIC 21, Levies, sets out criteria for the recognition of liabilities for levies imposed by governments. The IFRIC identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. There was no impact on the Company's consolidated financial statements upon the adoption of this interpretation.

Amendments to IAS 32, Financial Instruments: Presentation, clarify situations in which an

UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)
Years ended December 31, 2014 and 2013

4. Significant accounting policies (continued):

entity has a legally enforceable right to set-off a financial liability and financial asset. The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement. There was no impact on the Company's consolidated financial statements upon the adoption of these amendments.

Amendments to IAS 36, Impairment of assets, address the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and introduce a requirement to disclose the discount rate used in determining impairment (or reversals) where the recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. There was no impact on the Company's consolidated financial statements upon adoption of these amendments.

(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, 2014. Standards and interpretations issued, but not yet adopted include:

	<u>Effective for the Company</u>
Amendments to IAS 19, <i>Employee Benefits</i>	January 1, 2015
Amendments to IAS 16, <i>Property, Plant and Equipment</i>	January 1, 2016
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 IFRS 11, <i>Joint Arrangements</i>	January 1, 2016
IFRS 15, <i>Revenue from Contracts with Customers</i>	January 1, 2017
IFRS 9, <i>Financial Instruments</i>	January 1, 2018

In November 2013, the IASB issued amendments to IAS 19, Employee Benefits, which clarify benefit and medical cost actuarial assumptions used in calculation of the present value of defined benefit obligations and current service cost. These amendments are effective for annual periods beginning on or after July 1, 2014. This amendment is not anticipated to impact the Company's consolidated financial statements.

In May 2014, the IASB issued amendments to IAS 16, Property, Plant and Equipment and IAS 38, Intangibles. These amendments prohibit the use of revenue-based depreciation methods for property, plant and equipment and limit the use of revenue-based amortization for intangible assets. These amendments are effective for annual periods beginning on or after January 1, 2016 and are to be applied prospectively. These amendments are not anticipated to impact the Company's consolidated financial statements.

In September 2014, the IASB issued amendment to IAS 28, Investments in Associates and

UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)
Years ended December 31, 2014 and 2013

4. Significant accounting policies (continued):

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 are effective for annual periods beginning on or after January 1, 2016. These amendments are not anticipated to impact the Company's consolidated financial statements.

In May 2014, the IASB issued amendments to IFRS 11, Joint Arrangements. The amendments clarify the accounting for acquisitions of an interest in a joint operation when the operation constitutes a business. The amendments are effective for annual periods beginning on or after January 1, 2016, with earlier application being permitted. These amendments are not anticipated to impact the Company's consolidated financial statements.

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, 2017, 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.

5. Capital management:

The Company's capital consists of shareholders' equity of \$35,288,343 (2013: \$28,447,935). The Company's objective when managing capital is to maintain adequate levels of funding to support the acquisition and exploration of resource properties and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity 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 either in short-term, highly-liquid, high-grade financial instruments, or in a high interest savings account.

UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)
Years ended December 31, 2014 and 2013

5. Capital management (continued):

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, 2014 and 2013, 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, 2014			December 31, 2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets classified as loans and receivables:						
Cash	2,328,659	-	-	1,311,770	-	-
Restricted Cash	207,185	-	-	-	-	-
Short-term deposits	-	-	-	-	1,354,485	-
Trade and other receivables	-	-	139,013	-	-	245,431
Marketable securities	1,000	-	-	750	-	-
Financial liabilities at amortised cost						
Accounts payable	-	-	(692,827)	-	-	(288,662)
	2,536,844	-	(553,814)	1,312,520	1,354,485	(43,231)

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. 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 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.

UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2014 and 2013

6. Financial instruments (continued):

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

	2014	2013
Cash	\$ 32,621	\$ 66,145
Restricted Cash	178,500	-
Trade and other receivables	5,346	-
Trade and other payables	(203,863)	(19,444)
	\$ 12,604	\$ 46,701

A 10% weakening in the exchange rate would result in a foreign exchange loss of \$1,260 (2013 - \$4,670). A 10% strengthening would have an equal but opposite impact.

Interest rate risk

The Company has cash, restricted cash that bears interest, and periodically holds short-term deposits. The Company's short-term funds are held either in high interest savings accounts, as it the case at December 31, 2014, 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.

7. Restricted cash and short-term deposits:

Restricted cash consists of reclamation bonds required by government agencies to ensure proper reclamation 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. Short-term deposits consist of guaranteed investment certificates, the rates of which are fixed for periods ranging up to one year. The deposits can be redeemed without penalty at any time.

UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2014 and 2013

8. Equipment:

	Office Equipment	Exploration Equipment	Leasehold Improvements	Site Equipment	Total
Cost					
Balance, January 1, 2013	\$ 153,072	\$ 101,152	\$ 99,006	\$ -	\$ 353,230
Additions	16,376	-	71,131	-	87,507
Balance December 31, 2013	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
Accumulated amortisation					
Balance, January 1, 2013	\$ 94,996	\$ 88,011	\$ 6,450	\$ -	\$ 189,457
Amortisation	20,008	3,935	41,813	-	65,756
Balance, December 31, 2013	115,004	91,946	48,263	-	255,213
Amortisation	19,610	2,757	22,706	-	45,073
Capitalized Amortisation	-	1,318	21,564	-	22,882
Balance, December 31, 2014	134,614	96,021	92,533	-	323,168
Net book value					
Balance, December 31, 2013	\$ 54,444	\$ 9,206	\$ 121,874	\$ -	\$ 185,524
Balance, December 31, 2014	\$ 66,764	\$ 14,427	\$ 82,762	\$ 168,646	\$ 332,599

9. Resource properties and related exploration costs:

The Company's interests in resource properties consist of:

	December 31, 2013	Acquisition Costs	Deferred Exploration Costs	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
	December 31, 2012	Acquisition Costs	Deferred Exploration Costs	Impairment	Movement in Exchange Rates	December 31, 2013
Bokan Mountain, Alaska	\$ 22,941,491	\$ 95,728	\$ 1,186,596	\$ -	\$ 1,067,190	\$ 25,291,005
Lost Pond, Newfoundland	800,000	-	-	(800,000)	-	\$ -
Ray Mountains, Alaska	306,191	-	-	-	-	\$ 306,191
	\$ 24,047,682	\$ 95,728	\$ 1,186,596	(800,000)	\$ 1,067,190	\$ 25,597,196

UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2014 and 2013

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 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 must also perform at least \$250,000 of exploration work before the second anniversary; this work has been completed prior to year end.

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.

Lost Pond, Newfoundland

The Company holds a 100% interest in the Lost Pond uranium and rare earth element property, located east of Stephenville, Newfoundland. The Company's 100% interest is subject to a 2% NSR (1% on contiguous claims optioned from third parties), 50% of which can be purchased by the Company for cash payments of \$500,000 to \$1,000,000 to each of three different vendors. An impairment charge was recognized on this property in 2013 due to uncertain plans for future development of these claims. As a result, the Company has written down the carrying value of the Lost Pond property to \$nil.

UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)
Years ended December 31, 2014 and 2013

9. Resource properties and related exploration costs (continued):

Canada - Other

(i) Sandybeach Lake, Nunavut

The Company holds a 100% interest in the Sandybeach Lake uranium exploration property located northeast of the northern extent of Neultin Lake in Nunavut. The carrying value of this property is nil.

(ii) Central Mineral Belt/Makkovik River, Newfoundland and Labrador

The Company holds a 100% interest in a number of claims in the Makkovik River area of the Central Mineral Belt located in Labrador. The carrying value of this property is nil.

10. Related party transactions:

Compensation of key management personnel:

	2014	2013
Director's fees	\$ 88,000	\$ 65,000
Share-based payments to directors	195,782	145,697
Key management short-term benefits	1,133,149	877,089
Share-based payments to key management	165,346	147,504
	<u>\$ 1,582,277</u>	<u>\$ 1,235,290</u>

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

As at December 31, 2014, the Company has recorded an advance, for corporate expenses, to officers of the Company in the amount of \$192,088 (December 31, 2013 - \$38,269), which is non-interest bearing with no fixed terms of repayment. This amount is included in prepaid expenses and other.

During the year ending December 31, 2014, the Company paid \$60,067 (2013 - \$28,875) in consulting fees to directors of the Company. Additionally, travel expenditures in the amount of \$1,430 (2013 - \$2,494) 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.

UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2014 and 2013

11. Deferred income taxes:

Future income tax recovery differs from the amount that would be computed by applying the federal and provincial statutory income tax rate of 31% (2013 - 31%) to net loss before income taxes. The reasons for the difference are as follows:

	2014	2013
Computed tax recovery at the statutory rates	\$ (1,217,663)	\$ (1,243,495)
Stock-based compensation, not deductible for tax purposes	198,987	184,358
Changes in tax assets related to deductible temporary differences and unused tax losses not recognized	988,481	631,804
Other	4,995	(16,755)
	\$ (25,200)	\$ (444,088)

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, 2014	Dec 31, 2013
Non-capital losses carried forward	\$ 19,692,000	\$ 16,169,000
Share issue costs	740,000	1,089,000
Equipment	323,000	255,000
Resource properties	935,000	1,154,000
Marketable securities	44,750	45,000
	\$ 21,734,750	\$ 18,712,000

The Company has accumulated losses for Canadian tax purposes of approximately \$19,692,000, which may be carried forward and used to reduce taxable income in future years. These losses expire as follows:

2025	470,000
2026	851,000
2027	1,581,000
2028	1,569,000
2029	1,122,000
2030	1,677,000
2031	2,691,000
2032	4,510,000
2033	1,501,000
2034	3,720,000

UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2014 and 2013

12. 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.

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

On May 13, 2013 the Company completed an equity offering of 20,000,000 units at a price of \$0.25 per unit, for gross proceeds of \$5,000,000. Each unit sold was comprised of one common share in the capital of the Company and one common share purchase warrant entitling the holder to purchase one common share at a price of \$0.35 per common share for a period of 36 months. The net value allocated to the common shares was \$2,166,577 and the net value allocated to the warrants was \$2,072,993. The Company paid broker fees of between 3-6% of the gross proceeds in cash and broker warrants equal to 3-6% of the units issued. Each broker warrant gives the right to purchase one common share at a price of \$0.25 for a period of 36 months. A total of \$269,399 in cash commissions and 1,077,594 broker warrants were paid and issued. Other costs associated with the offering totaled \$491,031 for total costs of \$760,430. The value allocated to the warrants was based on the Black-Scholes model, using an assumed

UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)
Years ended December 31, 2014 and 2013

12. Share capital (continued):

volatility of 88% 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	\$2,720,000	\$2,280,000	\$5,000,000
Cash costs	(411,181)	(349,249)	(760,430)
Broker warrants	(142,242)	142,242	-
	\$2,166,577	\$2,072,993	\$4,239,570

In addition, on December 30, 2013, the Company completed a non-brokered private placement consisting of 1,200,000 common shares of the Company issued on a flow through basis pursuant to the Income Tax Act (Canada) at a price of \$0.21 per share for gross proceeds of \$252,000. Total costs associated with this issuance were \$5,059. The proceeds received on the issuance of the flow-through shares has been allocated between share capital, \$221,741, and the obligation to deliver the tax deductions to investors, \$25,200, for a total value allocated to these shares of \$246,941.

(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, 2014, the Company recognized share-based payments of \$700,126 (2013 - \$650,431) for options granted to directors, employees, and non-employees of which \$58,232 (2013 - \$55,728) was capitalized in resource properties and related deferred costs and \$641,895 (2013 - \$594,703) 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, 2014 and 2013

12. Share capital (continued):

	2014	2013
Risk-free interest rate	1.13%	1.18%
Expected life	3 years	3 years
Expected volatility	83%	87%
Expected dividends	nil	nil
Weighted average grant date fair value	\$0.16	\$0.14
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:

	2014		2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of year	10,525,000	\$ 0.40	6,790,000	\$ 0.51
Granted	4,350,000	0.28	4,735,000	0.27
Exercised	(550,000)	0.13	-	-
Forfeited	(500,000)	0.60	(1,000,000)	0.47
Balance, end of year	13,825,000	\$ 0.37	10,525,000	\$ 0.40

The weighted average share price on the date on which options were exercised during 2014 was \$0.38. There were no options exercised during 2013.

UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2014 and 2013

12. Share capital (continued):

The following table summarizes information about the stock options outstanding and exercisable at December 31, 2014:

Exercise price per share	Number of outstanding options	Expiry date	Number of exercisable options
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	166,667
0.27	150,000	February 17, 2019	50,000
0.38	650,000	April 25, 2019	650,000
0.27	3,050,000	June 2, 2019	1,016,667
0.28	250,000	May 14, 2017	250,000
0.32	500,000	June 30, 2019	166,667
0.38	200,000	February 2, 2015	200,000
0.40	300,000	August 19, 2015	300,000
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
0.49	20,000	December 1, 2015	20,000
0.55	1,920,000	November 7, 2016	1,920,000
0.56	150,000	November 17, 2016	150,000
0.67	1,150,000	September 29, 2015	1,150,000
0.75	300,000	July 29, 2016	300,000
	13,825,000		11,275,001

(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.

	2014	2013
Risk-free interest rate	1.13%	1.05%
Expected life	3 years	3 years
Expected volatility	83%	88%
Expected dividends	nil	nil

UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2014 and 2013

12. Share capital (continued):

A summary of the Company's share purchase warrants at December 31, 2014 and 2013, and the changes for the years then ended is as follows:

	2014		2013	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance, beginning of year	21,077,594	\$ 0.34	11,674,999	\$ 0.55
Granted	20,872,812	0.50	21,077,594	0.34
Exercised	(2,448,157)	0.32	-	-
Expired	-	-	(11,674,999)	0.55
Balance, end of year	39,502,249	\$ 0.43	21,077,594	\$ 0.34

During 2013, the 11,674,999 warrants remaining from the December 9, 2010 private placement and extended until March 31, 2013 expired unexercised. This resulted in an increase to contributed surplus of \$2,618,591, which is net of the related \$444,088 income tax impact.

The weighted average share price on the date on which warrants were exercised during the year was \$0.42. There were no warrants exercised during 2013.

The following table summarizes information about the warrants outstanding and exercisable at December 31, 2014.

Exercise price per share	Expiry date	Number of exercisable warrants
\$ 0.25	May 13, 2016	394,437
\$ 0.35	May 13, 2016	18,235,000
\$0.38	April 11 – April 17, 2017	140,900
\$0.50	April 11 – April 17, 2017	20,731,912
		39,502,249

13. Commitments:

In January 2013, the Company entered into a three year operating lease for its operations office in Ketchikan, Alaska. 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, 2014,

UCORE RARE METALS INC.

Notes to Consolidated Financial Statements (continued)
Years ended December 31, 2014 and 2013

13. Commitments (continued):

these commitments required total payments including estimated common expenses, as follows:

Year	
Year ending December 31, 2015	\$ 180,476
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	-
	<hr/>
	\$ 427,262

14. Subsequent event:

On March 3, 2015, the Company entered into a loan agreement for \$300,000 USD with a third party. This loan is to be repaid in full on August 3, 2015 with interest calculated at 6% per annum. The Company has pledged the barge located at the Bokan Mountain property, previously used as a site camp, as security for the loan.

On March 3, 2015, the Company entered into an agreement with IBC Advanced Technologies Inc. ("IBC") to acquire the exclusive rights to IBC's Superlig® molecular recognition technology for rare earth separation and recycling applications, in addition to tailings processing applications. Under the terms of the license agreement the Company has agreed to pay a one-time licensing fee to IBC in the amount of \$2.9 million USD. The payment is subject to the delivery by IBC of a fully operational rare earth Superlig® pilot plant and due diligence review by Ucore.

Under the terms of the agreement, upon the satisfactory completion of the foregoing term and conditions at the Company's discretion, the parties agree to constitute a joint venture for the purpose of marketing and purveying Superlig® products and services exclusively to world markets in the rare earth, recycling, and tailing processing sectors. The Company will have a controlling interest (60%) in the joint venture, while IBC will retain a 40% beneficial interest.