

Namibia Rare Earths Inc.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2014 AND 2013

Independent Auditor's Report

To the Shareholders of Namibia Rare Earths Inc.

We have audited the accompanying consolidated financial statements of Namibia Rare Earths Inc., which comprise the consolidated statements of financial position as at November 30, 2014 and November 30, 2013, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained 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 financial position of Namibia Rare Earths Inc. as at November 30, 2014 and November 30, 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates that Namibia Rare Earths Inc. incurred a net loss of \$3,011,009 during the year ended November 30, 2014 and has an accumulated deficit of \$16,982,659. This condition, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about Namibia Rare Earths Inc.'s ability to continue as a going concern.

Deloitte LLP

Chartered Accountants
February 23, 2015
Halifax, Nova Scotia

Namibia Rare Earths Inc.

Consolidated Statements of Financial Position

As at November 30, 2014 and 2013 (in Canadian dollars)

	November 30, 2014 \$	November 30, 2013 \$
Assets		
Current assets		
Cash	5,313,942	9,800,864
Taxes and other receivables	319,210	565,750
Deposits and prepaid expenses	108,042	112,158
	<u>5,741,194</u>	<u>10,478,772</u>
Equipment (note 4)	52,330	68,578
Exploration and evaluation assets (notes 5 and 6)	<u>19,628,730</u>	<u>17,508,722</u>
Total Assets	<u>25,422,254</u>	<u>28,056,072</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	689,179	618,988
Total Liabilities	<u>689,179</u>	<u>618,988</u>
Equity		
Total Equity	<u>24,733,075</u>	<u>27,437,084</u>
Total Liabilities and Equity	<u>25,422,254</u>	<u>28,056,072</u>

Nature of operations and going concern (Note 1)

Commitments (Note 12)

Approved by the Board of Directors on February 23, 2015:

Signed "Glenn Williams"

Director

Signed "Gerald McConnell"

Director

See accompanying notes to the consolidated financial statements.

Namibia Rare Earths Inc.

Consolidated Statements of Loss and Comprehensive Loss

For the years ended November 30 (in Canadian dollars, except share and per share amounts)

	Year ended November 30	
	2014	2013
	\$	\$
Expenses		
Salaries and benefits (note 6)	979,079	1,110,377
Professional fees	692,247	842,475
Write-down of exploration and evaluation assets (note 5)	329,357	35,534
Share-based payments (notes 6 and 7)	257,500	-
Office and administration	207,677	202,570
Consulting fees (note 6)	201,189	193,797
Travel	176,616	324,096
Shareholder communications	175,719	302,371
Listing and filing fees	53,763	52,519
Foreign currency exchange loss	13,932	11,374
Property investigation (note 6)	7,390	73,056
Depreciation	3,042	3,042
	3,097,511	3,151,211
Interest income	(86,502)	(153,605)
Net and comprehensive loss for the year	3,011,009	2,997,606
Loss per share - Basic and diluted	0.04	0.04
Weighted average number of shares outstanding – Basic and diluted	77,828,500	77,828,500

See accompanying notes to the consolidated financial statements.

Namibia Rare Earths Inc.

Consolidated Statements of Changes in Equity

For the years ended November 30 (in Canadian dollars)

	Common Shares Without Par Value		Share-based Payments Reserve	Contributed Surplus	Deficit	Total Equity
	Number	\$	\$	\$	\$	\$
Balance, November 30, 2013	77,828,500	36,146,334	2,980,800	2,281,600	(13,971,650)	27,437,084
Share-based payments	-	-	307,000	-	-	307,000
Net and comprehensive loss	-	-	-	-	(3,011,009)	(3,011,009)
Balance, November 30, 2014	77,828,500	36,146,334	3,287,800	2,281,600	(16,982,659)	24,733,075

	Common Shares Without Par Value		Share-based Payments Reserve	Contributed Surplus	Warrants Reserve	Deficit	Total Equity
	Number	\$	\$	\$	\$	\$	\$
Balance, November 30, 2012	77,828,500	36,146,334	2,980,800	1,298,000	983,600	(10,974,044)	30,434,690
Expired warrants	-	-	-	983,600	(983,600)	-	-
Net and comprehensive loss	-	-	-	-	-	(2,997,606)	(2,997,606)
Balance, November 30, 2013	77,828,500	36,146,334	2,980,800	2,281,600	-	(13,971,650)	27,437,084

See accompanying notes to the consolidated financial statements.

Namibia Rare Earths Inc.

Consolidated Statements of Cash Flows

For the years ended November 30 (in Canadian dollars)

	2014 \$	2013 \$
Cash provided by (used in)		
Operating activities		
Net loss for the year	(3,011,009)	(2,997,606)
Adjustments for:		
Unrealized foreign currency exchange loss	8,656	36,019
Interest income recognized in net loss	(94,952)	(162,930)
Share-based payments	257,500	-
Write-down of exploration and evaluation assets	329,357	35,534
Depreciation	3,042	3,042
	(2,507,406)	(3,085,941)
Net change in non-cash working capital balances related to operations		
Decrease in amounts receivable, deposits and prepaids	243,768	253,759
Increase (decrease) in accounts payable and accrued liabilities	271,890	(430,615)
	515,658	(176,856)
	(1,991,748)	(3,262,797)
Investing activities		
Interest income received	94,952	162,930
Expenditures on exploration and evaluation assets	(2,587,773)	(3,769,093)
	(2,492,821)	(3,606,163)
Effect of exchange rate changes on cash	(2,353)	(13,302)
Net change in cash during the year	(4,486,922)	(6,882,262)
Cash – Beginning of year	9,800,864	16,683,126
Cash – End of year	5,313,942	9,800,864

Supplemental cash flow information (note 10)

See accompanying notes to the consolidated financial statements.

Namibia Rare Earths Inc.

Notes to Consolidated Financial Statements

For the years ended November 30, 2014 and 2013 (in Canadian dollars)

1. Nature of operations and going concern

Namibia Rare Earths Inc. (the "Company") was incorporated pursuant to the Canada Business Corporations Act on April 26, 2010 for the purpose of acquiring ownership of the rare earth assets held by Endeavour Resources Inc. ("ERI"), (formerly Etruscan Resources Inc., a publicly-traded entity, now a wholly-owned subsidiary of Endeavour Mining Corporation). The Company is a public company listed on the Toronto Stock Exchange (the "TSX"), trading under the "NRE" symbol and in the United States on the OTCQX International under the ticker symbol NMREF. The address of the Company's corporate office and principal place of business is Suite 306, 1597 Bedford Highway, Halifax, Nova Scotia, Canada.

On April 30, 2010, ERI transferred all of its inter-corporate debt and equity interest in its wholly-owned subsidiary Etruscan Resources Namibia (Pty) Ltd., a Namibia-based company holding its rare earth assets, to the Company and its wholly-owned subsidiary Cayman Namibia Rare Earth Ltd. in exchange for 30 million common shares of the Company. There was no substantive change in ownership.

The Company is in the business of exploring and developing rare earth properties in Namibia. The amount shown as exploration and evaluation assets, all of which are located in Namibia, represents costs net of recoveries to date, less amounts written off, and do not necessarily represent present or future values. The Company has not yet determined whether its exploration and evaluation assets contain economically recoverable reserves. The recoverability of the amounts shown for exploration and evaluation assets is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of the properties, and future profitable production or proceeds of disposition thereof.

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business as the liabilities come due.

The Company reported a loss in 2014 of \$3,011,009 (2013: \$2,997,606) and at November 30, 2014 has an accumulated deficit of \$16,982,659. Whether and when the Company can attain profitability is uncertain. These uncertainties cast significant doubt upon the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon rare earths prices, successful results from its mineral property acquisitions and exploration and evaluation activities, its ability to maintain title and beneficial interest in the mineral properties, and its ability to raise additional financing. The outcome of these matters cannot be predicted at this time. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

2. Basis of Preparation

a) Statement of Compliance

These consolidated financial statements, including comparative figures, have been prepared in accordance with Financial Reporting Standards ("IFRS")

These consolidated financial statements were authorized for issue by the Board of Directors on February 23, 2015.

b) Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis, using the accrual basis of accounting.

c) Basis of Consolidation

These consolidated financial statements include the accounts of the Company's wholly-owned subsidiary, Cayman Namibia Rare Earths Ltd., incorporated under the laws of the Cayman Islands, and its wholly-owned subsidiary, Namibia Rare Earths (Pty.) Ltd., incorporated under the laws of Namibia. All inter-company balances and transactions are eliminated upon consolidation.

d) Critical Accounting Estimates and Judgments

The preparation of these consolidated financial statements requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and notes. By their nature, these estimates, judgments

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and assumptions are subject to measurement uncertainty and the effect of changes in these estimates in future periods could be material. 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. Actual results could differ from these estimates. Revisions to estimates are accounted for prospectively. The more significant areas requiring the use of management estimate and judgments are as follows:

Critical accounting estimates

The amounts recorded for share-based payments are based on estimates. The Black Scholes model is based on estimates of assumptions for expected volatility, expected number of options to vest, dividend yield, risk-free interest rate, expected forfeitures and expected life of the options. Changes in these assumptions may result in a material change to the expense recorded for the issuance of stock options and warrants.

The recoverability of amounts shown for exploration and evaluation assets is dependent on the discovery of economic reserves, the ability of the Company to obtain financing to complete development of the properties, and future production or proceeds from disposition, and may be based on assumptions about future events and circumstances (note 3e).

The Company makes estimates of future site restoration costs based on current legislation, technical reports, and management's estimates. These estimates will be affected by actual legislation in place, actual exploration or mining activity to be performed, and actual conditions of the relevant sites when the restoration activity is to be performed in future periods. Management's assumption that there are currently no decommissioning liabilities is based on the facts and circumstances that existed during the year.

Deferred income tax assets and liabilities are computed based on differences between the carrying amounts of assets and liabilities on the statement of financial position and their corresponding tax values. Deferred income tax assets also result from unused loss carry-forwards and other deductions. The valuation of deferred income tax assets is adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

Critical accounting judgments

The following accounting policies involve judgments or assessments made by management:

- The determination of a cash-generating unit for assessing and testing impairment, which management has determined to be the mineral property (note 3e);
- The allocation of exploration costs to cash-generating units;
- The determination of functional currency;
- The determination of when an exploration and evaluation asset moves from the exploration stage to the development stage (note 3e);
- Whether exploration and evaluation costs are eligible for capitalization; and
- The assessment of the Company's ability to continue as a going concern.

3. Significant Accounting Policies

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

a) Cash

Cash consists of cash on hand, demand deposits and money market funds.

b) Foreign Currency Translation

These consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Company and its subsidiaries.

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Transactions in currencies other than the Company's functional currency are recorded at the rates of exchange prevailing at the dates of the transactions except for depreciation which is translated at historical exchange rates. At each statement of financial position date, monetary assets and liabilities are translated using the period-end exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. All gains and losses on translation of these foreign currency transactions are included in the consolidated statement of loss and comprehensive loss.

c) Exploration and Evaluation Assets

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized as incurred. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in profit or loss.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, which management has determined to be indicated by a feasibility study and the Company's decision to proceed with development, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to resource property and development assets in property, plant and equipment.

An impairment review of exploration and evaluation assets is performed, either individually or at the cash generating unit level, when there are indicators the carrying amount of the assets may exceed their recoverable amounts. To the extent this occurs, the excess is fully provided against the carrying amount, in the period in which this is determined. Exploration and evaluation assets are assessed on an annual basis and these costs are carried forward provided at least one of the following conditions is met:

- such costs are expected to be recovered through successful exploration and development and of the area of interest or by its sale; or
- exploration and evaluation activities in the area have not yet reached a stage that permits reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned in the future.

d) Equipment

Items of equipment are recorded at cost and depreciated over their estimated useful lives. The cost of an item includes the purchase price and directly attributable costs to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Where an item of equipment comprises major components with different useful lives, the components are accounted for as separate items of equipment.

Depreciation is recognized using the following rates and methods:

Motor vehicles	20% straight line
Exploration equipment	20% straight line
Office equipment	30% straight line

Depreciation methods, useful lives and residual values are reviewed at each financial year end and are adjusted if appropriate.

e) Impairment of Non-Financial Assets

The Company's non-financial assets are reviewed for an indication of impairment at each reporting date. If indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in the statement of loss and comprehensive loss for the period. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

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The recoverable amount is the greater of the asset's fair value less costs of disposal and value in use. 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 an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there is an indication that 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 depreciation, if no impairment loss had been recognized.

f) Share-based Payments

The fair value of options granted is recognized as expense or capitalized as exploration and evaluation assets as appropriate, with a corresponding increase in equity.

The fair value of options granted to employees or those providing similar services is measured using the Black-Scholes option pricing model. The fair value is determined at the grant date and is expensed over the period during which the share purchase options vest, and is based on the Company's estimate of the shares that will eventually vest.

The fair value of options granted to non-employees is measured at the fair value of the goods or services received, on the date they are received. If the fair value of the services received cannot be estimated reliably, the fair value of the share purchase options is measured using the Black-Scholes option pricing model.

At each financial position reporting date, the amount recognized is adjusted to reflect the actual number of options that are expected to vest. For share-based payment awards with no vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and is not adjusted for differences between actual and expected outcomes.

g) Income Taxes

Income tax consists of current and deferred tax and is recognized in the statement of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable for previous years.

Deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable profit will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

Deferred tax assets and liabilities of the same taxable entity are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, they relate to income taxes levied by the same taxation authority, and the Company intends to settle its current tax assets and liabilities on a net basis.

h) Loss per Share

Loss per share is computed by dividing the net loss attributable to common shareholders by the weighted average number of shares outstanding during the period. Diluted loss per share is computed similar to basic loss per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding and in-the-money stock options and warrants

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were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

i) Financial Instruments

The Company does not have any derivative financial instruments.

All financial assets are classified into one of the following four categories: fair value through profit or loss ("FVTPL"), held to maturity ("HTM"), available for sale ("AFS") and loans and receivables.

Financial assets are classified as FVTPL when the financial asset is held for trading or it is designated as FVTPL. Financial assets classified as FVTPL are stated at fair value and changes are recognized in the statement of income or loss. HTM investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs. AFS financial assets subsequent to initial recognition are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS monetary items, are recognized in other comprehensive income or loss. When an investment is derecognized, the cumulative gain or loss in the investment revaluation reserve is transferred to the statement of income or loss. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

The Company's cash, amounts receivable, and deposits have been classified as loans and receivables.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. The Company has the following non-derivative financial liabilities classified as other financial liabilities: amounts payable and accrued liabilities. Such financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Fair value hierarchy

The Company classifies financial instruments recognized at fair value in accordance with a fair value hierarchy that prioritizes the inputs to the valuation technique used to measure fair value as per IFRS 7. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators 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 assets, the estimated future cash flows of the investments have been impacted.

For financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, default or delinquency in interest or principal payments, or the probability that the borrower will enter bankruptcy or financial reorganization.

For certain categories of financial assets, such as amounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment

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loss directly for all financial assets with the exception of amounts receivable, where the carrying amount is reduced through the use of an allowance account. When an amount receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of income or loss.

j) Decommissioning Liabilities

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. A pre-tax discount rate that reflects the time value of money and the risks specific to the liability are used to calculate the net present value of the expected future cash flows. These costs are charged to the statement of loss over the economic life of the related asset, through depreciation expense using either the unit-of-production or the straight-line method as appropriate. The related liability is progressively increased each period as the effect of discounting unwinds, creating an expense recognized in the statement of loss. The liability is assessed at each reporting date for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses.

The Company has no material restoration, rehabilitation and environmental liabilities as restoration and environmental compliance work related to exploration activities is completed on an ongoing basis and therefore the disturbance to date is minimal.

k) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance expense ("notional interest").

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic benefits will be required, the provision is reversed. The Company presently does not have any amounts considered to be provisions.

Accounting Standards Adopted in the Current Year

The following accounting standards, effective for annual periods beginning on or after January 1, 2013, have been adopted in the current year and have had no material impact on the Company's financial results.

IFRS 10, *Consolidated financial statements*, requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, Consolidation – Special Purpose Entities and parts of IAS 27, Consolidated and Separate Financial Statements.

IFRS 11, *Joint arrangements*, requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the assets, liabilities revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionally consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures.

IFRS 12, *Disclosure of interests in other entities*, establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and

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also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13, *Fair value measurement*, is a comprehensive standard for fair value measurement and disclosure requirements across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

International Accounting Standard 28, *Investments in Associates and Joint Ventures* ("IAS 28"), has been amended as a consequence of the issuance of IFRS 10, IFRS 11, and IFRS 12, and provides accounting guidance for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard is applied by the Company when there is joint control or significant influence over an investee.

IFRS Interpretations Committee Interpretation 20, *Stripping costs in the production phase of a surface mine* ("IFRIC 20"), sets out the criteria for the capitalization of production stripping costs to non-current assets, and states that stripping activity is recognized as a component of the larger asset to which it relates. In addition, IFRIC 20 requires companies to ensure that capitalized costs are amortized over the useful life of the component of the ore body to which access has been improved due to the stripping activity.

Disclosures – *Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)* outlines new disclosure requirements that enable users of the financial statements to better compare financial statements prepared in accordance with IFRS and US Generally Accepted Accounting Principles.

Accounting Standards Issued But Not Yet Effective

The following standards are effective for annual periods as disclosed and have not yet been adopted by the Company. The Company is assessing the impact of these new standards.

IFRS 9, *Financial instruments*, introduces new requirements for the classification, measurement and derecognition of financial instruments. Specifically, IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

International Accounting Standard 32, *Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)* ("IAS 32"), clarifies the application of the offsetting requirements. The amendments are effective for annual periods beginning on or after January 1, 2014, with earlier application permitted.

In May 2013, the IASB issued International Financial Reporting Interpretations Committee (IFRIC) 21, *Levies*. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and is to be applied retrospectively. IFRIC 21 provides guidance on accounting for levies in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation and confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. The Company intends to adopt IFRIC 21 in its financial statements for the annual period beginning December 1, 2014.

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4. Equipment

Cost	November 30, 2012 \$	Additions \$	November 30, 2013 \$	Additions \$	November 30, 2014 \$
Office equipment	10,140	-	10,140	-	10,140
Exploration equipment	88,012	-	88,012	-	88,012
Motor vehicles	303,268	-	303,268	-	303,268
	<u>401,420</u>	<u>-</u>	<u>401,420</u>	<u>-</u>	<u>401,420</u>

Accumulated Depreciation	November 30, 2012 \$	Additions \$	November 30, 2013 \$	Additions \$	November 30, 2014 \$
Office equipment	3,042	3,042	6,084	3,042	9,126
Exploration equipment	10,281	13,209	23,490	13,206	36,696
Motor vehicles	293,656	9,612	303,268	-	303,268
	<u>306,979</u>	<u>25,863</u>	<u>332,842</u>	<u>16,248</u>	<u>349,090</u>

Net book value	November 30, 2012 \$		November 30, 2013 \$		November 30, 2014 \$
Office equipment	7,098		4,056		1,014
Exploration equipment	77,731		64,522		51,316
Motor vehicles	9,612		-		-
	<u>94,441</u>		<u>68,578</u>		<u>52,330</u>

Depreciation charged on exploration equipment of \$13,206 (2013 - \$22,821) has been capitalized to exploration and evaluation assets.

5. Exploration and evaluation assets

Property description	Balance November 30, 2013 \$	Expenditures \$	Write-downs \$	Balance November 30, 2014 \$
Lofdal rare earths property	17,180,167	2,448,563	-	19,628,730
Other mineral properties	328,555	802	(329,357)	-
	<u>17,508,722</u>	<u>2,449,365</u>	<u>(329,357)</u>	<u>19,628,730</u>

Property description	Balance November 30, 2012 \$	Expenditures \$	Write-downs \$	Balance November 30, 2013 \$
Lofdal rare earths property	13,764,464	3,415,703	-	17,180,167
Other mineral properties	97,734	266,355	(35,534)	328,555
	<u>13,862,198</u>	<u>3,682,058</u>	<u>(35,534)</u>	<u>17,508,722</u>

Lofdal rare earths property

The Lofdal rare earths property comprises an exclusive prospecting license ("EPL 3400") located approximately 450 kilometres northwest of the capital city of Windhoek and 25 kilometres northwest of the town of Khorixas in the Kunene Region of north-western Namibia. EPL 3400, which provides for mineral rights to base and rare metals, and precious metals, was originally granted in 2005. It

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was renewed by the Government of Namibia in November, 2014 and is in good standing until November, 2016. The property is subject to a 2% net smelter revenue royalty.

Other mineral properties

The Company holds mineral rights on two other exclusive prospecting licenses in Namibia. EPL's 4208 and 4360, which provide for mineral rights to base and rare metals, and precious metals, are in good standing until August 2, 2015 and October 4, 2015 respectively. The Company did not incur substantial expenditures on these licenses in 2014, and has no planned expenditure programs for 2015. Because no active and significant operations in relation to the area are continuing or planned in the future, expenditures to date of \$329,357 were written off in accordance with the Company's accounting policy.

6. Related party transactions

Transactions with key management personnel for the years ended November 30 are as follows:

	2014	2013
	\$	\$
Salaries and benefits	784,250	913,300
Share-based payments	254,900	-
Consulting fees	190,750	182,407
Consulting fees charged to property investigation	1,998	3,643
Total charged to net and comprehensive loss	1,231,898	1,099,350
Consulting fees charged to exploration and evaluation assets	274,326	210,838
Share-based payments charged to exploration and evaluation assets	37,100	-
Total	1,543,324	1,310,188

Key management personnel include officers and directors and companies directly controlled by key management personnel, and payments are for salaries, director fees, and consulting fees and are directly related to their position in the organization.

Included in accounts payable and accrued liabilities are amounts owing to related parties of \$432,460 (2013 - \$277,094). Included in deposits and prepaid expenses is an amount of \$3,500 (2013 - \$3,500) representing a retainer on a services contract with an officer of the Company.

Related party transactions are in the ordinary course of business, and are measured at the exchange amount, which is the amount of consideration determined and agreed to by the parties.

7. Capital stock

Authorized capital stock

An unlimited number of common shares without nominal or par value.

Issued and outstanding

At November 30, 2014, there were 77,828,500 common shares issued and outstanding.

Warrants

As at November 30, 2014, there were no common share purchase warrants issued or outstanding. The change in warrants for the years ended November 30, 2013 and 2014 is as follows:

	Number	Weighted average exercise price
		\$
At November 30, 2012	2,156,250	0.80
Expired	(2,156,250)	(0.80)
At November 30, 2013 and 2014	-	-

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Stock option plan

The Company has a stock option plan providing for the issuance of options equal to up to 10% of the outstanding shares. The Company may grant options to its directors, officers, employees, consultants and management company employees. The exercise price of each option cannot be lower than the market price of the shares at the date of grant of the option. The number of shares optioned to insiders may not exceed 10% of the issued and outstanding shares at the date of grant. The options are generally exercisable immediately for up to a ten-year period from the date of grant.

For the year ended November 30, 2014, share-based payments expense of \$257,500 (2013 - \$Nil) was charged to the statement of loss and \$49,500 was charged to exploration and evaluation assets (2013: \$Nil). The Company issued 2,480,000 stock options during the year (2013 - Nil) at an exercise price of \$0.20, the share price on the date of the grant. The assumptions used to fair value the options were a risk-free rate of 1.25%, expected volatility of 83% (based on actual historical volatility), expected life of 5 years, and a dividend yield of 0%.

The change in stock options during the years ended November 30, 2013 and 2014 is as follows:

	Number	Weighted average exercise price \$
At November 30, 2012 and 2013	5,200,000	0.74
Expired	(300,000)	(0.80)
Issued	2,480,000	0.20
At November 30, 2014	7,380,000	0.56

The following table summarizes information about options outstanding at November 30, 2014:

Exercise price \$	Options outstanding and exercisable	Expiry date	Remaining contractual life (in years)
0.80	2,575,000	April 14, 2016	1.37
0.82	300,000	April 26, 2016	1.41
0.72	1,300,000	June 12, 2016	1.53
0.56	525,000	November 2, 2016	1.92
0.41	200,000	February 23, 2017	2.23
0.20	2,480,000	November 25, 2019	4.99
	7,380,000		2.68

8. Capital Disclosures

The Company manages its capital to maintain adequate levels of funding to support the acquisition and exploration of mineral properties and to maintain the necessary corporate and administrative functions to facilitate these activities. The capital structure consists of working capital and equity. The Company raises capital, as necessary, to meet its needs and to take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. The Company invests all capital that is surplus to its immediate operational needs in highly liquid financial instruments such as high interest cash accounts. There were no changes to the Company's approach to capital management during the year ended November 30, 2014. Total managed capital was as follows:

	November 30, 2014 \$	November 30, 2013 \$
Working capital	5,052,015	9,859,784
Equity	24,733,075	27,437,084

There are no externally imposed capital requirements.

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9. Financial Instruments

The Company's financial instruments consist of cash, amounts receivable, deposits, and accounts payable and accrued liabilities. Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. Cash, amounts receivable, and deposits are designated as loans and receivables and measured at amortized cost. Accounts payable and accrued liabilities are designated as other financial liabilities and measured at amortized cost. The recorded values of all financial instruments approximate their current fair values because of their nature and respective maturity dates or durations.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below.

Credit risk

The Company's credit risk is primarily attributable to cash and input tax recoverable. The Company's exposure to credit risk on its cash is limited by maintaining these assets in a high-interest savings account with a high-credit quality financial institution. Input tax recoverable consists of harmonized sales tax due from the Federal Government of Canada and value added tax from the Government of Namibia, of which \$240,758 in value added tax is over ninety days at November 30, 2014 (all of which was received subsequent to year end). Management believes the risk of loss with respect to financial instruments included in cash and input tax recoverable to be remote.

Liquidity risk

The Company attempts to ensure that there is sufficient capital to meet short-term business requirements, after taking into account cash required for operations and the Company's holdings of cash. Financial liabilities are due within one year.

Market risk

The significant market risk exposures to which the Company is exposed are foreign exchange risk, interest rate risk and commodity price risk.

Foreign exchange risk

Certain of the Company's expenditures are denominated in Namibia dollars (which are equal to the South African rand), US dollars, British Pounds, Australian dollars, and Euros. The Company's cash, amounts receivable, deposits, and accounts payable and accrued liabilities include amounts denominated in foreign currencies. Accordingly, the results of the Company's operations are subject to currency transaction risk and currency translation risk.

At November 30, 2014, the Company had the following amounts denominated in the above currencies and converted to Canadian dollars: \$430,347 in cash, \$73,665 in deposits, \$281,122 in taxes receivable, and \$198,143 in accounts payable. A ten percent change in the exchange rates would impact the Company's working capital as follows:

	\$
Namibia dollars and South African rand	67,000
All other currencies	9,000

The operating results and financial position of the Company are reported in Canadian dollars in the Company's consolidated financial statements. The fluctuation of the Canadian dollar primarily in relation to other currencies, primarily the Namibian dollar, will consequently have an impact on the profitability of the Company and the value of the Company's assets and equity. The Company does not currently undertake any hedging activities to mitigate foreign exchange risk.

Interest rate risk

In respect of financial assets, the Company's policy is to invest cash at floating rates of interest. Cash reserves are maintained in cash and cash equivalents to maintain liquidity while achieving a satisfactory return for shareholders. Fluctuations in interest rates therefore impact the value of cash.

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Commodity price risk

The value of the Company's mineral resource properties is highly dependent on the market prices of certain rare earth elements and the outlook for these prices. Rare earth elements prices historically have fluctuated widely and are affected by numerous factors outside of the Company's control, including, but not limited to, industrial and retail demand, speculators, levels of worldwide production, short-term changes in supply and demand and other factors.

10. Supplemental cash flow information

During the year ended November 30, 2014, the Company made expenditures on exploration and evaluation assets of \$201,114 which were recorded as a decrease in accounts payable (2013 - \$109,856), \$49,500 in share-based payments which were recorded to exploration and evaluation assets (2013: \$Nil), and \$13,206 in amortization of equipment which was recorded to exploration and evaluation assets (2013 - \$22,821). These items are non-cash transactions and have been excluded from the statements of cash flows.

11. Income Tax

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

	2014 \$	2013 \$
Combined tax rate	31.0%	31.0%
Computed tax recovery	(933,413)	(929,258)
Share-based payments	79,825	-
Share issuance costs and other	(17,812)	6,158
Gain on expiration of warrants	-	111,200
Non-recognition of deferred tax assets due to unused tax losses and deductible temporary differences	871,400	811,900
Total income taxes	-	-

Deductible temporary differences and unused tax losses and unused tax credits for which no deferred tax assets have been recognized are attributable to the following:

	2014 \$	2013 \$
Canadian and foreign non-capital losses carried forward	10,723,548	7,698,606
Share issuance costs	735,163	1,345,767
Canadian and foreign exploration and related deferred costs	4,444,109	4,114,752
	15,902,820	13,159,125

The realization of benefits related to these future potential tax deductions is uncertain and cannot be viewed as probable. Accordingly, no net future income tax asset has been recognized for accounting purposes.

As at November 30, 2014, the Company has available business losses for income tax purposes of approximately \$549,000 in Namibia (2013 - \$501,000) which may be carried forward indefinitely and applied against future taxable income when earned in Namibia, and non-capital losses for income tax purposes of approximately \$10,159,000 in Canada (2013 - \$7,194,000) which may be carried forward and applied against future taxable income when earned in Canada. Expiration of the Canadian losses is as follows: \$384,000 in 2030, \$1,928,000 in 2031, \$2,215,000 in 2032, \$2,666,000 in 2033 and \$2,966,000 in 2034.

12. Commitments

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The Company has a lease commitment for office space expiring on August 31, 2017. Remaining minimum lease payments to the end of the lease are as follows:

	\$
November 30, 2015	85,800
November 30, 2016	85,800
August 31, 2017	64,350
	<u>235,950</u>

13. Segmented Reporting

The company has one reportable operating segment, being that of acquisition, exploration and evaluation activities. All exploration and evaluation assets are located in Namibia.