

UCORE RARE METALS INC.
(A Development Stage Enterprise)

Unaudited Interim Condensed Consolidated Financial Statements

Third Quarter
For the nine month period ended September 30, 2018

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice to this effect. Management of Ucore Rare Metals Inc. has prepared these interim condensed consolidated financial statements. Management has compiled the unaudited interim condensed consolidated statement of financial position of Ucore Rare Metals Inc. as at September 30, 2018, the audited condensed consolidated statement of financial position as at December 31, 2017 and the unaudited interim condensed consolidated statements of comprehensive loss, changes in shareholder's equity and cash flows for the nine month period ended September 30, 2018 and September 30, 2017. The Company's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the September 30, 2018 interim condensed consolidated financial statements. Readers are cautioned that these statements may not be appropriate for their intended purposes.

UCORE RARE METALS INC.

Interim Condensed Consolidated Statements of Financial Position

Expressed in Canadian dollars

(Unaudited - Prepared by Management)

	September 30, 2018	December 31, 2017
	\$	\$
ASSETS		
Current assets		
Cash	314,741	2,065,664
Marketable securities	1,500	1,000
Other receivables	80,996	47,255
Restricted cash	173,252	-
Prepaid expenses and other	206,669	182,016
	<u>777,158</u>	<u>2,295,935</u>
Plant and equipment (note 8)	3,616,678	3,626,031
Derivative asset (note 9)	98,507	254,619
Restricted cash	56,933	223,677
Resource properties and related exploration costs (note 7)	36,904,545	36,022,271
Non-refundable advance on technology (note 6)	3,353,446	3,353,446
	<u>44,807,267</u>	<u>45,775,979</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	740,913	661,241
Long-term liabilities		
Finance lease obligation (note 10)	2,582,000	2,514,000
	<u>3,322,913</u>	<u>3,175,241</u>
Shareholders' equity		
Share capital (note 11)	59,427,760	58,720,457
Contributed surplus	13,462,154	12,950,920
Warrants (note 13)	10,653,287	10,167,621
Accumulated other comprehensive income	4,127,012	3,474,950
Deficit	(46,185,859)	(42,713,210)
	<u>41,484,354</u>	<u>42,600,738</u>
	<u>44,807,267</u>	<u>45,775,979</u>

Nature of operations (note 1)

Going concern (note 1)

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

Approved on behalf of the Board of Directors

(s) *Jim McKenzie*
Jim McKenzie, Director

(s) *Geoff Clarke*
Geoff Clarke, Director

UCORE RARE METALS INC.

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

Expressed in Canadian dollars

(Unaudited - Prepared by Management)

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
EXPENSES				
Amortisation	2,140	6,921	7,334	24,171
Investor relations and marketing	39,079	32,377	158,933	144,456
Office and premises	78,460	78,355	250,225	242,973
Professional services	538,209	163,742	822,398	440,659
Salaries and consultants	181,930	365,056	1,002,210	1,190,135
Securities and regulatory	3,530	28,762	62,008	101,749
Share-based payments	119,917	202,619	511,234	478,749
Travel	80,589	63,453	164,873	153,711
Fair value adjustment of derivative asset (note 9)	52,998	52,422	156,113	155,537
	<u>1,096,852</u>	<u>993,707</u>	<u>3,135,328</u>	<u>2,932,140</u>
OTHER INCOME (LOSS)				
Interest income	233	1,325	932	6,858
Interest expense (note 10)	(97,475)	(46,867)	(289,818)	(46,867)
Foreign exchange	41,531	(26,661)	(48,435)	(34,021)
	<u>(55,711)</u>	<u>(72,203)</u>	<u>(337,321)</u>	<u>(74,030)</u>
LOSS BEFORE INCOME TAXES	<u>(1,152,563)</u>	<u>(1,065,910)</u>	<u>(3,472,649)</u>	<u>(3,006,170)</u>
INCOME TAXES RECOVERABLE	-	-	-	-
NET LOSS	<u>(1,152,563)</u>	<u>(1,065,910)</u>	<u>(3,472,649)</u>	<u>(3,006,170)</u>
Net Loss per share - basic and diluted	<u>(0.00)</u>	<u>(0.00)</u>	<u>(0.01)</u>	<u>(0.01)</u>
Weighted average number of basic and diluted common shares outstanding	<u>277,049,826</u>	<u>270,142,077</u>	<u>277,049,826</u>	<u>270,142,077</u>
COMPREHENSIVE LOSS:				
Net loss for the periods	(1,152,563)	(1,065,910)	(3,472,649)	(3,006,170)
<i>Items which may be subsequently recycled through profit or loss</i>				
Foreign currency translation difference arising on translation of foreign subsidiaries	(421,935)	(883,144)	651,562	(1,681,687)
Unrealized gain (loss) on available-for-sale securities	500	(2,000)	500	(500)
	<u>(1,573,998)</u>	<u>(1,951,054)</u>	<u>(2,820,587)</u>	<u>(4,688,357)</u>

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

UCORE RARE METALS INC.

Interim Condensed Consolidated Statements of Changes in Equity

Expressed in Canadian dollars

(Unaudited - Prepared by Management)

	Number of Shares	Share Capital	Contributed Surplus	Warrants	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Equity
Balance at January 1, 2017	270,142,077	\$ 60,843,236	\$ 10,714,134	\$ 9,679,444	\$ 5,040,805	\$ (37,829,868)	\$ 48,447,751
Net Loss						(3,006,170)	(3,006,170)
Unrealized gain (loss) on available for sale securities					(500)		(500)
Foreign currency translation adjustment					(1,681,687)		(1,681,687)
Share-based payments			481,404				481,404
Extension of warrants		(2,124,809)		2,124,809			-
Expiry of warrants			1,636,632	(1,636,632)			-
Balance at September 30, 2017	270,142,077	\$ 58,718,427	\$ 12,832,170	\$ 10,167,621	\$ 3,358,618	\$ (40,836,038)	\$ 44,240,798
Balance at January 1, 2018	270,150,197	\$ 58,720,457	\$ 12,950,920	\$ 10,167,621	\$ 3,474,950	\$ (42,713,210)	\$ 42,600,738
Net Loss						(3,472,649)	(3,472,649)
Unrealized gain (loss) on available for sale securities					500		500
Foreign currency translation adjustment					651,562		651,562
Share-based payments (note 12)			511,234				511,234
Financing (net of costs) (note 11)	6,899,629	707,303		485,666			1,192,969
Balance at September 30, 2018	277,049,826	\$ 59,427,760	\$ 13,462,154	\$ 10,653,287	\$ 4,127,012	\$ (46,185,859)	\$ 41,484,354

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

UCORE RARE METALS INC.

Interim Condensed Consolidated Statements of Cash Flows

Expressed in Canadian dollars

(Unaudited - Prepared by Management)

	For the Nine Months Ended September 30 2018	For the Nine Months Ended September 30 2017
	\$	\$
CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES		
Net loss for the period	(3,472,649)	(3,006,170)
Adjustments for items not involving cash:		
Amortisation	7,334	24,171
Share-based payments	511,234	478,749
Interest expense	289,818	46,867
Fair value adjustment of derivative asset	156,113	155,537
Unrealized foreign exchange loss	61,492	16,885
	<u>(2,446,658)</u>	<u>(2,283,961)</u>
Change in non-cash operating working capital:		
Other receivables	(33,741)	(1,279,240)
Prepaid expenses and other	(24,653)	(22,139)
Accounts payable and accrued liabilities	90,443	77,776
	<u>(2,414,609)</u>	<u>(3,507,564)</u>
CASH FLOWS FROM (USED BY) FINANCING ACTIVITIES		
Proceeds from finance lease of property and equipment	-	2,501,000
Interest expense from finance lease	(289,818)	(52,510)
Issuance of common shares and warrants for cash (note 11)	1,241,933	-
Issue costs of common shares and warrants (note 11)	(48,964)	-
	<u>903,151</u>	<u>2,448,490</u>
CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES		
Purchase of plant and equipment	(3,533)	(1,400)
Additions to resource properties and related exploration costs	(235,932)	(311,526)
	<u>(239,465)</u>	<u>(312,926)</u>
INCREASE (DECREASE) IN CASH	(1,750,923)	(1,372,000)
CASH, beginning of period	2,065,664	3,114,200
CASH, end of period	<u>314,741</u>	<u>1,742,200</u>
Non-cash financing and investment activities:		
Accounts payable and accrued liabilities related to resource properties and related exploration costs	(10,771)	(26,907)

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

UCORE RARE METALS INC.

Notes to Interim Condensed Consolidated Financial Statements
For the nine month period ended September 30, 2018

(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS

Ucore Rare Metals Inc. ("Ucore" or the "Company") is a Corporation domiciled in Canada. The address of the Company's head office is 210 Waterfront Drive, Suite 106, Halifax N.S., B4A 0H3. The Company is engaged in the exploration for and separation of rare earth elements within Canada and the United States. The Company is in the process of exploring its resource properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. To date, the Company has not earned significant revenues and is considered to be a development stage enterprise.

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

The Company has no sources of revenue, experienced significant losses and negative cash flows from operations in previous years and has a deficit. Management estimates current working capital will not be sufficient to fund all of the Company's planned expenditures through the next 12 months. The ability of the Company to continue as a going concern, realize its assets and discharge its liabilities in the normal course of business and continue with or expand upon its exploration programs is contingent upon securing financing or monetizing assets. The timing and availability of additional financing will be determined largely by market conditions and the results of the Company's ongoing exploration programs. The Company is currently pursuing financing alternatives that may include equity, debt, and non-dilutive financing alternatives including co-development through potential collaborations, strategic partnerships or other transactions with third parties. There is no certainty that the Company will be able to raise funds as they are required in the future.

On June 27, 2018 the Company completed a non-brokered private placement of 6,899,629 units at \$0.18 per unit, for proceeds of \$1,242,000 (the "Private Placement"). Each unit consists of one common share and common share purchase warrant. Each warrant gives the holder the right to purchase one common share at an exercise price of \$0.25 for a period of 36 months. Further details of the Private Placement are outlined in Note 11.

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.

2. BASIS OF PRESENTATION

Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 *Interim Financial Reporting*.

The policies applied in these interim condensed consolidated financial statements are consistent with the policies disclosed in the consolidated financial statements for the year ended December 31, 2017 with the exception of those new standards, amendments, and interpretations mandatorily effective as of January 1, 2018 discussed in note 3. The date the Board of Directors approved the financial statements is November 29, 2018.

UCORE RARE METALS INC.

Notes to Interim Condensed Consolidated Financial Statements
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(Unaudited – Prepared by Management)
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Basis of measurement

The interim condensed consolidated financial statements have been prepared on the historical cost basis except for available for sale financial assets, share based payments, and warrants measured at fair value.

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 interim condensed consolidated financial statements are presented in Canadian dollars, which is the functional and presentation currency of the Company.

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 period. 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.

3. ACCOUNTING CHANGES AND RECENT PRONOUNCEMENTS

(a) Adoption of new accounting standards

The Company adopted the following accounting standards and amendments to accounting standards effective January 1, 2018:

In June 2016, the IASB issued amendment to IFRS 2, Shares-based Payments, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; b) share-based payment transactions with a net settlement feature for withholding tax obligations; and c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. These amendments had no impact on the Company's interim condensed 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, 2018, and permits early adoption. This standard had no impact on the Company's interim condensed 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. Based on the financial instruments outstanding this replacement standard had no impact on the Company's interim condensed consolidated financial statements.

The Company adopted the following accounting standards and amendments to accounting standards effective January 1, 2017:

In January 2016, the IAS issued amendments to IAS 7, Statement of Cash Flows. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities from financing activities. These amendments apply prospectively for annual periods

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beginning on or after January 1, 2017. These amendments had no impact on the Company's interim condensed financial statements.

In January 2016, the IASB issued amendments to IAS 12, Income Taxes. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. The amendments apply retrospectively for annual periods beginning on or after January 1, 2017. These amendments had no impact on the Company's interim condensed consolidated financial statements.

(b) Standards issued but not yet adopted:

For the purposes of preparing and presenting the Company's interim condensed 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, 2018. Standards and interpretations issued, but not yet adopted include:

	<u>Effective for the Company</u>
IFRS 16, Leases	January 1, 2019
IFRIC 23, <i>Uncertainty over income Tax Treatments</i>	January 1, 2019

In January 2016, the IASB issued IFRS 16 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The new standard is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of this standard on the Company's interim condensed consolidated financial statements.

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

4. CAPITAL MANAGEMENT

The Company's capital at September 30, 2018 consists of shareholders' equity of \$41,484,354 (December 31, 2017 - \$42,600,738). The Company's objective when managing capital is to maintain adequate levels of funding to support the acquisition and exploration of resource properties, the advancement of the Company's separation technology, and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity based financings.

Future financings are dependent on market conditions, and there can be no assurance the Company will be able to raise funds in the future.

The Company invests all capital that is surplus to its immediate operational needs in a high interest savings account. There were no changes to the Company's approach to capital management during the period. The Company is not subject to externally imposed capital requirements.

UCORE RARE METALS INC.

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(Unaudited – Prepared by Management)
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5. RELATED PARTY TRANSACTIONS

As at September 30, 2018 the Company has recorded an advance, for corporate expenses, to officers of the Company in the amount of \$92,845 (December 31, 2017 - \$83,907), which is non-interest bearing and is to be repaid over three years. The amount is included in prepaid expenses and other.

During the year ending December 31, 2017, the Company completed a \$2,000,000 USD finance lease with Orca Holdings, LLC a shareholder with holdings greater than 10% of the outstanding common shares of the Company.

During the period ending September 30, 2018, the Company paid \$31,241 (2017 - \$89,306) in fees to a law firm of which a director of the Company is a partner. Additionally, travel expenditures in the amount of \$1,590 (2017 - \$340) were reimbursed to directors of the Company.

During the period ending June 30, 2018 the Company completed a non-brokered private placement of 6,899,629 units at \$0.18 per unit, for total proceeds of \$1.24 million. Certain insiders of the Company purchased a total of 2,416,667 units for gross proceeds to the Company of approximately \$435,000, which is considered a related party transaction.

During the period ending September 30, 2018 the Company accrued \$300,000 USD for ongoing general business consulting services rendered by Orca Holdings, LLC in association with the SMC in Alaska.

All related party transactions were in the normal course of operations and were valued at the exchange amount agreed to between the parties.

6. NON-REFUNDABLE ADVANCE ON TECHNOLOGY

The Company has an option to make payments of \$2.9 million USD to secure the exclusive, perpetual, full and royalty free license and authorization to use, enjoy and benefit from the proprietary Superlig® Molecular Recognition Technology (“MRT”) intellectual property for rare earth purification, tailings remediation, and related recycling applications. To date, the Company has made non-refundable payments totaling \$2,445,291 (\$1,915,000 USD) to IBC Advanced Technologies Inc. (“IBC”) with respect to this option. Under the terms of the advance agreement, these payments, when complete are expected to result in the creation of a joint venture which will hold the rights to this technology. The joint venture would be owned 40% by Ucore, 40% by IBC, and 20% by a financing partner. Ucore will be responsible for either providing initial capital for the new venture as the financing partner or finding a third party investor to provide the required investment. If Ucore were to invest the capital directly, it would result in Ucore controlling the entity. These non-refundable payments as well as a commitment to provide a minimum of \$1,000,000 USD in start-up capital will form the basis for its contribution to the joint venture. The amortization method, useful life, and residual value of the underlying asset or assets related to the license will be determined upon formation of the joint venture.

The Company has made a number of payments totaling \$908,155 (\$690,000 USD) for certain considerations from IBC, including the devotion of IBC’s resources to the development of the joint venture’s potential business opportunities. These payments will be assigned to the joint venture discussed above upon formation and will be paid back to Ucore preferentially on any distributions from the joint venture. Further details regarding the non-refundable advance on technology are outlined in note 14.

UCORE RARE METALS INC.

Notes to Interim Condensed Consolidated Financial Statements
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(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

7. RESOURCE PROPERTIES AND RELATED EXPLORATION COSTS

The Company's interest in resource properties and related exploration costs consist of the following:

	December 31, 2017	Acquisition costs	Deferred exploration costs	Transfer under sale leaseback	Impairment	Movement in exchange rates	September 30, 2018
Bokan Mountain, Alaska	\$ 36,022,271	\$ -	\$ 230,712	\$ -	\$ -	\$ 651,562	\$ 36,904,545
	\$ 36,022,271	\$ -	\$ 230,712	\$ -	\$ -	\$ 651,562	\$ 36,904,545

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

Included in resource properties is capitalized equipment, with a net book value of \$232,894 at September 30, 2018 (December 31, 2017 - \$251,029). There were no additions to equipment during the period or in the prior year ending December 31, 2017. Amortisation of \$25,435 (2017 - \$29,817) was recorded and capitalized to the resource properties as deferred exploration costs.

8. PLANT AND EQUIPMENT

	Office Equipment	Exploration Equipment	Leasehold Improvements	PGM Facility	Pilot Plant Under Capital Lease	Total
Cost						
Balance, January 1, 2017	\$ 219,663	\$ 142,746	\$ 179,519	\$ 641,484	\$ -	\$ 1,183,412
Additions	1,400	-	-	-	-	1,400
Transfer	-	-	-	-	2,914,106	2,914,106
Balance December 31, 2017	221,063	142,746	179,519	641,484	2,914,106	4,098,918
Additions	3,533	-	-	-	-	3,533
Balance, September 30, 2018	224,596	142,746	179,519	641,484	2,914,106	4,102,451
Accumulated amortisation						
Balance, January 1, 2017	\$ 163,945	\$ 103,995	\$ 165,955	\$ -	\$ -	\$ 433,895
Amortisation	12,833	12,595	13,564	-	-	38,992
Balance, December 31, 2017	176,778	116,590	179,519	-	-	472,887
Amortisation	5,675	7,211	-	-	-	12,886
Balance, September 30, 2018	182,453	123,801	179,519	-	-	485,773
Net book value						
Balance, December 31, 2017	\$ 44,285	\$ 26,156	\$ -	\$ 641,484	\$ 2,914,106	\$ 3,626,031
Balance, September 30, 2018	\$ 42,143	\$ 18,945	\$ -	\$ 641,484	\$ 2,914,106	\$ 3,616,678

Included in amortisation of plant and equipment is capitalized amortisation of \$5,552 (2017 - \$11,810).

The Company has not begun to amortize the Pilot Plant under capital lease as it has not been recommissioned to accept third party feedstock as at September 30, 2018 and is therefore not considered available for use.

UCORE RARE METALS INC.

Notes to Interim Condensed Consolidated Financial Statements
For the nine month period ended September 30, 2018

(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

9. FINANCIAL DERIVATIVE

The Company has made \$841,050 (\$650,000 USD) in non-refundable payments in respect of a purchase option from IBC, a private company. This option (the “IBC option”) allows the Company to purchase 100% of the outstanding shares of IBC in exchange for cash considerations totaling \$10,000,000 USD and an issuance of 4,000,000 Units of Ucore. Each Unit consisting of one common share of Ucore plus one half of a common share purchase warrant. Each full warrant shall entitle the holder to acquire one additional common share of Ucore at a strike price equal to the market price of the common shares of Ucore as of the date on which the option is exercised. This option expires March 14, 2019.

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

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

The option is a derivative financial asset that is recorded at fair value, with changes in fair value recognized through profit or loss. The premium paid for the derivative at inception of \$841,050 represents the initial fair value. As the derivative is out of the money at September 30, 2018, the fair value has been estimated based on amortizing the premium on a straight-line basis over four years, being the term of the option agreement. Changes in the fair value are summarized as follows:

	December 31, 2017	Market value adjustment	September 30, 2018
IBC Option	\$ 254,619	\$ (156,112)	\$ 98,507
	\$ 254,619	\$ (156,112)	\$ 98,507

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

Further details regarding the IBC option are outlined in note 14.

10. FINANCE LEASE

During the year ended December 31, 2017 the Company completed a sale and leaseback of its Pilot Plant with Orca Holdings, LLC (“the lessor”). The terms of the agreement resulted in the Company selling the Pilot Plant for cash proceeds of \$2,501,000 (\$2,000,000 USD) (“the purchase price”). The Company has leased the Pilot Plant over a 3-year term at an annual lease rate of 15% (the “term”) and retains all existing operating rights and obligations. The leased assets are recorded within property and equipment (note 7). The excess of \$413,106 of the net book value of the asset over the cash proceeds remains in the carrying amount of the leased asset as the asset was determined not be impaired at the time of the transaction. The transaction is being accounted for as a financing transaction with the asset remaining recorded and the present value of the lease payments reflected as a liability. The Company is required to make monthly interest only payments to the lessor of \$25,000 USD. At the option of the Company or the lessor, the lease may be terminated upon the payout by the Company of the purchase price at any time commencing the second year of the term. At the end of the term the Company will purchase the Pilot Plant from the lessor for the purchase price.

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(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

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

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

	December 31, 2017	Proceeds on sale of property and equipment	Effects of foreign exchange	September 30, 2018
Finance lease obligation	\$ 2,514,000	\$ -	\$ 68,000	\$ 2,582,000
	\$ 2,514,000	\$ -	\$ 68,000	\$ 2,582,000

	December 31, 2016	Proceeds on sale of property and equipment	Effects of foreign exchange	December 31, 2017
Finance lease obligation	\$ -	\$ 2,501,000	\$ 13,000	\$ 2,514,000
	\$ -	\$ 2,501,000	\$ 13,000	\$ 2,514,000

11. SHARE CAPITAL

On June 27, 2018 the Company completed the second and final tranche of a non-brokered private placement for cumulative gross proceeds of \$1,241,933 which were received in two tranches June 8, 2018 and June 27, 2018. The offering consisted of 6,899,629 units priced at \$0.18 per unit. Each unit sold included 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 \$0.25 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 \$13,230 and issued a total of 73,500 finder's warrants pursuant to certain subscriptions. Each finder's warrant issued entitles the holder to acquire one common share at a price of \$0.18 per unit for a period of 24 months from the date of issuance.

Other costs associated with the private placement totaled \$35,734 for total costs of \$48,964. The value allocated to the warrants was based on the Black-Scholes model, using an assumed volatility of 64% and expected life of 3 years, resulting in the following allocation of proceeds and costs between common shares and warrants.

	Shares	Warrants	Total
Proceeds	742,149	499,784	1,241,933
Cash costs	(29,260)	(19,704)	(48,964)
Broker warrants	(5,586)	5,586	-
Closing balance	707,303	485,666	1,192,969

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12. SHARE BASED PAYMENTS

Changes in stock options during the nine month period ended September 30, 2018 and year ended December 31, 2017 are summarized as follows:

	Nine month period ended September 30, 2018		Year ended December 31, 2017	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Opening balance	22,668,333	0.28	16,318,333	0.29
Granted	400,000	0.21	8,450,000	0.265
Forfeited	(3,985,000)	0.27	(2,100,000)	0.30
Closing balance	19,083,333	0.28	22,668,333	0.28

The following table summarizes information about the stock options outstanding and exercisable at September 30, 2018:

Exercise price per share \$	Number of outstanding options	Expiry Date	Number of exercisable options
0.19	200,000	February 12, 2023	66,667
0.23	333,333	November 3, 2020	333,333
0.23	200,000	July 23, 2023	-
0.26	250,000	October 30, 2018	250,000
0.27	150,000	February 17, 2019	150,000
0.265	8,450,000	August 21, 2022	5,633,333
0.27	2,500,000	June 30, 2019	2,500,000
0.28	2,500,000	September 11, 2020	2,500,000
0.30	2,650,000	November 4, 2021	2,650,000
0.30	300,000	November 4, 2021	300,000
0.32	500,000	June 30, 2019	500,000
0.33	100,000	August 6, 2020	100,000
0.38	300,000	June 12, 2020	300,000
0.38	650,000	April 25, 2019	650,000
	19,083,333		15,933,333
Weighted average remaining life			2.76 years

In addition, there are currently 557,100 (December 31, 2017 – 557,100) deferred share units outstanding, resulting in a total expense of \$9,280 (2017 - \$7,554). This has been recorded in share based compensation expense.

During the year ended December 31, 2017, 11,600 deferred share units were exercised at \$0.25 per share and 19,100 deferred share units were forfeited. No deferred share units were exercised or forfeited during the period ending September 30, 2018.

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13. WARRANTS

Changes in share purchase warrants during the nine month period ended September 30, 2018 and year ended December 31, 2017 are summarized as follows:

	Nine month period ended September 30, 2018		Year ended December 31, 2017	
	Number of warrants	Weighted average exercise price \$	Number of warrants	Weighted average exercise price \$
Opening balance	49,235,361	0.35	66,188,701	0.41
Issued	6,973,129	0.25	-	-
Expired	-	-	(16,953,340)	0.35
Closing balance	56,208,490	0.33	49,235,361	0.35
Weighted average remaining life				0.87 years

14. SUBSEQUENT EVENT

On November 28, 2018 the Company announced that it has retained the services of the international law firm Dorsey & Whitney LLP (“Dorsey”) as the Company’s legal counsel to facilitate the recently announced intention to exercise its binding option to purchase IBC in accordance with the terms previously agreed to by the Company, IBC and the majority of IBC shareholders, and embodied in the Option to Purchase Agreement dated March 14, 2015, as last amended on June 1, 2016 (the “OTP”).

On March 3, 2015, the Company announced it had entered into an agreement with IBC to create and launch a co-owned joint venture corporation for the purpose of marketing and purveying IBC’s products and services exclusively to world markets in the rare earth, recycling and tailings processing sectors. Recently, the Company and IBC have exchanged detailed listings about concerns and sensitivities regarding this agreement and the OTP (the “Agreements”), the mechanics and deliverables of the due diligence process inherent in the acquisition, as well as expectations regarding the transfer of the ownership of IBC.

IBC has stated that it believes that the parties are on divergent paths and requested that the Company waive its rights under the Agreements. The Company indicated that it does not intend to do so. Subsequent to this, IBC attempted to assert that the Agreements had already been terminated. The Company indicated that there are no written or verbal agreements to terminate either of the Agreements, and reiterated that it will not be swayed in its intention to exercise the mutually binding and fully executed OTP.

Both Agreements have arbitration clauses that, if utilized, may facilitate an orderly and structured forum to resolve these differences. The Company is hopeful that a structured approach to good-faith negotiations, whether that being formal mediation, arbitration or otherwise, will expedite a satisfactory resolution between the parties that will allow for development of the opportunities that both parties envisioned at the onset of engaging in the respective agreements.

Pursuant to the terms of the OTP, the Company must deliver a Notice of Commencement (“NOC”) to IBC by March 14, 2019 in order to initiate proceedings to later complete the acquisition of IBC.