

CANADA RARE EARTHS INC.
(Formerly Canada Gas Corp.)
(An Exploration Stage Company)
MANAGEMENT DISCUSSION & ANALYSIS
For The Nine Month Period Ended October 31, 2011

(December 16, 2011)
GENERAL

The following management discussion and analysis (“MD&A”) supplements the consolidated financial statements of the Company and the notes thereto for the nine month period ended October 31, 2011. It does not form a part of the financial statements and therefore should be read in conjunction with the Financial Statement report for the nine month period ended October 31, 2011 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. 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.

During fiscal 2011, 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.

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

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OVERALL PERFORMANCE

During the nine months ended October 31, 2011 ("Q3-2011"), the Company continued to advance its Goeland Project, incurring \$675,502 in exploration expenses, and pursuant to the acquisition of the Manouane Project, incurred \$271,369 in acquisition and exploration expenses.

The Company incurred a loss of \$902,095 or \$0.06 per share during Q3-2011 as compared to income of \$497 or \$0.001 per share during the third quarter ended October 31, 2010 ("Q3-2010"), representing an increase in loss of \$902,592.

The change in loss was primarily due to the following:

- An increase in investor relations fees from \$Nil during Q3-2010 to \$166,000 during Q3-2011 as the Company increased its activity significantly with the acquisition and exploration of the Goeland Project, and retained independent investor relations consultants and traveled to and attended various trade shows and conferences as a reflection.
- An increase in transfer agent, listing, and filing fees of from \$25,425 during Q3-2010 to \$43,133 during Q3-2011. The increase was primarily due to filing fees related to the closing of two non-brokered private placements, and the acquisition of the Manouane Project during the nine months ended October 31, 2011.
- An increase in management fees from \$23,692 recovered during Q3-2010 to \$93,000 during Q3-2011, as a result of the Company's increase in activity and acquisition of the Goeland Project. During Q3-2010, the Company recovered \$23,692 in management fees which directors and officers had forgiven for past management fees.
- An increase in stock based compensation from \$Nil during Q3-2010 to \$221,454 during Q3-2011 pursuant to the granting of incentive stock options to directors, officers and consultants during the period.
- An increase in office and administrative expenses from \$6,933 during Q3-2010 to \$148,914 during Q3-2011. The increase was primarily due to the Company securing a new shared office location which underwent improvements.
- An increase in consulting fees from \$47,431 during Q3-2010 to \$78,724 during Q3-2011, as a result of increased activity in the Company during the current quarter as compared to last year's, resulting in the retention of additional consultants required to meet the Company's needs.
- During Q2-2010, a gain was recorded in the amount of \$134,398 due to the disposition of the Company's gas property, which resulted in the Company recognizing net income of \$497 during Q2-2010.

The Company's cash at October 31, 2011 totalled \$1,020,529 compared to \$96,503 at January 31, 2011.

The Company had an accumulated deficit, since inception, as of October 31, 2011 of \$25,790,520 compared to \$24,888,425 as of January 31, 2011 which has been funded primarily by the issuance of equity.

During the last fiscal year ended January 31, 2011, 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. For further information on the settlement of the Company's liabilities with directors and officer, refer to note 9(c - g) of the financial statements.

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SELECTED ANNUAL INFORMATION

	IFRS For the year ended January 31, 2011	Canadian GAAP For the year ended January 31, 2010	Canadian GAAP For the year ended January 31, 2009
Total revenue	-	94,808	264,853
Gain (Loss) before discontinued operations and extraordinary items:			
(i) total for the year	(\$426,582)	(\$346,730)	(\$1,151,898)
(ii) per share	(\$0.04)	(\$0.03)	(\$0.08)
(iii) per share fully diluted	(\$0.04)	(\$0.03)	(\$0.08)
Net Income or (loss):			
(i) total for the year	(\$413,823)	(\$205,904)	(\$1,570,644)
(ii) per share	(\$0.04)	(\$0.03)	(\$0.08)
(iii) per share fully diluted	(\$0.04)	(\$0.03)	(\$0.08)
Total assets	\$2,583,942	\$333,752	\$440,084
Total long-term financial liabilities	Nil	Nil	Nil
Cash dividends declared per-share	Nil	Nil	Nil

RESULTS OF OPERATIONS

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:

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 and valued at \$150,000)
- (ii) 500,000 common shares 12 months after TSX-V approval (January 21, 2012);
- (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 ferrocarnatite, apatite-bearing ferrocarnatite, silicocarnatite, and pyrrhotite-bearing calcicocarnatite.

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.

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RESULTS OF OPERATIONS (continued)

Goeland Rare Earth Project

During the nine months ended October 31, 2011, the Company incurred \$675,502 on exploration and development expenditures. During the third quarter ended October 31, 2011, the Company has completed a detailed structural study, a magnetic airborne survey, completed requisite drill and environmental permitting, and commenced its Phase I drill program in late August 2011 on the highest priority targets on the Company's Western claims.

As of the date of this report, the Company has completed 10 drill holes of approximately 4,050 meters, with the 11th hole currently being drilled and two additional holes now planned. Nearly 3,400 samples have been shipped to the laboratory for assays, which the Company will release as appropriate as the assays are received. Throughout the course of drilling, the Company has successfully intersected a combination of several alteration zones, carbonatite, and syenite. In the fourth hole drilled, rare earth bearing bastnasite was confirmed through qualitative analysis by the UQAM laboratory in Montreal, which visually appears to be present in many other holes as well. The extent of the possible bastnasite mineralization will be confirmed upon receipt of assays. The Company anticipates that the Phase I drill program will complete 13 drill targets with all core logged, split and sent to the assay lab by December 23, 2011.

Manouane Rare Earth Project

On August 4, 2011, the Company entered into an option agreement with Benoit Moreau, VP Exploration of the Company, 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 \$0.53 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 (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 three months ended October 31, 2011, the Company incurred \$271,369 on acquisition and exploration expenditures. As of the date of this report, the Company has completed a magnetic airborne survey, remote sensing study and sampling and analysis on the Manouane Project. Samples are currently in the assay lab, and upon receipt of the results, the Company will assess its plans for its Phase I drill program.

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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 three months ended July 31, 2010 as a result of this disposition. As shown in the comparative statements for the three months ended April 30, 2010, 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.

Prophet River

On January 31, 2008, the Company purchased 33.33% of the Prophet River property which included 19 square mile surface to basement and 2 square miles base of debolt to basement. This 33.33% working interest is subject to a non-convertible 2.5% overriding royalty to the 100% working interest. This area has been subsequently reduced to 11 square miles to the base of the Sulphur Point, Keg River Horizon. The Company acquired 33.33% of the Prophet River 3-D seismic program, including data, related interpretation, and full trading rights for \$716,667 to date. The terms of the acquisition include a sublicense of the data without trading rights to the contract operator.

During the year ended January 31, 2009, the Company engaged Sproule Associates Ltd., Independent Qualified Reserves Evaluator in Calgary to perform an independent exploration and development review of the Prophet River property, specifically related to the seismic and D-60-E/94-G-15 well log interpretation. As a result of this analysis, the Company plans to conduct additional testing on the D-60-E/94-G-15 well in the future dependent upon economics and the Company’s ability to finance.

Oil and Gas Properties Summary

The disposition of the Trutch Area property was effective June 1, 2010, revenues of all four producing wells ended May 31, 2010. Net revenues up to May 31, 2010 was \$25,435 (2009 - \$61,634), direct expenses including operating expenses \$32,141 (2009 - \$34,861), and depletion and accretion expenses \$9,091 (2009 - \$11,743) resulting in a net loss of \$15,797 (2009 – net gain \$8,818). Total production volume for the period was 6,187 MCF (2009 – 15,571 MCF), equivalent to 51.56 MCF per day (2009 – 58.98 MCF per day). The weighted average natural gas price received was \$3.97 per GJ (2009 - \$3.40 per GJ).

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SUMMARY OF QUARTERLY RESULTS

	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	n/a	n/a	n/a	Nil
(b) Earnings (loss) for period	n/a	(253,423)	(234,849)	(413,823)
(c) Earnings (loss) per share	n/a	(\$0.02)	(\$0.02)	(\$0.04)
	IFRS 4th Quarter Ended January 31, 2011	IFRS 3rd Quarter Ended October 31, 2010	IFRS 2nd Quarter Ended July 31, 2010	IFRS 1st Quarter Ended April 30, 2010
(a) Revenue	Nil	Nil	3,502	-
(b) Earnings (loss) for period	(\$187,884)	(\$34,650)	(\$40,899)	76,742
(c) Earnings (loss) per share	(\$0.002)	(\$0.003)	(\$0.004)	\$0.002
	Canadian GAAP 4th Quarter Ended January 31, 2010	Canadian GAAP 3rd Quarter Ended October 31, 2009	Canadian GAAP 2nd Quarter Ended July 31, 2009	Canadian GAAP 1st Quarter Ended April 30, 2009
(a) Revenue	38,358	26,780	22,646	31,989
(b) Earnings (loss) for period	(\$47,981)	(\$61,281)	(\$55,602)	(\$41,040)
(c) Earnings (loss) per share	(\$0.002)	(\$0.002)	(\$0.003)	(\$0.002)

LIQUIDITY AND CAPITAL RESOURCES

As at October 31, 2011, the Company reported working capital of \$1,159,819. Net increase in cash for the nine months ended October 31, 2011 was \$924,027 leaving cash on hand in the amount of \$1,020,529.

Current assets excluding cash at October 31, 2011 consist of amounts receivable of \$116,739, prepaid expenses of \$10,000, and marketable securities of \$26,800.

Current liabilities as at October 31, 2011 consist of accounts payable and accrued liabilities of \$14,249.

The Company's planned activities for the current fiscal yearend anticipate further exploration and development expenditures, which the Company has sufficient resources to fund. During the nine month period ended October 31, 2011, the Company generated gross proceeds of \$2,751,986 from its financing activities:

- (a) On February 2, 2011, the Company closed a private placement by issuing 1,833,330 non-flow through units at \$0.15 per unit for gross proceeds of \$275,000. Each unit is comprised of one common share and one share purchase warrant exercisable at \$0.25 for a period of 24 months from the closing date.
- (b) On March 28, 2011, the Company closed a private placement by issuing 3,481,130 non-flow through units at \$0.65 per unit for gross proceeds of \$2,262,735 with finder's fees paid of \$131,507. Each unit is comprised of one common share and one half of one share purchase warrant exercisable at \$0.90 per share for a period of 24 months from the closing date.
- (c) During the nine months ended October 31, 2011, the Company disposed of 138,725 common shares of Hemisphere Energy Corp. for gross proceeds of \$55,834, resulting in a realized gain of \$12,829.

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LIQUIDITY AND CAPITAL RESOURCES (continued)

- (d) During the nine months ended October 31, 2011, a total of 567,665 warrants were exercised at a price of \$0.25 per share, generating aggregate proceeds of \$141,917; and 75,000 incentive stock options were exercised at a price of \$0.22, generating aggregate proceeds of \$16,500.

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.

Included in marketable securities as at October 31, 2011, are 40,000 common shares of Hemisphere having a fair market value of \$26,800 (2010 - \$Nil).

OFF - BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS

Related party transactions for the nine month period ended October 31, 2011 are as follows:

- (a) \$29,750 (2010 - \$21,079) for accounting fees payable to a company controlled by an officer of the Company; and
- (b) \$93,000 (2010 – recovered \$23,692) for management fees payable to companies controlled by directors and/or officers of the Company for management services.

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.

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THIRD QUARTER

During the third quarter ended, October 31, 2011, the following significant transactions occurred:

- (a) The Company disposed of 10,000 common shares of Hemisphere Energy Corp. for gross proceeds of \$6,585, resulting in a realized gain of \$3,485.
- (b) During the three months ended October 31, 2011, a total of 121,999 warrants were exercised at a price of \$0.25 per share, generating aggregate proceeds of \$30,500.
- (c) During the three months ended October 31, 2011, a total of 75,000 incentive stock options were exercised at a price of \$0.22 per share, generating aggregate proceeds of \$16,500.
- (d) On August 4, 2011, the Company entered into a letter of intent to acquire a 100% interest in the 6,955 hectare Manouane rare earth property located west of the town of La Tuque, Quebec, roughly 250 kilometers southeast of Val D'or. To acquire a 100% interest, the Company has paid the vendor \$7,500 upon signing and 350,000 common shares of the Company upon TSX Exchange approval. The vendor will retain no royalty and there are no other royalties payable on the property. On September 15, 2011, the Company received TSX Venture Exchange approval and issued 350,000 common shares to the vendor;
- (e) On August 5, 2011, the Company's shareholders approved all proposed resolutions at the Annual General Meeting, including the approval of the Company's 2011 fixed 20% stock option plan, allowing for an aggregate of 3,427,874 option shares to be reserved for issuance under the option plan on the grant date;
- (f) On August 15, 2011, the Company granted an aggregate of 1,500,000 stock options exercisable at \$0.50 per share for a period of five years to various directors, officer, consultants and employees of the Company.
- (g) On August 31, 2011, the Company's lease on its shared office space expired, and as a result, management decided to move to a smaller office space at a new location. On September 1, 2011, the Company entered into an office lease agreement for a period of five years, ending on August 31, 2016.

For the three months ended October 31, 2011, total general and administrative expense for the period was \$256,308 (2010 - \$34,650). Due to the significant increase in corporate and exploration activities and the acquisition of the Goeland and Manoane Projects, the Company increased expenses in most categories compared to the same period last year.

Due to the disposition of the Trutch property on July 26, 2010, the Company did not report revenue and related costs from gas production during the three month period ended.

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THIRD QUARTER (continued)

Table 1. General and Administrative Expenses Summary

	Three Month Ended October 31, 2011	Three Month Ended October 31, 2010
Accounting, audit and legal fees	\$ 26,548	\$ 3,829
Consulting Fees	20,297	8,663
Communications	4,440	340
Interest and bank charges	454	1,675
Investor relations and promotions	55,973	-
Management fees	32,500	7,500
Office and administrative	72,333	474
Rent	12,646	-
Transfer agent, listing and filing fees	5,238	6,444
Travel and entertainment	25,879	5,725
Total Administrative Expenses	\$ 256,308	\$ 34,650

SUBSEQUENT EVENTS

Subsequent to October 31, 2011, the following transactions and events occurred:

- (a) A total of 99,832 share purchase warrants were exercised at \$0.25, resulting in aggregate proceeds of \$24,958;
- (b) On December 9, 2011, the Company announced that it signed a Pre-Development Agreement (“PDA”) with the Grand Council of the Crees (Eeyou Istchee)/The Cree Regional Authority and the Cree First Nation of Waswanipi, (collectively referred to as the “Parties”) regarding the Company’s exploration activities on its Goeland rare earth project, Quebec. The PDA has been designed to acknowledge mutual respect and ensure the responsible and cooperative exploration and development of the Goeland rare earth project in the best interests of all parties. Under the terms of the PDA, the Parties will work together to the best of their ability to ensure the continuation of a successful mining venture at Goeland. The PDA provides for business, employment and advancement opportunities for the Cree people and the hiring of the tallyman of the W11B Territory as the Environmental Monitor for the Goeland project. The PDA also provides for the completion of a comprehensive Business and Employment Study to assess the full potential for Cree business and employment opportunities, the creation of a joint communication strategy and the establishment of a PDA committee comprised of two members appointed by the Company and one member appointed by each of Waswanipi and the Grand Council of the Crees (EI)/Cree Regional Authority.

In exchange, the Cree parties have agreed to support the Company’s exploration and development activities, including by assisting the Company in the preparation of required environmental and social assessment studies. This framework highlights several key conditions of a mutually beneficial partnership between the Parties during the exploration phase of the project and contemplates terms for a Social and Economic Participation Agreement to be negotiated by the Parties if a successful pre-feasibility study is filed for the project.

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SUBSEQUENT EVENTS (continued)

In consideration for Waswanipi entering into the PDA and the performance of its obligations, the Company will pay to Waswanipi an annual amount of \$25,000 for the term of the PDA, and issue to the Waswanipi Development Corporation the number of common shares of the Company that is equal to \$250,000 divided by the greater of \$0.40 and a ten day average closing price, subject to TSX-V approval and the completion of certain legal matters. The shares will be subject to a four month securities law hold period and a contractual undertaking not to sell 50% of the shares before the first anniversary date of the PDA.

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 determination of environmental obligations, asset retirement obligation ("ARO"), rates for amortization, depletion and accretion, the impairment of property and equipment, valuation allowance for future tax assets and the assumptions used in calculating the fair value of stock-based compensation. 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 October 31, 2011, the Company's financial instruments include cash, amounts receivable, prepaid expenses, marketable securities, and accounts payable.

The Company classifies its cash and marketable securities as held-for-trading; accounts receivable as loans and receivables; and accounts payable, and due to related parties as other financial liabilities.

(a) Fair value

The carrying values of cash, accounts receivable, and accounts payable and accrued liabilities approximate their fair values due to the short term to maturity of these financial instruments; therefore, disclosure is not made of their level in the fair value hierarchy.

The fair values of due to related parties have not been disclosed as their fair values cannot be reliably measured since the parties are not at arm's length and there is no active, liquid market for similar instruments.

The Company's financial instruments measured at fair value by level within the fair value hierarchy as at October 31, 2011 are as follows:

	Level 1	Level 2	Level 3	Total
Financial Assets				
Held-for-trading				
Marketable securities	\$ 26,800	\$ -	\$ -	\$ 26,800

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FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS (continued)

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk with respect to its cash; however, the risk is minimized as cash is held at a major financial institution.

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rates or other prices, will affect the Company's income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Company is exposed to market risk as follows:

(i) *Interest rate risk*

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

(ii) *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 currency risk. The Company is exposed to other price risk with respect to its marketable securities. The sensitivity analysis of the Company's exposure to other price risk at the reporting date has been determined based upon hypothetical changes taking place at October 31, 2011, which includes a hypothetical change in the share price of Hemisphere Energy Corp. ("Hemisphere") which would result in a change in net income of \$14,400.

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 this quarter, 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.

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.

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INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (continued)

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 and 3 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 ACTIVITIES

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
Benoit Moreau	VP, Exploration

**Director*

***Independent Director*

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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 DECEMBER 16, 2011:

a. Authorized: Unlimited common shares without par value

Issued and outstanding: **17,844,868 common shares**

b. Stock options

Options outstanding as of December 16, 2011:

575,000	@ \$0.22	January 10, 2016
300,000	@ \$0.30	January 25, 2016
200,000	@ \$0.72	February 25, 2016
225,000	@ \$0.66	April 19, 2016
175,000	@ \$0.45	May 31, 2012
<u>1,500,000</u>	@ \$0.50	August 15, 2016
<u>2,975,000</u>		

c. Warrants

Warrants outstanding as of December 16, 2011:

666,667	@ \$0.30	January 10, 2014
1,165,833	@ \$0.25	February 2, 2013
<u>1,740,564</u>	@ \$0.90	March 21, 2013
<u>3,573,064</u>		

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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.
December 16, 2011