

UCORE RARE METALS INC.
(A Development Stage Enterprise)

Unaudited Interim Condensed Consolidated Financial Statements

Third Quarter
For the nine month period ended September 30, 2019

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, 2019, the audited condensed consolidated statement of financial position as at December 31, 2018 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, 2019 and September 30, 2018. The Company's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the September 30, 2019 interim condensed consolidated financial statements. Readers are cautioned that these statements may not be appropriate for their intended purposes.

UCORE RARE METALS INC.

Condensed Interim Consolidated Statements of Financial Position

Expressed in Canadian dollars

(Unaudited - Prepared by Management)

	September 30, 2019	December 31, 2018
	\$	\$
ASSETS		
Current assets		
Cash	166,026	461,475
Marketable securities	1,000	1,500
Other receivables	108,607	156,653
Prepaid expenses and other	306,258	233,449
	<u>581,891</u>	<u>853,077</u>
Plant and equipment (note 8)	3,602,506	3,613,969
Derivative asset (note 11)	-	45,509
Restricted cash	57,904	58,176
Right-of-use assets (note 4 and 9)	88,760	-
Resource properties and related exploration costs (note 10)	37,606,047	38,127,193
Non-refundable advance on technology (note 7)	3,353,446	3,353,446
	<u>45,290,554</u>	<u>46,051,370</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	659,043	512,632
Current portion of lease liabilities (note 4 and 12)	92,956	-
	<u>751,999</u>	<u>512,632</u>
Long-term liabilities		
Accrued liabilities	775,655	400,000
Lease liabilities (Note 4 and 12)	-	2,728,000
Loan payable (note 13)	3,966,545	-
	<u>5,494,199</u>	<u>3,640,632</u>
Shareholders' equity		
Share capital (note 14)	60,432,354	60,108,689
Contributed surplus (note 14)	22,347,129	13,529,076
Warrants (note 14)	1,946,430	10,813,180
Accumulated other comprehensive income	4,874,086	5,438,633
Deficit	(49,803,644)	(47,478,840)
	<u>39,796,355</u>	<u>42,410,738</u>
	<u>45,290,554</u>	<u>46,051,370</u>

Going concern (note 2)

Contingencies (note 16)

Subsequent events (note 17)

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

Condensed Interim 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	
	2019	2018	2019	2018
	\$	\$	\$	\$
EXPENSES				
Amortisation	22,114	2,140	66,341	7,334
Investor relations and marketing	30,220	39,079	64,769	158,933
Office and premises	58,593	78,460	207,803	250,225
Professional services	287,153	538,209	798,700	822,398
Salaries and consultants	178,716	181,930	696,979	1,002,210
Securities and regulatory	32,038	3,530	77,431	62,008
Share-based payments	4,548	119,917	30,149	511,234
Travel	19,215	80,589	39,074	164,873
Fair value adjustment of derivative asset (note 11)	-	52,998	45,509	156,113
	<u>632,597</u>	<u>1,096,852</u>	<u>2,026,755</u>	<u>3,135,328</u>
OTHER INCOME (LOSS)				
Interest income	-	233	-	932
Interest expense	(117,467)	(97,475)	(328,808)	(289,818)
Accretion expense	(24,092)	-	(155,090)	-
Loss on disposal of resource property asset (note 10)	-	-	(111,339)	-
Loan discount (note 13)	-	-	194,869	-
Foreign exchange	(40,263)	41,531	102,319	(48,435)
	<u>(181,822)</u>	<u>(55,711)</u>	<u>(298,049)</u>	<u>(337,321)</u>
LOSS BEFORE INCOME TAXES	<u>(814,419)</u>	<u>(1,152,563)</u>	<u>(2,324,804)</u>	<u>(3,472,649)</u>
INCOME TAXES RECOVERABLE	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET LOSS	<u>(814,419)</u>	<u>(1,152,563)</u>	<u>(2,324,804)</u>	<u>(3,472,649)</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>283,412,430</u>	<u>277,049,826</u>	<u>283,412,430</u>	<u>277,049,826</u>
COMPREHENSIVE LOSS:				
Net loss for the periods	(814,419)	(1,152,563)	(2,324,804)	(3,472,649)
<i>Items which may be subsequently recycled through profit or loss</i>				
Foreign currency translation difference arising on translation of foreign subsidiaries	416,245	(421,935)	(564,047)	651,562
Unrealized gain (loss) on available-for-sale securities	(750)	500	(500)	500
	<u>(398,924)</u>	<u>(1,573,998)</u>	<u>(2,889,351)</u>	<u>(2,820,587)</u>

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

UCORE RARE METALS INC.

Condensed Interim 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, 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			511,234				511,234
Financing (net of costs)	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
Balance at January 1, 2019	283,085,861	\$ 60,108,689	\$ 13,529,076	\$ 10,813,180	\$ 5,438,633	\$ (47,478,840)	\$ 42,410,738
Net loss						(2,324,804)	(2,324,804)
Unrealized gain (loss) on available for sale securities					(500)		(500)
Foreign currency translation adjustment					(564,047)		(564,047)
Share-based payments (note 14)			30,149				30,149
Shares issued on exercise of warrants (note 14)	893,998	205,069					205,069
Fair value of warrants exercised (note 14)		60,896		(60,896)			-
Shares issued on exercise of options (note 14)	150,000	39,750					39,750
Fair value of options exercised (note 14)		17,950	(17,950)				-
Expiry of warrants (note 14)			8,805,854	(8,805,854)			-
Balance at September 30, 2019	284,129,859	\$ 60,432,354	\$ 22,347,129	\$ 1,946,430	\$ 4,874,086	\$ (49,803,644)	\$ 39,796,355

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

UCORE RARE METALS INC.

Condensed Interim Consolidated Statements of Cash Flows

Expressed in Canadian dollars

(Unaudited - Prepared by Management)

	For the Nine Months Ended September 30 2019	For the Nine Months Ended September 30 2018
	\$	\$
CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES		
Net loss for the period	(2,324,804)	(3,472,649)
Adjustments for items not involving cash:		
Amortisation	66,341	7,334
Discount on loan payable (note 13)	(194,869)	-
Share-based payments	30,149	511,234
Consultant expense	98,386	-
Interest accretion	155,090	-
Interest expense	211,342	289,818
Loss on disposal of resource property asset (note 10)	111,339	-
Fair value adjustment of derivative asset	45,509	156,113
Unrealized foreign exchange (gain) loss	(85,835)	60,879
	<u>(1,887,352)</u>	<u>(2,447,271)</u>
Change in non-cash operating working capital:		
Other receivables	48,046	(33,741)
Prepaid expenses and other	104,197	(24,653)
Accounts payable and accrued liabilities	927,082	90,443
	<u>(808,027)</u>	<u>(2,415,222)</u>
CASH FLOWS FROM (USED BY) FINANCING ACTIVITIES		
Interest paid on lease liabilities	(111,217)	(289,818)
Issuance of common shares and warrants for cash	-	1,241,933
Issue costs of common shares and warrants	-	(48,964)
Repayment of lease liabilities (note 12)	(57,253)	-
Proceeds from loan (note 13)	731,250	-
Issuance of common shares on exercise of options and warrants	244,820	-
	<u>807,600</u>	<u>903,151</u>
CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES		
Purchase of plant and equipment	-	(3,533)
Additions to resource properties and related exploration costs	(294,078)	(235,932)
	<u>(294,078)</u>	<u>(239,465)</u>
INCREASE (DECREASE) IN CASH	(294,505)	(1,751,536)
Foreign exchange impact on cash	(944)	613
CASH, beginning of period	<u>461,475</u>	<u>2,065,664</u>
CASH, end of period	<u>166,026</u>	<u>314,741</u>

Supplementary Cash Flow Information (note 15)

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

UCORE RARE METALS INC.

Notes to Interim Condensed Consolidated Financial Statements
For the nine month period ended September 30, 2019

(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.

2. GOING CONCERN

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 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. During the period ended September 30, 2019, the Company received approximately \$245,000 from the issuance of common shares on exercise of options and warrants. On August 23, 2019, the Company secured a bridge loan for \$397,500 (\$300,000 USD) which further details can be found in note 13. Subsequent to September 30, 2019, the Company completed a rights offering for total gross proceeds of \$8,098,656 and with the proceeds of this offering the Company repaid certain debt obligations as further described in note 17. 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. There is no certainty that the Company will be able to raise funds as they are required in the future.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary to the carrying value of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used.

3. 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, 2018 with the exception of those new standards, amendments, and interpretations mandatorily effective as of January 1, 2019 discussed in note 4. The date the Board of Directors approved the financial statements is November 28, 2019.

UCORE RARE METALS INC.

Notes to Interim Condensed Consolidated Financial Statements
For the nine month period ended September 30, 2019

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

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.

4. 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, 2019:

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. This Interpretation had no impact on the Company's interim condensed consolidated financial statements.

On January 1, 2019 the Company adopted IFRS 16 – Leases ("IFRS 16") which replaced IAS 17 – Leases and IFRIC 4 – Determining Whether and Arrangement Contains a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead, all leases are treated in a similar way to finance leases applied in IAS 17. IFRS 16 does not require a lessee to recognize assets and liabilities for short-term leases (i.e. leases of 12 months or less) and leases of low-value assets.

The Company applied IFRS 16 using the modified retrospective method. Under this method, financial information will not be restated and will continue to be reported under the accounting standards in effect for those periods. The Company will recognize lease liabilities related to its lease commitments for its office lease. This lease liability will be measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as at January 1, 2019, the date of initial application, resulting in no adjustment to the opening balance of deficit. The associated right-of-use assets will be measured at the lease liabilities amount, plus prepaid lease payments made by the Company. The Company has implemented the following accounting policies permitted under the new standard:

- leases of low dollar value will continue to be expensed as incurred; and
- the Company will not apply any grandfathering practical expedients.

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As at January 1, 2019, the Company recognized \$150,209 in right-of-use assets and \$150,209 in lease liabilities as summarized below:

	\$
Minimum lease payments under operating leases as of December 31, 2018	172,853
Effect from discounting at the incremental borrowing rate as of January 1, 2019	<u>(22,644)</u>
Lease liabilities recognized as of January 1, 2019	150,209
Right-of-use asset recognized as of January 1, 2019	150,209

The lease liability was discounted at a discount rate of 15% as at January 1, 2019.

b) New accounting policy for leases under IFRS 16

The following is the accounting policy for leases as of January 1, 2019 upon adoption of IFRS 16:

The Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company assess whether the contract involves the use of an identified asset, whether the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement exists, and if the Company has the right to direct the use of the asset. At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

As a lessee, the Company recognizes a right-of-use asset and a lease liability at the commencement date of a lease. The right-to-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. Lease payments included in the measurement of the lease liability are comprised of:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- exercise prices of purchase options if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is change in future lease payments arising from a change in an index or rate, or if there is a change in the estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to profit or loss.

The Company does not recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to profit or loss on a straight-line basis over the lease term.

UCORE RARE METALS INC.

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(Unaudited – Prepared by Management)
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5. CAPITAL MANAGEMENT

The Company's capital at September 30, 2019 consists of shareholders' equity of \$39,796,355 (December 31, 2018 - \$42,410,738). The Company's objective when managing capital is to maintain adequate levels of funding to support the acquisition and exploration of resources properties, the advancement of the Company's prospective 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.

6. RELATED PARTY TRANSACTIONS

As at September 30, 2019, an executive officer is temporarily indebted to the Company for a total of \$20,942 (December 31, 2018 - \$20,942), as a result of an income tax remittance advance that is expected to be rectified in an upcoming pay period. The amount is included in prepaid expenses and other.

As at September 30, 2019, accrued liabilities include \$563,000 (December 31, 2018 - \$440,750) due to directors and officers of the Company.

During the period ending September 30, 2019, the Company incurred \$88,644 (2018 - \$31,241) in fees to a law firm of which a director of the Company is a partner. Additionally, travel expenditures in the amount of \$Nil (2018 - \$1,590) were reimbursed to directors of the Company.

During the year ended December 31, 2018, the Company completed two non-brokered private placements in which the CEO and the CFO of the Company purchased a total of 750,000 units for gross proceeds to the Company of \$135,000. In addition, shareholders holding greater than 10% of the outstanding common shares of the Company purchased a total of 4,500,000 units for gross proceeds to the Company of \$725,000.

During the year ended December 31, 2018, the Company accrued \$405,405 (\$300,000 USD) for ongoing general business and consulting services rendered by Orca Holdings, LLC ("Orca"). The Company settled the amount payable by issuing 2,702,702 shares of the Company on December 18, 2018. On March 30, 2019, the Company entered into a secured loan agreement with Orca to consolidate amounts owing to Orca, terminate the lease agreement, and repurchase the leased assets for \$2,670,000 (\$2,000,000 USD). Upon completion of the consolidation of the outstanding amounts payable to Orca and the repurchase of the leased asset the Company received cash of \$333,750 (\$250,000 USD). On August 23, 2019 the Company secured a bridge loan in the amount of \$397,500 (\$300,000 USD). Orca is a shareholder with holdings greater than 10% of the outstanding common shares of the Company. Further details of the loans are discussed in note 13. Subsequent to the period ended September 30, 2019, the Company re-negotiated the aforementioned loan with Orca as further described in note 17.

All related party transactions were valued at the exchange amount agreed to between the parties.

7. NON-REFUNDABLE ADVANCE ON TECHNOLOGY

Pursuant to the agreement dated April 29, 2014, between IBC and the Company, entitled "Research Projects, Pilot Plant, Separation Plant and Prospective Joint Operating Enterprise", as amended (the "Research Agreement"), the Company has the opportunity to make payments of \$2.9 million USD to create a joint venture that will 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

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Company has made non-refundable payments totaling \$2,445,291 (\$1,915,000 USD) to IBC Advanced Technologies Inc. (“IBC”) with respect to the Research Agreement. 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 Company will have up to a 60% controlling interest in the joint venture and IBC will own a 40% equity interest. 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. The 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 Ucore’s 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, totalling \$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. The Company has capitalized the payments as the expenditures meet the criteria for capitalization as an intangible asset.

IBC has disputed aspects of the Research Agreement and subsequent to the period ended September 30, 2019 the Company has terminated the Research Agreement. Further details to the dispute and the termination of the Research Agreement are outlined in note 16 and note 17 respectively.

8. PLANT AND EQUIPMENT

	Office Equipment	Exploration Equipment	PGM Facility	Pilot Plant	Total
Cost					
Balance, January 1, 2018	\$ 221,063	\$ 142,746	\$ 641,484	\$ 2,914,106	\$ 3,919,399
Additions	3,533	-	-	-	3,533
Balance December 31, 2018	224,596	142,746	641,484	2,914,106	3,922,932
Additions	-	-	-	-	-
Balance, September 30, 2019	224,596	142,746	641,484	2,914,106	3,922,932
Accumulated amortisation					
Balance, January 1, 2018	\$ 176,778	\$ 116,590	\$ -	\$ -	\$ 293,368
Amortisation	8,509	1,231	-	-	9,740
Capitalized Amortisation	437	5,418	-	-	5,855
Balance, December 31, 2018	185,724	123,239	-	-	308,963
Amortisation	4,655	237	-	-	4,892
Capitalized Amortisation	129	6,442	-	-	6,571
Balance, September 30, 2019	190,508	129,918	-	-	320,426
Net book value					
Balance, December 31, 2018	\$ 38,872	\$ 19,507	\$ 641,484	\$ 2,914,106	\$ 3,613,969
Balance, September 30, 2019	\$ 34,088	\$ 12,828	\$ 641,484	\$ 2,914,106	\$ 3,602,506

The Company has not begun to amortize the Pilot Plant as it has not been recommissioned to accept third party feedstock as at September 30, 2019 and is therefore not considered available for use.

UCORE RARE METALS INC.

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

9. RIGHT OF USE ASSET

As at January 1, 2019, the Company recognized \$150,209 as a right-of-use asset for the lease of the Company's head office located in Bedford, Nova Scotia.

Cost	Office Lease
At December 31, 2017 and 2018	\$ -
Adjustment of initial adoption of IFRS 16 (Note 4)	150,209
At September 30, 2019	150,209
Depreciation	
At December 31, 2017 and 2018	\$ -
Charge for the period	61,449
At September 30, 2019	61,449
Net book value	
At December 31, 2018	\$ -
At September 30, 2019	\$ 88,760

Depreciation of right-of-use assets is calculated using the straight-line method over the remaining lease term.

10. RESOURCE PROPERTIES AND RELATED EXPLORATION COSTS

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

	December 31, 2018	Acquisition costs	Deferred exploration costs	Loss on disposal of resource property asset	Movement in exchange rates	September 30, 2019
Bokan Mountain, Alaska	\$ 38,127,193	\$ -	\$ 154,240	\$ (111,339)	\$ (564,047)	\$ 37,606,047
	\$ 38,127,193	\$ -	\$ 154,240	\$ (111,339)	\$ (564,047)	\$ 37,606,047
	December 31, 2017	Acquisition costs	Deferred exploration costs	Loss on disposal of resource property asset	Movement in exchange rates	December 31, 2018
Bokan Mountain, Alaska	\$ 36,022,271	\$ -	\$ 141,739	\$ -	\$ 1,963,183	\$ 38,127,193
	\$ 36,022,271	\$ -	\$ 141,739	\$ -	\$ 1,963,183	\$ 38,127,193

Included in resource properties is capitalized equipment, with a net book value of \$109,813 at September 30, 2019 (2018 - \$237,110). There were no additions to equipment during the period or in the prior period ended September 30, 2018. Amortization of \$15,419 (2018 - \$25,435) was recorded and capitalized to the resource properties as deferred exploration costs.

During the period ended September 30, 2019 the Company disposed of a barge included in resource properties and recorded a loss on disposal in the amount of \$111,339 (2018 - \$Nil).

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11. FINANCIAL DERIVATIVE

In 2015 and 2016 the Company made non-refundable payments totalling \$841,050 (\$650,000 USD) in respect of a purchase option from IBC, a private company. This option (the “IBC Option” or “OTP”) allows the Company to purchase 100% of the outstanding shares of IBC in exchange for cash consideration totalling \$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. The IBC Option had an expiry date of March 14, 2019.

On February 14, 2019, the Company issued the Notice of Commencement (“NOC”) to purchase IBC prescribed to by the Company, IBC, and the majority shareholders of IBC. The delivery of the NOC initiates a 60-day period review during which the Company has the right to conduct a detailed due diligence review of IBC’s operations and financial records. With IBC’s consent an interim injunction was granted on February 27, 2019 which will preserve components of the Company’s rights with respect to the OTP.

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

Payments totalling USD \$2.9 million pursuant to previous agreements between the Company and IBC must be completed prior to the closing of the purchase transaction. As at September 30, 2019 the Company has made advance payments totalling USD \$1.9 million against this amount.

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 outcome and timing on the initiated and proposed acquisition cannot be determined at this time. Should the acquisition proceed there would be a requirement to secure financing for the IBC Option and any cash payments to shareholders. The ability to secure such financing and the terms of the financing is not certain at this time.

The IBC 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.

The fair value has been estimated based on amortizing the premium on a straight-line basis over the term of the IBC Option agreement. Changes in the fair value are summarized as follows:

	December 31, 2018	Market value adjustment	September 30, 2019
IBC Option	\$ 45,509	\$ (45,509)	\$ -
	\$ 45,509	\$ (45,509)	\$ -

	December 31, 2017	Market value adjustment	December 31, 2018
IBC Option	\$ 254,619	\$ (209,110)	\$ 45,509
	\$ 254,619	\$ (209,110)	\$ 45,509

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12. LEASE LIABILITIES

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 had leased the Pilot Plant over a 3-year term at an annual lease rate of 15% (the “term”) and retained all existing operating rights and obligations. The leased assets were recorded within property and equipment (note 8). 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 to be impaired at the time of the transaction. The transaction was 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 was 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.

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

On March 30, 2019, the Company terminated the lease agreement with the Lessor and exercised its option to repurchase the leased assets for \$2,670,000 (\$2,000,000 USD).

The following table reconciles the changes attributable to the Company’s finance lease obligations:

	December 31, 2018	Lease liabilities recognized January 1, 2019	Effects from foreign exchange	Settlement of lease liabilities	Principal payments	Current portion	September 30, 2019
Office lease liability	\$ -	\$ 150,209	\$ -	\$ -	\$ (57,253)	\$ (92,956)	\$ -
Pilot plant lease liability	2,728,000	-	(58,000)	(2,670,000)	-	-	-
	\$ 2,728,000	\$ 150,209	\$ (58,000)	\$ (2,670,000)	\$ (57,253)	\$ (92,956)	\$ -

	December 31, 2017	Lease liabilities recognized January 1, 2018	Effects from foreign exchange	Settlement of lease liabilities	Principal payments	Current portion	December 31, 2018
Office lease liability	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Pilot plant lease liability	2,514,000	-	214,000	-	-	-	2,728,000
	\$ 2,514,000	\$ -	\$ 214,000	\$ -	\$ -	\$ -	\$ 2,728,000

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13. LOAN PAYABLE

On March 30, 2019, the Company entered into a secured loan agreement with Orca Holdings, LLC (“Orca”) in the amount of \$3,637,875 (\$2,725,000 USD). Proceeds were used to repurchase the Pilot Plant for \$2,670,000 (\$2,000,000 USD), defer accrued interest and interest payable between April 1, 2019 and June 30, 2019 of \$233,625 (\$175,000 USD), defer payment of \$400,500 (\$300,000 USD) under a consulting agreement with Orca, and provide the Company with cash of \$333,750 (\$250,000 USD).

Interest will be paid monthly and the principal amount will be repaid in full on March 31, 2021. The loan will bear interest at a rate of 12.5% annually for the first 9 months commencing July 1, 2019 and then at a rate of 15% annually for the 12 months commencing April 1, 2020. The loan is secured by a first charge on the Company’s assets. The effective interest rate used for the total duration of the loan is 15% which is similar to comparable borrowing arrangements in the marketplace and arrangements previously achieved by the Company. The financing benefits have been valued at \$194,869 and recorded through the statement of loss and comprehensive loss as a discount on loan payable. The discount represents the fair value adjustment on the loan.

On August 23, 2019 the Company secured a bridge loan in the amount of \$397,500 (\$300,000 USD) from Orca Holdings, LLC. The bridge loan will bear interest at a rate of 12.5% and is repayable on October 31, 2020 or on such a date as the Company is able to repay the loan and continue to meet certain minimum cash levels. The loan is secured by a first charge on the Company’s assets.

Subsequent to September 30, 2019 the Company repaid the bridge loan in full and re-negotiated the loan payable as further described in note 17.

The following is a loan continuity schedule for the loans with Orca:

	September 30, 2019	December 31, 2018
Opening balance	\$ -	\$ -
Additions	4,035,375	-
Loan discount	(194,869)	-
Accrued interest	4,634	-
Accretion expense	20,356	-
Foreign exchange	101,049	-
Ending balance	\$ 3,966,545	\$ -

14. SHARE CAPITAL

Authorized:

- Unlimited number of common voting shares
- Unlimited number of first preferred non-voting shares issuable in series
- Unlimited number of second preferred non-voting shares issuable in series

a) Financing

On 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.

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The Company paid finder's fees totaling \$13,320 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 \$35,644 for total costs of \$48,964. The value allocated to the warrants was determined based on the Black-Scholes model, using an assumed volatility 64% and an expected life of 3 years, resulting in the following allocation of proceeds and costs between common shares and warrants.

	Allocation of proceeds		
	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

On December 10, 2018 the Company completed a non-brokered private placement for total proceeds of \$500,000. The offering consisted of 3,333,333 units priced at \$0.15 per unit. Each unit consists of one common share and one-half common share purchase warrant. Each warrant gives the holder the right to purchase one common share at an exercise price of \$0.20 for a period of 36 months.

The value allocated to the warrants was based on the Black-Scholes model, using an assumed volatility 67% and an expected life of 3 years, resulting in the following allocation of proceeds and costs between common shares and warrants.

	Allocation of proceeds		
	Shares	Warrants	Total
Proceeds	\$ 336,667	\$ 163,333	\$ 500,000
Cash costs	(7,089)	(3,440)	(10,529)
Closing balance	\$ 329,578	\$ 159,893	\$ 489,471

Subsequent to September 30, 2019, the Company completed a rights offering for total gross proceeds of \$8,098,656 as further described in note 17.

b) Shares for debt

On December 18, 2018 the Company settled certain payables in the amount of USD \$300,000 (or CAD\$405,405 using a CAD/USD exchange rate of \$0.74). The agreed upon price of common shares on the date of settlement was \$0.15 per share and the Company issued 2,702,702 shares to settle the debt. As a result, the Company incurred a gain on settlement of \$54,054 which is included in other income for the year ended December 31, 2018.

c) Stock options

Changes in stock options during the nine month period ended September 30, 2019 and year ended December 31, 2018 are summarized as follows:

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	Nine month period ended September 30, 2019		Year ended December 31, 2018	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Opening balance	18,633,333	0.28	22,668,333	0.29
Granted	400,000	0.155	400,000	0.21
Exercised	(150,000)	0.265	-	-
Expired	(3,600,000)	0.30	-	-
Forfeited	(300,000)	0.29	(4,435,000)	0.27
Closing balance	14,983,333	0.27	18,633,333	0.28

The weighted average share price on the date on which options were exercised during the period was \$0.26. No options were exercised during 2018.

The following table summarizes information about the stock options outstanding and exercisable at September 30, 2019:

Exercise price per share \$	Number of outstanding options	Expiry Date	Number of exercisable options
0.155	400,000	September 23, 2024	-
0.19	200,000	February 12, 2023	200,000
0.23	200,000	July 30, 2023	133,333
0.23	333,333	November 3, 2020	333,333
0.265	8,250,000	August 21, 2022	8,250,000
0.28	2,450,000	September 11, 2020	2,450,000
0.30	2,450,000	November 4, 2021	2,450,000
0.30	300,000	November 4, 2021	300,000
0.33	100,000	August 6, 2020	100,000
0.38	300,000	June 12, 2020	300,000
	14,983,333		14,516,666
Weighted average remaining life			2.41 years

In addition, there are currently 557,100 (December 31, 2018 – 557,100) deferred share units outstanding, resulting in a total expense of \$2,129 (2018 - \$3,192). This has been recorded in share based compensation expense.

d) Warrants:

Changes in share purchase warrants during the nine month period ended September 30, 2019 and year ended December 31, 2018 are summarized as follows:

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	Nine month period ended September 30, 2019		Year ended December 31, 2018	
	Number of warrants	Weighted average exercise price \$	Number of warrants	Weighted average exercise price \$
Opening balance	57,875,157	0.33	49,235,361	0.35
Granted	-	-	8,639,796	0.24
Exercised	(893,998)	0.23	-	-
Expired	(49,235,361)	0.35	-	0.33
Closing balance	7,745,798	0.24	57,875,157	0.33
Weighted average remaining life	1.78 years		0.69 years	

The weighted average share price on the date on which warrants were exercised during the period was \$0.26. No warrants were exercised during 2018.

During the period, 49,235,361 warrants from financings completed in 2014 and 2016 expired unexercised. This resulted in an increase to contributed surplus of \$8,805,854.

15. SUPPLEMENTARY CASH FLOW INFORMATION

	For the Nine Months Ended September 30 2019	For the Nine Months Ended September 30 2018
	\$	\$
Non-cash financing and investment activities:		
Accounts payable and accrued liabilities related to resources properties and related exploration costs	13,129	(10,771)
Amortization related to resource properties	6,571	-
Prepays related to resource properties and related exploration costs	(133,279)	-
Repurchase of pilot plant	2,670,000	-
Capitalization of right-of-use assets and lease liabilities	150,209	-
Restructure of accrued liabilities and prepaids	634,125	-

16. CONTINGENCIES

On December 11, 2018, the Company filed a complaint against IBC Advanced Technologies Inc. ("IBC"), and Steven R. Izatt in the Supreme Court of Nova Scotia for libel, injurious falsehood, and unlawful interference with economic relations seeking \$10 million in damages. The complaint is in relation to a defamatory statement published by IBC regarding the validity of the OTP held by the Company, which the Company believes is defamatory. On October 21, 2019 IBC has filed their defence and the Company has a hearing scheduled for December 4, 2019.

On January 4, 2019, IBC filed a complaint against the Company in the Third District Court, Salt Lake Division Salt Lake County, State of Utah based on violation of common law and statutory claims, including misappropriation of trade secrets and confidential information, trademark infringement, unfair competition, defamation, false light, tortious interference with economic relations and unjust enrichment. IBC is seeking damages of no less than USD \$20 million. On September 23, 2019 a written order was issued to dismiss the case based on jurisdiction. On October 18, 2019 IBC has appealed the written order issued on September 23, 2019.

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On February 19, 2019, IBC filed a complaint against the Company in the Third District Court, Salt Lake Division, Salt Lake County, State of Utah based on contractual, common law and statutory claims, including breach of contract, breach of implied covenant of good faith and fair dealing, negligent misrepresentation, fraudulent concealment or fraudulent non-disclosure, breach of fiduciary duty, unjust enrichment, and fraudulent inducement. IBC is seeking damages of no less than USD \$40 million. The Company has filed a motion to dismiss the claim based on jurisdictional grounds.

The Company is actively working on its defence and intends to defend the matter vigorously.

17. SUBSEQUENT EVENTS

- (a) On October 30, 2019, the Company completed a rights offering and issued 80,986,555 common shares of the Company at a price of \$0.10 per share for total gross proceeds of \$8,098,656. Of the total shares issued 28,184,191 shares were issued to insiders of the Company. There were no selling fees or commissions paid in connection with the rights offering.
- (b) As a result of IBC's failure to remedy previous breaches of the Research Agreement, the Company has formally terminated the Research Agreement between the Company and IBC.
- (c) On November 27, 2019, the Company announced that it has amended the debt agreement between Orca Holdings, LLC ("Orca") and the Company. Under the revised terms of the agreement the Company will repay \$2.5 million in principal and extend the maturity date to November 30, 2021, reduce the interest rate to 9%, and issue five million bonus warrants to Orca. Each warrant will entitle Orca to acquire one common share of the Company at an exercise price of \$0.12 during a term ending on November 30, 2021.