Namibia Rare Earths Inc.

UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED MAY 31, 2015 AND 2014

NOTICE TO READER

Under National Instrument 51-102 “Continuous Disclosure Obligations”, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice to this effect.

The accompanying unaudited condensed consolidated interim financial statements of Namibia Rare Earths Inc. have been prepared by management. Management have compiled the condensed consolidated interim statement of financial position of Namibia Rare Earths Inc. as at May 31, 2015, the condensed consolidated interim statements of net and comprehensive loss for the three and six months ended May 31, 2015 and 2014, the condensed consolidated interim statements of changes in equity as at May 31, 2015 and 2014, and the condensed consolidated interim statements of cash flows for the six months ended May 31, 2015 and 2014. The Company's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of these condensed consolidated interim financial statements. Readers are cautioned that these statements may not be appropriate for their intended purposes.

Namibia Rare Earths Inc.

Unaudited Condensed Consolidated Interim Statements of Financial Position

As at May 31, 2015 and November 30, 2014 (in Canadian dollars)

	May 31, 2015 $	November 30, 2014 $
Assets		
Current assets		
Cash	3,354,893	5,313,942
Taxes and other receivables	119,717	319,210
Deposits and prepaid expenses	87,440	108,042
	3,562,050	5,741,194
Equipment	44,712	52,330
Exploration and evaluation assets (note 4)	20,560,175	19,628,730
Total Assets	24,166,937	25,422,254
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	505,314	689,179
Total Liabilities	505,314	689,179
Equity		
Total Equity	23,661,623	24,733,075
Total Liabilities and Equity	24,166,937	25,422,254

Nature of operations and going concern (Note 1)
Commitments (Note 9)

See accompanying notes to the condensed consolidated interim financial statements

Namibia Rare Earths Inc.

Unaudited Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

For the three and six months ended May 31 (in Canadian dollars)

	Three months ended May 31		Six months ended May 31	
	2015	**2014**	**2015**	**2014**
	$	**$**	**$**	**$**
Expenses				
Salaries and benefits	196,726	207,722	401,098	406,354
Professional fees	14,023	185,087	101,931	363,718
Travel	18,966	42,190	116,394	72,940
Shareholder communications	23,230	47,400	82,290	128,217
Office and administration	44,344	56,146	99,430	112,227
Consulting fees	102,016	21,338	242,725	54,059
Property investigation	-	723	-	7,390
Listing and filing fees	4,276	2,694	50,072	46,435
Foreign currency exchange loss	16,959	6,437	10,319	16,294
Share-based payments	2,600	-	2,600	-
Depreciation	253	760	1,014	1,521
	423,393	570,497	1,107,873	1,209,155
Interest income	(6,688)	(23,047)	(33,821)	(48,447)
Net and comprehensive loss for the period	416,705	547,450	1,074,052	1,160,708
Loss per share - Basic and diluted	0.00	0.00	0.01	0.01
Weighted average number of shares outstanding – Basic and diluted	77,828,500	77,828,500	77,828,500	77,828,500

See accompanying notes to the condensed consolidated interim financial statements.

Namibia Rare Earths Inc.
Unaudited Condensed Consolidated Interim Statements of Changes in Equity

For the six months ended May 31 (in Canadian dollars)

	Common Shares Without Par Value		Share-based Payments Reserve	Contributed Surplus	Deficit	Total Equity
	Number	$	$	$	$	$
Balance, November 30, 2014	77,828,500	36,146,334	3,287,800	2,281,600	(16,982,659)	24,733,075
Share-based payments	-	-	2,600	-	-	2,600
Expired options	-	-	(82,658)	82,658	-	-
Net and comprehensive loss	-	-	-	-	(1,074,052)	(1,074,052)
Balance, May 31, 2015	77,828,500	36,146,334	3,207,742	2,364,258	(18,056,711)	23,661,623

	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
Net and comprehensive loss	-	-	-	-	(1,160,708)	(1,160,708)
Balance, May 31, 2014	77,828,500	36,146,334	2,980,800	2,281,600	(15,132,358)	26,276,376

See accompanying notes to the condensed consolidated interim financial statements.

Namibia Rare Earths Inc.

Unaudited Condensed Consolidated Interim Statements of Cash Flows

For the six months ended May 31 (in Canadian dollars)

	2015 $	2014 $
Cash provided by (used in)		
Operating activities		
Net loss for the period	(1,074,052)	(1,160,708)
Adjustments for:		
Unrealized foreign currency exchange (gain) loss	(7,496)	11,002
Interest income recognized in net loss	(37,147)	(52,592)
Share-based payments expense	2,600	-
Depreciation	1,014	1,521
	(1,115,081)	(1,200,777)
Net change in non-cash working capital balances related to operations		
Decrease in amounts receivable, deposits and prepaids	221,461	4,253
Decrease in accounts payable and accrued liabilities	(236,123)	(148,963)
	(1,129,743)	(1,345,487)
Investing activities		
Interest income received	37,147	52,592
Expenditures on exploration and evaluation assets	(872,583)	(1,084,883)
	(835,436)	(1,032,291)
Effect of exchange rate changes on cash	6,130	(7,320)
Net change in cash during the period	(1,959,049)	(2,385,098)
Cash – Beginning of period	5,313,942	9,800,864
Cash – End of period	3,354,893	7,415,766

Supplemental cash flow information (note 8)

See accompanying notes to the condensed consolidated interim financial statements.

For the three and six months ended May 31, 2015 and 2014 (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. 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.

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 has reported losses to date and at May 31, 2015 has an accumulated deficit of $18,056,711. 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 condensed consolidated interim 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 condensed consolidated interim financial statements, including comparative figures, have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee ("IFRIC").

These condensed consolidated interim financial statements were authorized for issue by the Audit Committee of the Board of Directors on July 7, 2015.

b) Basis of Measurement

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

c) Basis of Consolidation

These condensed consolidated interim 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 condensed consolidated interim financial statements requires management to make estimates, judgments and assumptions that affect the amounts reported in the condensed consolidated interim financial statements and notes. By their nature, these estimates, judgments 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;
- 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;
- 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

These condensed consolidated interim financial statements should be read in conjunction with the Company's annual consolidated financial statements and accompanying notes for the year ended November 30, 2014. These condensed consolidated interim financial statements have been prepared using the same accounting policies and judgments and estimates as described in the Company's November 30, 2014 annual consolidated financial statements, except as described below.

Accounting Standards Adopted in the Current Year

The following accounting standards, effective for annual periods beginning on or after January 1, 2014, have been adopted in the current period and have had no material impact on the Company's financial results.

International Accounting Standard 32, *Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)* ("IAS 32"), clarifies the application of the offsetting requirements.

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.

For the three and six months ended May 31, 2015 and 2014 (in Canadian dollars)

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.

4. Exploration and evaluation assets

Property description	Balance November 30, 2014 $	Expenditures $	Balance May 31, 2015 $
Lofdal rare earths property	19,628,730	931,445	20,560,175
	19,628,730	931,445	20,560,175

Property description	Balance November 30, 2013 $	Expenditures $	Balance May 31, 2014 $
Lofdal rare earths property	17,180,167	925,256	18,105,423
Other mineral properties	328,555	-	328,555
	17,508,722	925,256	18,433,978

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 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. Because active and significant operations in relation to the area are not continuing or planned in the future, all expenditures to date were written off on November 30, 2014 in accordance with the Company’s accounting policy. Final decisions regarding renewal of these permits will be made in the third quarter.

For the three and six months ended May 31, 2015 and 2014 (in Canadian dollars)

5. Capital stock

Authorized capital stock

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

Issued and outstanding

At May 31, 2015, there were 77,828,500 common shares issued and outstanding.

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 three months ended May 31, 2015, share-based payments expense of $2,600 (2014 - $Nil) was charged to the statement of loss. The Company issued 25,000 stock options during the period (2014 – Nil) at an exercise price of $0.17, 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 following table summarizes information about options outstanding at May 31, 2015:

Exercise price $	Options outstanding and exercisable	Expiry date	Remaining contractual life (in years)
0.80	2,575,000	April 14, 2016	0.87
0.82	300,000	April 26, 2016	0.91
0.72	1,300,000	June 12, 2016	1.03
0.56	359,000	November 2, 2016	1.42
0.41	200,000	February 23, 2017	1.73
0.20	2,405,000	November 25, 2019	4.49
0.17	25,000	April 30, 2020	4.92
	7,164,000		2.18

6. 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 three and six months ended May 31, 2015. Total managed capital was as follows:

	May 31, 2015 $	November 30, 2014 $
Working capital	3,056,736	5,052,015
Equity	23,661,623	24,733,075

There are no externally imposed capital requirements.

7. 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. 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 May 31, 2015, the Company had the following amounts denominated in the above currencies and converted to Canadian dollars: $205,337 in cash, $35,644 in deposits, $93,178 in taxes receivable, and $143,752 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	20,000
All other currencies	1,000

The operating results and financial position of the Company are reported in Canadian dollars in the Company's condensed consolidated interim 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.

For the three and six months ended May 31, 2015 and 2014 (in Canadian dollars)

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.

8. Supplemental cash flow information

During the six months ended May 31, 2015, the Company made expenditures on exploration and evaluation assets of $52,258 which were recorded as an increase in accounts payable (2014 - $166,229 decrease in accounts payable) and $6,604 in amortization of equipment which was recorded to exploration and evaluation assets (2014 - $6,602). These items are non-cash transactions and have been excluded from the statements of cash flows.

9. Commitments

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	42,900
November 30, 2016	85,800
August 31, 2017	64,350
	193,050

10. 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.