Canada Rare Earth – In the Business of Rare Earths – Corporate Update

August 9, 2018 (Source) — Canada Rare Earth Corp. ("Canada Rare Earth", "we" or the "Company")(TSX.V: LL) is developing a commodity-trading platform leveraging our unique connections to existing and planned rare earth processing facilities.

Our revenues increased ten-fold over the past two years. We sell concentrates to refineries on a preferred basis and oxides to a developing customer base which globally is comprised of 200+ international manufacturers and their supply networks.

To accelerate and solidify our growth we are developing proprietary sources of concentrates and equity positions in processing facilities in addition to transacting with third party suppliers. By virtue of our commercial activities, increasing momentum and direct access to extensive refining capabilities, we are uniquely positioned to become a leading business within the global rare earth industry.

Strategic Relationship with Talaxis Limited

To further accelerate our development activities we recently entered into a strategic and financing relationship with Talaxis Limited ("Talaxis"), a wholly owned subsidiary of the large Asian-based commodity trading company, Noble Group, which is looking to expand into the rare earth sector. This multi-faceted relationship includes among other aspects:

- Cooperating in the development of supply chains in the rare earth industry including sourcing, processing and delivering rare earths, technical and operational services, financing capital expenditures, jointly participating in ownership of refineries, and trade support including finance and logistics;
- CREC providing access to rare earth refining capability and capacity through mid-stream processing facilities;
- Talaxis participating in the capital structure of CREC through a $1,500,000 convertible loan; and
- Talaxis leveraging its global network of commodity providers in order to provide rare earth concentrate.

Talaxis has successfully expedited introductions to and discussions with prospective sources of rare earths; has converted $300,000 of its debt to equity; and is actively establishing its own concentrate supply sources for us.

Sourcing Rare Earth Concentrates

Purchasing and selling over 1,000 metric tons of concentrates has generated most of our sales and gross profits over the recent two years. We have one key supplier and with Talaxis we are starting a second stream. Additionally, we are also in contact with many of the up and coming rare earth prospective mining companies and with mineral sand processors as the rare earths typically found in their tailings are considered by-products or even waste products. Our contacts are situated throughout the world with a particular emphasis in the southern hemisphere. A small number of potentially large sources are found in the northern hemisphere.

Selling Rare Earth Concentrates

We have secured a client capable of purchasing much more product than we are currently capable of providing. Hence our increasing efforts to rapidly develop a steady, consistent supply of concentrate.

Sourcing and Selling Rare Earth Oxides

We have arranged two sources of oxides from established refineries and we have completed sales of oxides to Europe and North America. We have made contact with at least 25 of the 200+ international manufacturing companies and their supply networks. They are actively looking to diversify from dependence on one dominant supply group that supplies 85% of the oxides to the global market.

Concentrate Processing – Enhancement and Separation

The key to the global rare earth industry is the processing of concentrates – enhancement and then separation into the various commercially traded rare earth oxides. Typically, processing facilities involve proprietary, proven chemical technologies and methodologies in large-scale operations that require hundreds of employees working within capital-intensive facilities.

Over the past five years and with increased intensity over the past two years we have become instrumental in the process of obtaining the final operating permit (the "Final Operating Permit") for a completed rare earth refinery facility situated in Southeast Asia (the "Refinery"). We have the right to acquire a 60% equity interest in the Refinery subject to the issuance of the Final Operating Permit.

In February 2018 we entered into an agreement with a third party whereby we received a fee of US$500,000 and, in exchange, we provided the third party with the right to provide all financing we require (i) to exercise our option to acquire the majority equity interest in the Refinery and (ii) to provide working capital to support operations. Under this arrangement, the third party and its financiers would acquire a 50% equity interest in the Refinery. CREC would then hold a free-carried 10% equity interest in the Refinery, one seat on a five person board of directors, and the right to provide all concentrate to the Refinery and the right to sell all output from the Refinery.

We are seeking similar opportunities to develop or acquire additional processing facilities using our solid connections in the industry.

Financing for Capital Projects and Working Capital

We are focusing with greater emphasis on establishing relationships with financiers for the Refinery and other initiatives. For example, as noted above, we recently entered into an agreement wherein we sold the right to provide financing for the acquisition of the Refinery.

Financial Position

Our most recent published financial report indicate (rounded):

- Current assets of $1,850,000 (primarily cash);
- Current financial liabilities of $1,795,000 are comprised three main categories: accounts payable of $307,000; $800,000 due to Talaxis (of which $300,000 was subsequently converted to equity units); and deferred revenue which is not a financial liability. In effect, net financial liabilities total $807,000 and "adjusted" net working capital is $1,043,000;
- Non-current liabilities of $950,000 is comprised of $700,000 due to Talaxis and $250,000 due to management under a long-term compensation arrangement;
- Non-current assets are recorded at $140,000 for certain intangible assets acquired three years ago; and
- During the recently completed year we reduced the carrying value of two assets: a prospective concentrate source in South America, and a 25 year land lease and related investment in gold, silver and copper properties. We remain hopeful about these assets but they are not part of our immediate focus.

Results of Operations

Our most recent published financial report indicate (rounded):

- Trading revenues increasing significantly from $93,000 $1,756,000 over the past two years;
- Gross profit (excluding amortization) averaged 13%;
- Excluding three categories, expenses in each of the two most recently completed years were consistent at $210,000. The three exceptions were:
- Cost of sales increased from $114,000 to $1,649,000 reflecting the significant increase in sales volume and revenues;
- Consulting fees increased by $600,000 reflecting improving cash flows and a historical catch-up provision for management (of which $250,000 has been deferred until May 2019); and
- Share-based payments increased by $100,000 reflecting the options granted to directors, officers and consultants.

As noted above, we reduced the carrying value of two non-core investments ($1,701,000) made over three years ago.

In summary, net loss for the most recently completed year was $2,808,000, an increase of $2,493,000 compared to the preceding year. Yet, as shown below, we generated $56,000 from operations during the most recently completed year.

Cash Flows

Our cash position improved and increased significantly during the recently completed year:

- We generated $56,000 of cash from operating activities (compared to using $433,000 of cash during the preceding year);
- We generated $1,339,000 of cash from debt financing activities (compared to $161,000 during the preceding

year);

- We did not invest significantly in assets in the past two years; and
- We ended the reporting period with $1,502,000 of cash.

Share Capital

Our strategy over the past five years has remained consistent: minimize the number of shares we issue from treasury. Three years ago we issued 24,178,000 shares (15% of the then issued shares) to acquire supply agreements, contracts, customer relationships and directly access design, build and operational experience services relating to concentrate processing facilities.

In 2018 we entered into a strategic and financing relationship with Talaxis. In part we accepted a $1.5 million loan convertible into 19,666,666 shares and 9,000,000 warrants. If the loan were to be fully converted and warrants fully exercised Talaxis would own approximately 14% of our then issued and outstanding shares and we would have raised minimally $2.4 million of equity. Recently, Talaxis converted $300,000 of the loan into 6,000,000 shares and 3,000,000 warrants. Periodically we grant options to directors, officers and consultants to align interests with shareholders.

Our capital projects, both in progress and anticipated, are capital intensive. Our strategy is to minimize, if not completely avoid, issuing Company shares for such investments unless the financing is accretive to our shareholder base. Our plan is to finance capital projects at the "project level". An example is the recent sale of rights to provide acquisition financing for the Refinery.

Currently the Company has issued 172,940,141 common shares; granted 3,000,000 share purchase warrants exercisable at a minimum of $0.10 per warrant until July 2020; and granted 16,450,000 stock options exercisable at $0.05 with various expiration dates up to December 2022. Additional shares and warrants will be issued if Talaxis continues to convert its loan into equity and more options may be granted to incentivize directors, management staff and key consultants.

On behalf of the Board

Tracy A. Moore, CEO and Peter Shearing, COO

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For more information on the Company, interested parties should review the Company's filings that are available at www.sedar.com.