CANADA RARE EARTHS INC.
(Formerly Canada Gas Corp.)
(An Exploration Stage Company)
MANAGEMENT DISCUSSION & ANALYSIS
For Three Month Period Ended April 30, 2012

(June 28, 2012)
GENERAL

The following management discussion and analysis ("MD&A") supplements the financial statements of the Company and the notes thereto for the period ended April 30, 2012. It does not form a part of the financial statements and therefore should be read in conjunction with the Financial Statement report for the period ended April 30, 2012 which discusses and analyses the financial condition and results of operations of Canada Rare Earths Inc. (the "Company"). All dollar figures are expressed in Canadian dollars unless otherwise stated. These documents and additional information on the Company are available on the Company's website at www.canadarareearths.com or on SEDAR at www.sedar.com.

This MD&A may contain forward-looking statements in respect of various matters including upcoming events. The results or events predicted in these forward-looking statements may differ materially from actual results or events. The Company disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Historical results of operations and trends that may be inferred from the following discussions and analysis may not necessarily indicate future results from operations.

DESCRIPTION OF BUSINESS

Canada Rare Earths Inc. (formerly Canada Gas Corp.) was incorporated under the *Company Act* of British Columbia on February 1, 1984. During the year ended January 31, 2011, the Company changed its principal business activity from the exploration for and operation of oil and gas properties, to the exploration and development of mineral exploration assets in Canada. The Company is listed on the TSX Venture Exchange in Canada (CJC), the Frankfurt Stock Exchange in Germany (YXEN), and OTC Bulletin Board in the United States (CJCFF).

On July 15, 2010, the Company disposed of producing Canadian oil and gas interests for total proceeds comprising of $300,000 in cash and $50,000 in marketable securities, resulting in a gain of $135,095. The decision to discontinue this operation was made due to low forecasted gas prices, relatively high operating costs, and the Company requiring working capital to pay critical past and present accounts payable. Subsequent to the disposal of the oil and gas interests, the operations and cash flows of the component have been eliminated from the ongoing operations of the Company; the Company will not have any continuing involvement in the operations of the component after the disposal transaction. In September 2010, all of the issued common shares and equity instruments of the Company were consolidated on the basis of three pre-consolidation common shares/equity instruments for one post-consolidation common share/equity instrument. As a result of the consolidation, all share and per-share information in the financial statements has been retrospectively restated to reflect the consolidation unless otherwise stated.

In September 2010, the Company was restructured, changing its principal business activity from the exploration for and operation of oil and gas properties, to the exploration and development of mineral exploration assets in Canada. As a part of this restructuring, the Company eliminated its liabilities to directors and officers pursuant to shares for debt arrangements, and initiated a share consolidation on the basis of three (3) old common shares for one (1) new common share resulting in 9,671,275 common shares outstanding after the consolidation. This resolution was approved by Shareholders at the Company's June 16, 2010 Annual and Special Meeting of the Shareholders.

On January 21, 2011, the Company received TSX Venture Exchange approval to enter into an option agreement to acquire a 100% interest in the Goeland Rare Earth Property (the "Goeland Project") located north of Val d'Or in the Abitibi region of Quebec. On March 1, 2011, the Company changed its name from Canada Gas Corp. to Canada Rare Earths Inc. by a resolution of the Directors to better reflect the Company's focus on the Goeland project and rare earth sector, and on September 15, 2011, the Company received TSX Venture Exchange approval to enter into an option agreement to acquire a 100% interest in the Manouane Rare Earth Property (the "Manouane Project") located west of the town of La Tuque, Quebec, approximately 250km southeast of Val d'Or.

DESCRIPTION OF BUSINESS (continued)

During the three months ended April 30, 2012, the Company recognized the opportunity to enter the growing Graphite market and acquired five graphite properties located within Quebec, Canada. The graphite market is more than 5 times the size of the rare earth market. Graphite has seen exponential increases in demand in conjunction with the growing dependency on technology (such as all clean air technology and lithium-ion batteries) and lack of supply in China.

The Company currently has the following non producing natural gas property:

1. 33.33% interest - Prophet River- Northeastern British Columbia

The Company has the following non producing rare earth mineral properties:

1. 100% interest - Goeland Rare Earth Project, Montviel Quebec
2. 100% interest – Manouane Rare Earth Property, La Tuque, Quebec

The Company has the following non-producing Graphite properties:

1. 100% interest – Labelle Graphite Project, Mont-Laurier, Quebec
2. 100% interest – Lac des Iles West Graphite Project, Mont-Laurier, Quebec
3. 100% interest – La Loutre Graphite Project, Mont-Laurier, Quebec
4. 100% interest – Champagne Graphite Property, Baie – Comeau, Quebec *(pending TSX.V approval)*
5. 100% interest – Tetepisca North Graphite Property, Baie-Comeau, Quebec

OVERALL PERFORMANCE

During the first quarter ended April 30, 2012 (“Q1-2013”), the Company completed a non-brokered private placement, generating gross proceeds of $700,000, and entered into a total of five option agreements relating to the acquisitions of the Company’s Graphite properties. The Company incurred a total of 267,127 in exploration expenses relating to the Goeland, Maouane, Lac des Iles West, Labelle and La Loutre properties.

The Company incurred a loss of $190,287 or $0.01 per share during Q1-2013 as compared to a loss of $413,823 or $0.04 per share during the quarter ended April 30, 2011 (“Q1-2012”), representing a decrease in loss of $223,536.

The change in loss was primarily due to the following:

- A decrease in share-based payments from $221,454 during Q1-2012 to $nil during Q1-2013 pursuant to the granting of incentive stock options to directors, officers and consultants during the previous year.

- A decrase in rent from $6,000 during Q1-2012 to $2,150 during Q1-2013. The decrease was primarily due to the Company sharing office space to additional tenants during Q1-2013, resulting in a decrease in rent for the Company.

The Company’s cash at April 30, 2012 totalled $325,478 compared to $197,584 at January 31, 2012.

The Company had an accumulated deficit, since inception, as of April 30, 2012 of $26,955,043 compared to $26,764,756 as of January 31, 2012 which has been funded primarily by the issuance of equity.

SELECTED ANNUAL INFORMATION

	IFRS **For the year ended January 31, 2012**	**IFRS** **For the year ended January 31, 2011**	**Canadian GAAP** **For the year ended January 31, 2010**
Total revenue	-	-	94,808
Loss before discontinued operations and other items:			
(i) total for the year	($1,750,739)	($404,275)	($346,730)
(ii) per share	($0.10)	($0.04)	($0.03)
(iii) per share fully diluted	($0.10)	($0.04)	($0.03)
Net Income or (loss):			
(i) total for the year	($1,795,359)	($268,358)	($205,904)
(ii) per share	($0.11)	($0.03)	($0.03)
(iii) per share fully diluted	($0.11)	($0.03)	($0.03)
Total assets	$2,956,750	$422,229	$333,752
Total long-term financial liabilities	$Nil	$Nil	$Nil
Cash dividends declared per-share	$Nil	$Nil	$Nil

RESULTS OF OPERATIONS

General Overview

During the first quarter ended April 30, 2012, the Company received all assays from its Phase I drill program on its Goeland Rare Earth Project. Although the Company had encountered and tested an intricate and dynamic rare earth bearing system throughout the widely spaced 13 hole drill program, after reviewing complete assay results, it was concluded that the program unfortunately did not achieve the requisite rare earth grade or consistency required to warrant further exploration at the current time; particularly given the dwindling rare earth market observed. Receipt of the complete assays was delayed more than usual due to various reasons out of the Company's control such as severe back logs and lengthy processing procedures at the assay labs. As a result of the unfavorable market conditions in the rare earth sector, and the insignificant assay results, the Company is evaluating further exploration plans on its rare earth projects, and has also introduced a new strategic direction, in the interests of maintaining and building shareholder value, directing its current focus around the growing demand of Graphite; a recently named critical element whose market is more than 5 times that of the rare earth market.

As of the date of this report, the Company has acquired a total of five graphite properties located within Quebec, Canada – Lac des Iles West, La Loutre, Labelle, Champagne, and Tetepisca North; all of which have obtained TSX.V approvals with the exception of the Champagne property. Canada Rare Earths intends to mount an aggressive exploration campaign on all properties with the initial focus on the Champagne, Lac des Iles West and La Loutre projects. To date, the Company has completed a 1,145 line km helicopter borne GPRTEM airborne survey on its Lac des Iles West and La Loutre properties, both of which have successfully revealed promising graphite targets. Please refer to subsequent events for further details.

Goeland Rare Earth Project

The Company entered into an option agreement, dated January 5, 2011, to acquire a 100% interest in the 2,585 hectare Goeland Project located 215 km north of Val d'Or in the Abitibi region of Quebec, which was approved by the TSX on January 21, 2011. To exercise its option, the Company must complete the following:

RESULTS OF OPERATIONS (continued)

Goeland Rare Earth Project (continued)

A Cash payment of $25,000 on signing (paid); and issuance of 2,500,000 common shares of the Company to optionors as follows:

(i) 1,000,000 common shares upon TSX-V approval (January 21, 2011, issued & valued at $150,000)
(ii) 500,000 common shares 12 months after TSX-V approval (issued & valued at $185,000);
(iii) 500,000 common shares 24 months after TSX-V approval (January 21, 2013); and
(iv) 500,000 common shares 36 months after TSX-V approval (January 21, 2014).

The Goeland Property consists of 47 mining claims within and adjacent to the Montviel Carbonatite Complex. Historic exploration at Montviel has revealed strong potential for rare earth element ("REE"), niobium and phosphate mineralization.

The Montviel Carbonatite Complex encompasses six main geological units: Pmtv 1 through 6. To date, almost all of the anomalous REE, niobium and phosphate values have been encountered within Pmtv 5, which is composed of ferrocarbonatite, apatite-bearing ferrocarbonatite, silicocarbonatite, and pyrrhotite-bearing calciocarbonatite.

The Goeland Property consists of two claim groups; one on the west side of the complex and one on the east side. The western group consists of 23 claims (1,265 hectares) and covers one of the two main areas within the complex underlain by unit Pmtv 5. The eastern claim group consists of 22 claims (1,210 hectares) and is covered with thick overburden.

The Goeland Property is easily accessible via a network of logging roads. The principal exploration target for the property is carbonatite hosted REE mineralization.

During the quarter ended April 30, 2012, the Company incurred $199,634 on exploration and development expenditures relating to assay expenses, negotiations with the Grand Council of the Crees (Eeyou Istchee)/The Cree Regional Authority and the Cree First Nation of Waswanipi, and the completion of its Phase I drill program on the highest priority targets on the Company's Western claims, consisting of 13 widely spaced drill holes through approximately 5,200 meters.

Manouane Rare Earth Project

On August 4, 2011, the Company entered into an option agreement with Benoit Moreau, VP Exploration of the Company, who resigned February 27, 2012, to acquire a 100% interest in the 6,955 hectare Manouane rare earth property, located west of the town La Tuque, Quebec, roughly 250 km southeast of Val d'Or, or 350 km south of Montviel, with excellent road access. The transaction is a related party transaction, as that term is defined in Multilateral Instrument 61-101, and is exempted from the valuation and minority shareholder approval requirements by sections 5.5(a) and 5.7(a) of MI 61-101 (the fair value of both the asset and the consideration paid are less than 25% of the Company's market capitalization).

To complete the non-arms length transaction, the Company has paid the vendor $7,500 upon signing of the letter of intent, and has issued 350,000 common shares of the Company with a deemed value of $0.45 per share upon TSX-V final approval (September 15, 2011). The vendor retains no royalty and there are no other royalties payable on the property. The Manouane property covers a zone of alkaline granite where nearby geochemical anomalies in yttrium, lanthanum and samarium are present. This association of REE's may be found in geological deposits that may also contain zirconium, caesium, neodymium and gadolinium. In 1966, Wynne-Edwards completed a large scale geological survey of the region on behalf of the Geological Survey of Canada and several outcrops were mapped on the property, consisting of alkaline granite similar in composition to the Strange Lake deposit (TSX-V: QRM). The most interesting reports were released by the Ministère des Ressources Naturelles et de la Faune du Québec in 1996 and 2009. They consisted of sediment geochemistry surveys that outlined REE anomalies

RESULTS OF OPERATIONS (continued)

Manouane Rare Earth Project (continued)

(Cerium, Europium, Lanthanum, Samarium, Yttrium with Thorium and Uranium) and combined Yttrium, Niobium, and Lanthanum anomalies. The Manouane Property is located in the central part of the Grenville Province and within the northeast limit of the Grenvillian metasedimentary central belt, a wide area dominated by metasediments.

During the period ended April 30, 2012, the Company incurred $7,157 on exploration and development expenditures relating to assay expenses. As of the date of this report, the Company does not have any immediate plans for the Manouane Project; however a systematic exploration program will be conducted when time and resources permit.

Lac des Isles West Graphite Project

On February 22, 2012, the Company entered into an option agreement to acquire a 100% interest in the Lac des Isles West property, which borders the western limit of Timcal's Lac des Isles Graphite Mine, close to Mont-Laurier, Quebec. This agreement received TSX-V approval on March 16, 2012.

To exercise its option, the Company must provide cash payments of $12,500 and issue 500,000 common shares as follows:

		Cash	Common shares
Upon signing (paid)	$	12,500	-
Upon TSX-V approval (issued)		-	300,000
6 months after TSX-V approval		-	200,000
	$	12,500	500,000

In addition to the above cash payments and common share issuances, the Company must issue a bonus in the form of common shares with a fair value of $1,000,000 or pay $1,000,000 upon commencement of production.

The optionor has not retained a NSR royalty on this property.

During the period ended April 30, 2012, the Company incurred $29,528 on exploration and development expenditures relating to the initial deposit for an airborne survey and $81,500 in acquisition costs, including the cash payment of $12,500 and the issuance of 300,000 common shares valued at $69,000.

La Loutre Graphite Project

On February 20, 2012, the Company entered into an option agreement to acquire a 100% interest in the La Loutre Graphite Project located approximately 117 km northwest of Montreal, Quebec, and consisting of contiguous claim blocks of totalling approximately 2,500 hectares. This agreement received TSX.V approval on March 16, 2012. To exercise its option, the Company must provide cash payments of $75,000 and issue 2,000,000 common shares as follows:

		Cash	Common shares
Upon signing (paid)	$	15,000	-
Upon TSX-V approval (paid and issued)		15,000	1,000,000
6 months after TSX-V approval		15,000	-
12 months after TSX-V approval		15,000	500,000
18 months after TSX-V approval		15,000	500,000
	$	75,000	2,000,000

RESULTS OF OPERATIONS (continued)

La Loutre Graphite Project (continued)

In addition to the above cash payments and share issuances, the Company must complete a minimum of $100,000 of exploration within one year from the date of TSX.V approval. The optionor has retained a 1.5% NSR royalty on the value of mineral produced and delivered to the property. The Company has the option to purchase 0.5% of this NSR royalty for $500,000.

During the period ended April 30, 2012, the Company incurred $30,168 on exploration and development expenditures relating to the initial deposit for an airborne survey and $260,000 in acquisition costs, including cash payments of $30,000 and the issuance of 1,000,000 common shares valued at $230,000.

Labelle Graphite Project

On February 20, 2012, the Company entered into an option agreement to acquire a 100% interest in the Labelle Graphite Property located approximately 114km northwest of Montreal, Quebec. The property totals approximately 680 contiguous hectares situated approximately 67 km east of Timcal's Lac des Iles Graphite Mine. The Labelle property was originally explored and exploited in the 1950's, with a main graphite zone identified by trenching, with a historically indicated variable grade between 8-15% Graphite with local grades up to 30% Graphite. This agreement received TSX.V approval on March 16, 2012. To exercise its option, the Company must provide cash payments of $45,000 and issue 500,000 common shares as follows:

		Cash	Common shares
Upon signing (paid)	$	15,000	-
Upon TSX-V approval (paid and issued)		15,000	250,000
12 months after TSX-V approval		15,000	250,000
	$	45,000	500,000

In addition to the above cash payments and common share issuances, the Company must complete a minimum of $50,000 of exploration work within one year from the date of TSX.V approval. The optionor has retained a 1.5% NSR royalty on the value of mineral produced and delivered from the property. The Company has the option to purchase 0.5% of this NSR royalty for $500,000.

During the period ended April 30, 2012, the Company incurred $640 on exploration and development expenditures relating to geological consulting, and $87,500 in acquisition costs including cash payments of $30,000 and the issuance of 250,000 common shares valued at $57,500.

Champagne Graphite Project

On April 17, 2012, the Company entered into an option agreement, subject to TSX.V approval, to acquire a 100% interest in the drill-ready Champagne Graphite Property located approximately 120 km north of Baie-Comeau, Quebec. The Champagne Property consists of one contiguous block of 88 mineral claims totaling approximately 4,870 hectares. The Company has identified several high-priority drill targets, which have been identified as hosting graphite mineralization, through analysis of an airborne survey and ground exploration conducted on the property in 1998. The property features excellent logistics with nearby power and road access via the main lumber haul road which originates in Baie-Comeau and Labrieville leading to numerous tertiary/forest roads that transect the property.

To exercise its option, the Company must provide cash payments of $405,000 and issue 6,000,000 common shares as follows:

RESULTS OF OPERATIONS (continued)

Champagne Graphite Project (continued)

		Cash	Common shares
Upon signing (paid)	$	60,000	-
Upon TSX-V approval		60,000	3,000,000
Upon closing of financing for this project (maximum six months)		150,000	-
6 months after TSX-V approval		-	750,000
12 months after TSX-V approval		45,000	750,000
18 months after TSX-V approval		45,000	750,000
24 months after TSX-V approval		45,000	750,000
	$	405,000	6,000,000

In addition to the above cash payments and common share issuances, the Company must, if a NI 43-101 report indicates a resource estimate greater than 200,000 tonnes, pay $150,000 and issue 3,000,000 common shares. The Company must also complete a minimum of $500,000, $1,000,000, and $1,500,000 of exploration work within 18 months, between 18 and 24 months, and between 24 and 36 months respectively, of TSX.V approval. The optionor has retained a 2% NSR royalty on the value of mineral produced and delivered from the property. The Company has the option to purchase 1% of this NSR royalty for $1,000,000.

During the period ended April 30, 2012, the Company incurred $60,000 in acquisition costs.

Tetepisca North Graphite Project

On April 17, 2012, the Company entered into an option agreement, which was approved by the TSX.V on May 25, 2012 (see subsequent events), to acquire a 100% interest in the Tetepisca North Graphite Property located approximately 215 km north of Baie-Comeau, Quebec, and totalling approximately 2,142 hectares. To exercise its option, the Company must provide cash payments of $25,000 and issue 500,000 common shares as follows:

		Cash	Common shares
Upon TSX-V approval	$	25,000	-
Upon TSX-V approval		-	250,000
12 months after TSX-V approval		-	250,000
	$	25,000	500,000

In addition to the above cash payments and common share issuances, the Company must, if a NI 43-101 report indicates a resource estimate greater than 5,000,000 tonnes or if the Company commences production, issue 1,000,000 common shares. The Company must also complete a minimum of $75,000 of exploration work within 18 months of TSX.V approval. The optionor has retained a 1.5% NS royalty on the value of mineral produced and delivered from the property. The Company has the option to purchase 0.5% of this NSR royalty for $250,000.

RESULTS OF OPERATIONS (continued)

Trutch Area (Sold July 15, 2010)

The Company received shareholder approval at its Annual and Special Meeting of the Shareholders on June 16, 2010 and TSX Venture Exchange approval on July 26, 2010 and closed the sale of its Trutch Area property and pipelines to Hemisphere Energy Corporation ("Hemisphere"). The June 21, 2010 Purchase and Sale Agreement (the "Agreement") between the Company and Hemisphere entitled Hemisphere to 100% title and interest in the Company's ownership in various Trutch Area assets effective June 1, 2010. As consideration, Hemisphere paid the Company an aggregate of $350,000 comprised of $300,000 cash and 214,225 common shares of Hemisphere with a deemed value of $50,000. As at April 30, 2011, these common shares have a fair market value of $24,049 (2010 - $Nil). The Company recorded a gain of $135,095 during the year ended January 31, 2011 as a result of this disposition. As shown in the comparative statements for the year ended January 31, 2012, and as a result of the letter of intent being signed on April 27, 2010, the Company wrote up the property and reversed a portion of the impairment.

SUMMARY OF QUARTERLY RESULTS

	IFRS **4th** **Quarter Ended** **January 31, 2013**	**IFRS** **3rd** **Quarter Ended** **October 31, 2012**	**IFRS** **2nd** **Quarter Ended** **July 31, 2012**	**IFRS** **1st** **Quarter Ended** **April 30, 2012**
(a) Revenue	**n/a**	**n/a**	**n/a**	**Nil**
(b) Earnings (loss) for period	**n/a**	**n/a**	**n/a**	**(190,287)**
(c) Earnings (loss) per share	**n/a**	**n/a**	**n/a**	**($0.01)**
	IFRS **4th** **Quarter Ended** **January 31, 2012**	**IFRS** **3rd** **Quarter Ended** **October 31, 2011**	**IFRS** **2nd** **Quarter Ended** **July 31, 2011**	**IFRS** **1st** **Quarter Ended** **April 30, 2011**
(a) Revenue	Nil	Nil	Nil	Nil
(b) Earnings (loss) for period	(893,264)	(253,423)	(234,849)	(413,823)
(c) Earnings (loss) per share	($0.02)	($0.02)	($0.02)	($0.04)

LIQUIDITY AND CAPITAL RESOURCES

As at April 30, 2012, the Company reported working capital of $368,723. Net increase in cash for the period ended April 30, 2012 was $127,894 leaving cash on hand in the amount of $325,478.

Current assets excluding cash at April 30, 2012 consist of amounts receivable of $683,202, and prepaid expenses of $10,000.

Current liabilities as at April 30, 2012 consist of accounts payable and accrued liabilities of $649,957.

During the first quarter ended April 30, 2012, the Company filed for the Quebec Mineral Exploration Credit in the amount of $751,672, of which $525,000 is included in amounts receivable as at April 30, 2012. The eligibility of these expenditures is subject to review and interpretation by the government agencies. The Company is actively pursuing financing options to finance a portion of this refund which will assist in bridging the remainder of payables outstanding as of the date of this report.

LIQUIDITY AND CAPITAL RESOURCES (continued)

The significant increase in payables, which is largely offset by the receivables from HST, Quebec sales tax, and the Quebec mineral exploration refund, is primarily due to the Vancouver head office not receiving exploration invoices originating in Quebec in a timely manner, or within the allotted budget as per management's intentions. In the interest of maintaining proper controls, and given that the vast majority of all invoices relating to exploration work were provided in French, the Company implemented a system where all invoices must have pre-approval by the Quebec-based Officer of the Company, (who resigned February 27, 2012) who oversaw and directly managed the exploration program onsite, before payment was issued through the Vancouver head office. Despite management's efforts at the Vancouver head office, a significant amount of these invoices came in over budget and were considerably delayed in reaching the Vancouver office, which contributed to the increase in payables in Q1-2013.

During the period ended April 30, 2012, the Company generated gross proceeds of $7,000,000 from the following activities:

(a) On April 13, 2012, the Company closed a non-brokered private placement by issuing 7,000,000 units at $0.10 per unit for gross proceeds of $700,000. Each unit is comprised of one common share and one non-transferable share purchase warrant exercisable at $0.20 for a period of 24 months from the date of closing. Finder's fees of $32,375 and 308,000 finder's warrants were paid and issued to qualified parties. The finder's warrants are exercisable at $0.20 per share for a period of 24 months from the date of closing. Proceeds from the private placement will be used to advance the Company's graphite projects and for general working capital.

On April 30, 2010, the Company entered into a Convertible Loan Agreement (the "Loan Agreement") with a related party (the "Lender") of the Company. The short term loan matured on October 31, 2010 ("Maturity Date"). As consideration, the Company issued 133,333 common shares with a deemed value of $20,000 to the Lender. Anytime after the Maturity Date, the Lender has the option to convert the outstanding principal to Units at $0.15 per Unit. The proceeds from the loan were used to pay crucial outstanding liabilities to allow the Company to continue to meet its listing obligations including legal and audit fees. The Company received TSX-V approval for the Convertible Loan Agreement on June 7, 2010. On January 12, 2011, the Lender exercised its option to convert the outstanding loan into units, and forgave the interest payable by the Company. As a result, the loan of $100,000 was extinguished in exchange for 666,667 shares at a deemed price of $0.15 per share and 666,667 share purchase warrants exercisable for three years at a price of $0.30 per warrant.

The Company received shareholder approval at its Annual and Special Meeting of the Shareholders on June 16, 2010 and TSX Venture Exchange approval on July 26, 2010 and closed the sale of its Trutch Area property and pipelines to Hemisphere. Hemisphere paid the Company an aggregate of $350,000 comprised of $300,000 cash and 214,225 common shares of Hemisphere with a deemed value of $50,000. The Company recorded a gain of $135,095 during the three months ended July 31, 2010 as a result of this disposition. As shown in the comparative financial statements for the three months ended April 30, 2011, and as a result of the letter of intent being signed on April 27, 2010, the Company wrote up the property and reversed a portion of the impairment.

On July 21, 2010, the Company received TSX Venture Exchange approval and closed shares for debt arrangements with directors, officers and a company controlled by directors and officers and reduced outstanding accounts payable by $164,115 by issuing 1,094,101 common shares with a deemed value of $0.15 per share. In addition to the shares for debt arrangements, directors and officers of the Company have forgiven $60,192 of outstanding accounts payable owed by the Company for past management fees.

OFF - BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

Related party transactions for the period ended April 30, 2012 are as follows:

(a) The Company was reimbursed $18,398 (2011 - $nil) for rent from companies controlled by common directors and officers of the Company for use of shared office space. As at April 30, 2012, the Company has an outstanding balance of $nil (January 31, 2012 - $5,588) receivable from these companies.

The remuneration of directors and other members of key management personnel during the periods ended April 30, 2012 and 2011 were as follows:

		2012		2011
Management and accounting fees	$	51,000	$	40,750
Share-based payments*		35,843		-
	$	86,843	$	40,750

* Share-based payments are the fair value of stock options vested to key management personnel.

All of the above transactions and balances are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

FIRST QUARTER

During the first quarter ended, April 30, 2012, the following significant transactions occurred:

(a) On February 27, 2012, the VP Exploration of the Company resigned, resulting in an aggregate of 400,000 incentive stock options having an early expiration date of April 30, 2012;

(b) On April 13, 2012, the Company closed a non-brokered private placement by issuing 7,000,000 units at $0.10 per unit for gross proceeds of $700,000. Each unit is comprised of one common share and one non-transferable share purchase warrant exercisable at $0.20 for a period of 24 months from the date of closing. Finder's fees of $32,375 and 308,000 finder's warrants were paid and issued to qualified parties. The finder's warrants are exercisable at $0.20 per share for a period of 24 months from the date of closing. Proceeds from the private placement will be used to advance the Company's graphite projects and for general working capital.

(c) Effective April 30, 2012, 400,000 incentive stock options were cancelled pursuant to mutual agreement between the Company and the holder, Sun Tzu Ventures Inc., a company wholly owned by David McMillan, Chairman and Director of the Company. The stock options were originally granted on August 15, 2011 having an exercise price of $0.50 per share.

(d) The Company entered into a total of five option agreements to acquire Graphite properties located within Quebec, Canada. As of the date of this report, four of these properties have received TSX.V approval. Please refer to Note 5 of the financial statements for further details.

For the three months ended April 30, 2012, total general and administrative expense for the period was $191,292 (2011 - $426,582). The decrease in expenses from Q1-2012 as compared to Q1-2013 is primarily due to the recognition of stock-based payments during the period Q1-2012.

FIRST QUARTER (continued)

Table 1. General and Administrative Expenses Summary

	Three Month Ended April 30, 2012	Three Month Ended April 30, 2011
Accounting, audit and legal fees	$ 21,700	$ 23,436
Consulting Fees	14,555	28,373
Interest and bank charges	516	692
Insurance	7,265	6,300
Investor relations and communications	47,846	54,821
Management fees	40,500	32,000
Office and administrative	14,358	6,811
Rent	2,150	6,000
Share-based payments	-	221,454
Transfer agent, listing and filing fees	17,793	28,180
Travel and entertainment	24,609	18,515
Total Administrative Expenses	**$ 191,292**	**$ 426,582**

SUBSEQUENT EVENTS

Subsequent to April 30, 2012, the following transactions and events occurred:

(a) On May 25, 2012, the Company received TSX.V approval on its Tetepisca North Graphite Property acquisition, and issued 250,000 common shares valued at $28,750 and $10,000 cash payment;

(b) On May 31, 2012, 175,000 incentive stock options granted on June 1, 2011 at $0.45 expired; and

(c) On June 20, 2012, the Company announced that, through a 1,145 line km helicopter borne GPRTEM airborne survey completed on its Lac des Iles West and La Loutre Graphite properties, it successfully identified electromagnetic anomalies on both projects. At Lac des Iles West, the airborne survey revealed an 8km long by 400m wide anomalous electromagnetic trend along with numerous interpreted NNW coincident structures immediately west of Timcal's Lac des Iles Graphite Mine. A comprehensive field program to verify the EM anomalies will be undertaken shortly.

At La Loutre, a geological team recently completed a detailed mapping and sampling program which discovered multiple showings of graphite contained in paragneiss and marble and exposed at surface. Samples from these showings were visually estimated to contain up to 30% graphite. Visible flake graphite was also widely reported. All surface samples have been sent to a lab for further analysis, and the results are anticipated within the next few weeks. Meanwhile, the La Loutre airborne survey revealed a strong electromagnetic trend over 10 kilometers long and up to 1 kilometer wide which is also coincident with these surface showings, confirming that the electromagnetic anomaly is certainly associated with graphite where these outcrops were discovered, but equally that this electromagnetic anomaly is also likely suggesting the potential for a much larger graphite bearing system where it is covered by overburden as well.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates 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 reporting period. Significant areas requiring the use of management estimates include recoverability of exploration and evaluation assets and property and equipment, the determination of accrued liabilities, accrued site remediation, rates for amortization and depletion the recoverability of amounts receivable, the variables used in the determination of the fair value of stock options granted and warrants issued and the determination of the recoverability of deferred tax assets. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

As at April 30, 2012, the Company's financial instruments include cash, amounts receivable, prepaid expenses, and accounts payable.

The Company has designated its cash and marketable securities as fair value through income or loss; amounts receivable, as loans and receivables; and accounts payable and accrued liabilities, as other financial liabilities.

The Company has filed for tax credits relating to mineral exploration expenditures with two government agencies in the province of Quebec. The aggregate amount filed is for $751,672, of which the Company has accrued $525,000 as a receivable. The eligibility of these expenditures is subject to review and interpretation by the government agencies. Any adjustment to the actual amounts received will be adjusted in future periods when the actual amounts are determined.

Management of capital risk

The Company's objectives when managing capital are: (i) to ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans; (ii) to minimize the cost of capital while taking into consideration current and future industry, market, and economic risks and conditions; and (iii) safeguard the Company's ability to continue as a going concern in order to pursue the development of its evaluation and exploration assets and to maintain flexible capital structure, which optimizes the costs of capital at an acceptable rate.

The Company considers capital to include shareholders' equity, which at April 30, 2012, is $3,157,000.

There are no externally imposed capital requirements. The Company manages the capital structure and makes adjustments to it depending on economic conditions and the rate of anticipated expenditures. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets, or adjust the amount of cash and investments. At the present time, the only capital requirements are to satisfy the current liabilities. There were no changes in the Company's approach to capital management during the year.

Fair value

The carrying amount of financial assets and liabilities carried at amortized cost is a reasonable approximation of fair value.

Credit risk

The Company is exposed to credit risk with respect to its cash and amounts receivable. The credit risk associated with cash is minimal as cash has been placed with major Canadian financial institutions with strong investment-grade ratings by a primary ratings agency. The Company is not exposed to significant credit risk with respect to amounts receivable, as $679,840 of the amount is due from government agencies.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS (continued)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company has cash and amounts receivable at April 30, 2012, in the amounts of $325,478 and $683,202, respectively, which is sufficient to meet its short-term business requirements. At April 30, 2012, the Company had accounts payable and accrued liabilities of $649,957 with contractual maturities of 90 days or less.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: interest rate, foreign currency and other price risk.

(a) Interest rate risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and liabilities.

(b) Foreign currency risk

The Company is not exposed to significant foreign currency risk.

(c) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to other price risk.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises were required to adopt IFRS for fiscal years beginning on or after January 1, 2011. Accordingly, the Company has transitioned from GAAP reporting and commenced reporting under IFRS effective the quarter ended April 30, 2011, with restatement of comparative information presented. The conversion to IFRS from GAAP has not affected the Company’s internal control over financial reporting and disclosure controls and procedures, but has affected and the Company’s accounting policies, the Company’s opening statement of financial position at the Transition Date, the statement of financial position as at January 31, 2011, and the statement of comprehensive loss for the three month period ended April 30, 2010.

The Company retained an independent IFRS specialist to assist with the initial conversion for the first quarter ended April 30, 2011. In preparing the opening IFRS consolidated statement of financial position, the Company has reviewed the amounts reported previously in financial statements of the Company that were prepared in accordance with Canadian GAAP and determined that no adjustments were required.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") (continued)

The guidance for first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. The Company elected the following exemptions on first-time adoption of IFRS:

- to apply the requirements of IFRS 2, Share-based payments, only to equity instruments granted after November 7, 2002 which had not vested as of the Transition Date; and
- to apply the requirements of IAS 23, Borrowing Costs, as of the Transition Date.
- to apply the requirements of IFRS 3, Business Combinations, prospectively from the Transition Date.

The Company's conversion plan to IFRS consisted of four primary stages including planning, assessment, design and implementation with periodic meetings with the Audit Committee to report progress and findings. The Company has completed the conversion plan and will be reporting in accordance with IFRS going forward. This will include ongoing monitoring of changes in IFRS, the potential or probable effects of which will be evaluated and disclosed as applicable.

Please see notes 2, 3, and 13 of the financial statements for further details.

PROPOSED TRANSACTIONS

The Company does not have any proposed transactions.

CORPORATE INTERNAL CONTROLS

The Company practices strict internal controls through proper segregation of responsibilities and internal reporting of its personnel. Agreements and commitments that involve cash and/or share capital distribution such as private placements, stock option grants, property, service, and consulting agreements require Board of Directors approval through Directors' Resolutions. The Company's business development budgets are planned and approved by the Company's President & CEO and Board of Directors. All cash distribution requires the Company's Executive Chairman, President & CEO, and/or CFO approval to ensure that all expenses are accurate and aligned with the Company's budget. Approved share capital distribution is executed through treasury orders that require final approval from the Company's Executive Chairman or President & CEO, and one authorized director or officer. These internal control procedures are established and strictly practiced to ensure the Company's goals and best interest are effectively carried out.

Management is also responsible for the design of internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles and IFRS. Management believes the design is sufficient and appropriate to provide such reasonable assurance.

CORPORATE ACTIVTIES

The officers and directors as at the date of this report are as follows:

Chad McMillan*	President, CEO
David McMillan*	Chairman of the Board, Audit Committee Member
Robert Krause**	Audit Committee Member
Harold Forzley**	Audit Committee Member
Kelsey Chin	CFO, Corporate Secretary

**Director*
***Independent Director*

OTHER REQUIREMENTS

a) Disclosure Controls and Procedures

The Company's management, with participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures. Based on this assessment, the Chief Executive Officer and Chief Financial Officer have concluded that as of the end of the period covered under this report, the Company's disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company in reports it files is recorded, processed, summarized and reported, within the appropriate time periods and is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

b) Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with IFRS. However, due to inherent limitations, internal control over financial reporting may not prevent or detect all misstatements and fraud. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The financial reporting changes that resulted from the application of IFRS accounting policies, which were first implemented during the three months ended April 30, 2011, has not materially affected, or is not reasonably likely to materially affect, the Company's internal control over financial reporting.

SUMMARY OF OUTSTANDING SHARE DATA AS OF June 28, 2012:

a. Authorized: Unlimited common shares without par value

Issued and outstanding: 27,199,868 common shares

b. Stock options

Options outstanding as of June 28, 2012:

575,000	@ $0.22	January 10, 2016
200,000	@ $0.30	January 25, 2016
100,000	@ $0.72	February 25, 2016
125,000	@ $0.66	April 19, 2016
175,000	@ $0.50	August 15, 2016
725,000	@ $0.50	August 15, 2016
1,900,000		

c. Warrants

Warrants outstanding as of June 28, 2012:

666,667	@ $0.30	January 10, 2014
1,110,833	@ $0.25	February 2, 2013
7,308,000	@ $0.20	April 13, 2014
1,740,564	@ $0.90	March 21, 2013
10,826,064		

Additional disclosures pertaining to the Company's management information circulars, material change reports, press releases and other information are available on the SEDAR website at www.sedar.com.

The shareholders will be kept informed of any material changes.

"Chad McMillan"

President & CEO
Canada Rare Earths Inc.
June 28, 2012