Namibia Rare Earths Inc.

UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED MAY 31, 2016 AND 2015

NOTICE TO READER

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

The accompanying unaudited condensed consolidated interim financial statements of Namibia Rare Earths Inc. have been prepared by management. Management have compiled the condensed consolidated interim statement of financial position of Namibia Rare Earths Inc. as at May 31, 2016, the condensed consolidated interim statements of net and comprehensive loss for the three and six months ended May 31, 2016 and 2015, the condensed consolidated interim statements of changes in equity as at May 31, 2016 and 2015, and the condensed consolidated interim statements of cash flows for the six months ended May 31, 2016 and 2015. The Company's independent auditors have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of these condensed consolidated interim financial statements. Readers are cautioned that these statements may not be appropriate for their intended purposes.

Namibia Rare Earths Inc.

Unaudited Condensed Consolidated Interim Statements of Financial Position

As at May 31, 2016 and November 30, 2015 (in Canadian dollars)

	May 31, 2016 $	November 30, 2015 $
Assets		
Current assets		
Cash	1,282,635	2,297,938
Taxes and other receivables	172,003	146,907
Deposits and prepaid expenses	61,378	45,410
	1,516,016	2,490,255
Equipment	16,122	38,108
Exploration and evaluation assets (note 4)	21,630,080	21,186,411
Total Assets	23,162,218	23,714,774
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	673,504	603,577
Total Liabilities	673,504	603,577
Equity		
Total Equity	22,488,714	23,111,197
Total Liabilities and Equity	23,162,218	23,714,774

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

See accompanying notes to the condensed consolidated interim financial statements

Namibia Rare Earths Inc.

Unaudited Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

For the three and six months ended May 31, 2016 and 2015 (in Canadian dollars)

	Three months ended May 31		Six months ended May 31	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
Expenses				
Salaries and benefits	189,391	196,726	378,347	401,098
Office and administration	42,532	44,344	85,554	99,430
Listing and filing fees	1,411	4,276	30,186	50,072
Consulting fees	17,060	102,016	39,746	242,725
Professional fees	18,382	14,023	38,016	101,931
Foreign currency exchange loss	4,238	16,959	19,382	10,319
Travel	6,775	18,966	19,821	116,394
Shareholder communications	9,424	23,230	15,666	82,290
Share-based payments	-	2,600	-	2,600
Depreciation	-	253	-	1,014
	289,213	423,393	626,718	1,107,873
Interest income	(1,590)	(6,688)	(4,235)	(33,821)
Net and comprehensive loss for the period	287,623	416,705	622,483	1,074,052
Loss per share - Basic and diluted	0.00	0.00	0.01	0.01
Weighted average number of shares outstanding – Basic and diluted	77,828,500	77,828,500	77,828,500	77,828,500

See accompanying notes to the condensed consolidated interim financial statements.

Namibia Rare Earths Inc.

Unaudited Condensed Consolidated Interim Statements of Changes in Equity

For the six months ended May 31, 2016 and 2015 (in Canadian dollars)

	Common Shares Without Par Value		Share-based Payments Reserve	Contributed Surplus	Deficit	Total Equity
	Number	$	$	$	$	$
Balance, November 30, 2015	77,828,500	36,146,334	3,207,742	2,364,258	(18,607,137)	23,111,197
Expired options	-	-	(1,821,165)	1,821,165	-	-
Net and comprehensive loss	-	-	-	-	(622,483)	(622,483)
Balance, May 31, 2016	77,828,500	36,146,334	1,386,577	4,185,423	(19,229,620)	22,488,714

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

See accompanying notes to the condensed consolidated interim financial statements.

Namibia Rare Earths Inc.

Unaudited Condensed Consolidated Interim Statements of Cash Flows

For the six months ended May 31, 2016 and 2015 (in Canadian dollars)

	2016 $	2015 $
Cash provided by (used in)		
Operating activities		
Net loss for the period	(622,483)	(1,074,052)
Adjustments for:		
Unrealized foreign currency exchange loss (gain)	25,915	(7,496)
Interest income recognized in net loss	(7,375)	(37,147)
Share-based payments expense	-	2,600
Depreciation	-	1,014
	(603,943)	(1,115,081)
Net change in non-cash working capital balances related to operations		
(Increase) decrease in amounts receivable, deposits and prepaids	(55,371)	221,461
Increase (decrease) in accounts payable and accrued liabilities	113,906	(236,123)
	(545,408)	(1,129,743)
Investing activities		
Interest income received	7,375	37,147
Expenditures on exploration and evaluation assets	(469,257)	(872,583)
	(461,882)	(835,436)
Effect of exchange rate changes on cash	(8,013)	6,130
Net change in cash during the period	(1,015,303)	(1,959,049)
Cash – Beginning of period	2,297,938	5,313,942
Cash – End of period	1,282,635	3,354,893

Supplemental cash flow information (note 8)

See accompanying notes to the condensed consolidated interim financial statements.

For the three and six months ended May 31, 2016 and 2015 (in Canadian dollars)

1. Nature of operations and going concern

Namibia Rare Earths Inc. (the "Company") was incorporated pursuant to the Canada Business Corporations Act on April 26, 2010. The Company is a public company listed on the Toronto Stock Exchange (the "TSX"), trading under the symbol "NRE". The address of the Company's corporate office and principal place of business is Suite 306, 1597 Bedford Highway, Halifax, Nova Scotia, Canada.

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

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

The Company has reported losses to date and at May 31, 2016 has an accumulated deficit of $19,229,620. Whether and when the Company can attain profitability is uncertain. These uncertainties cast significant doubt upon the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon rare earths prices, successful results from its mineral property acquisitions and exploration and evaluation activities, its ability to maintain title and beneficial interest in the mineral properties, and its ability to raise additional financing or finalize a transaction with a strategic partner. The outcome of these matters cannot be predicted at this time. These condensed consolidated interim financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

2. Basis of Preparation

a) Statement of Compliance

These condensed consolidated interim financial statements, including comparative figures, have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee ("IFRIC").

These condensed consolidated interim financial statements were authorized for issue by the Audit Committee of the Board of Directors on July 7, 2016.

b) Basis of Measurement

These condensed consolidated interim financial statements have been prepared on a historical cost basis, using the accrual basis of accounting, except for certain financial instruments that are measured at fair values at the end of each reporting period as explained in the accounting policies.

c) Basis of Consolidation

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

d) Critical Accounting Estimates and Judgments

The preparation of these condensed consolidated interim financial statements requires management to make estimates, judgments and assumptions that affect the amounts reported in the condensed consolidated interim financial statements and notes. By their nature, these estimates, judgments and assumptions are subject to measurement uncertainty and the effect of changes in these estimates in future periods could be material. These estimates are based on historical experience, current and future economic conditions, and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates. Revisions to estimates are accounted for prospectively. The more significant areas requiring the use of management estimate and judgments are as follows:

Critical accounting estimates

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

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

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

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

Critical accounting judgments

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

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

3. Significant Accounting Policies

These condensed consolidated interim financial statements should be read in conjunction with the Company's annual consolidated financial statements and accompanying notes for the year ended November 30, 2015. These condensed consolidated interim financial statements have been prepared using the same accounting policies and judgments and estimates as described in the Company's November 30, 2015 annual consolidated financial statements.

Accounting Standards Issued But Not Yet Effective

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

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

For the three and six months ended May 31, 2016 and 2015 (in Canadian dollars)

4. Exploration and evaluation assets

	Balance November 30, 2015 $	Expenditures $	Balance May 31, 2016 $
Lofdal rare earths property	21,186,411	443,669	21,630,080

Lofdal rare earths property

The Lofdal rare earths property comprises an exclusive prospecting license ("EPL 3400") located approximately 450 kilometres northwest of the capital city of Windhoek and 25 kilometres northwest of the town of Khorixas in the Kunene Region of north-western Namibia. EPL 3400, which provides for mineral rights to base and rare metals, and precious metals, was originally granted in 2005. It was renewed by the Government of Namibia in November, 2014 and is in good standing until November, 2016. The property is subject to a 2% net smelter revenue royalty.

5. Capital stock

Authorized capital stock

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

Issued and outstanding

At May 31, 2016, there were 77,828,500 common shares issued and outstanding.

Stock option plan

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

The following table summarizes information about options outstanding at May 31, 2016:

Exercise price $	Options outstanding and exercisable	Expiry date	Remaining contractual life (in years)
0.72	1,300,000	June 12, 2016	0.03
0.56	359,000	November 2, 2016	0.42
0.41	200,000	February 23, 2017	0.73
0.20	2,405,000	November 25, 2019	3.49
0.17	25,000	April 30, 2020	3.92
	4,289,000		1.18

For the three and six months ended May 31, 2016 and 2015 (in Canadian dollars)

6. Capital Disclosures

The Company manages its capital to maintain adequate levels of funding to support the acquisition and exploration of mineral properties and to maintain the necessary corporate and administrative functions to facilitate these activities. The capital structure consists of working capital and equity. The Company raises capital, as necessary, to meet its needs and to take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. The Company invests all capital that is surplus to its immediate operational needs in highly liquid financial instruments such as high interest cash accounts. There were no changes to the Company's approach to capital management during the three months ended May 31, 2016. Total managed capital was as follows:

	May 31, 2016 $	November 30, 2015 $
Working capital	842,512	1,886,678
Equity	22,488,714	23,111,197

There are no externally imposed capital requirements.

7. Financial Instruments

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

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

Credit risk

The Company's credit risk is primarily attributable to cash. The Company's exposure to credit risk on its cash is limited by maintaining these assets in a high-interest savings account with a high-credit quality financial institution.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The company manages this risk through regular monitoring and adjustment of its cash flow requirements to support ongoing operations and to ensure, to the extent possible, that there is sufficient cash on hand to meet its liabilities when due. In the event the Company obtains the permits and necessary approvals to proceed with the development of the Lofdal property, it will require substantial additional capital resources and there can be no assurance that funding will be available to the Company in the future on acceptable terms (Note 1). Financial liabilities are due within one year.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as foreign exchange rates, interest rates and commodity prices.

Foreign exchange risk

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

At May 31, 2016, the Company had the following amounts denominated in the above currencies and converted to Canadian dollars: $48,784 in cash, $16,854 in deposits, $154,245 in taxes receivable, and $67,954 in accounts payable. A ten percent change in the exchange rates would impact the Company's working capital as follows:

	$
Namibia dollars and South African rand	20,000
All other currencies	1,000

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

Interest rate risk

In respect of financial assets, the Company's policy is to invest cash at floating rates of interest. Cash reserves are maintained in cash and cash equivalents to maintain liquidity while achieving a satisfactory return for shareholders. The impact of fluctuations in interest rates is not significant.

Commodity price risk

The Company's financial instruments are not exposed to any direct commodity price risk, as the Company does not have any financial instruments associated with commodity prices and currently has no revenues derived from mining operations. Fluctuation in commodity prices do however impact the overall viability of the Company as is common in the mineral exploration and mining industries.

8. Supplemental cash flow information

During the six months ended May 31, 2016, the Company made expenditures on exploration and evaluation assets of $47,574 which were recorded as a decrease in accounts payable (2015 - $52,258 increase in accounts payable) and $21,986 in amortization of equipment which was recorded to exploration and evaluation assets (2015 - $6,604). These items are non-cash transactions and have been excluded from the statements of cash flows.

9. Commitments

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

	$
November 30, 2016	42,900
August 31, 2017	64,350
	107,250

10. Segmented Reporting

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