RARE EARTH METALS INC.

Interim Consolidated Financial Statements
(Unaudited - Expressed in Canadian dollars)

December 31, 2009

Index

RARE EARTH METALS INC.

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of Rare Earth Metals Inc. have been prepared by, and are the responsibility of, the Company's management. The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, consistent with previous periods.

Rare Earth Metals Inc.'s independent auditor has not performed a review of these consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

RARE EARTH METALS INC.
Consolidated Balance Sheets

(Unaudited -Expressed in Canadian Dollars)

		December 31, 2009		March 31, 2009
ASSETS				
Current assets				
Cash	$	4,633,174	$	42,368
Short-term investments (Note 5)		6,650,000		6,950,000
G.S.T. and other receivables		54,642		153,951
Prepaid expenses and deposits		6,663		6,000
Refundable security deposits (Note 11)		7,550		-
Total current assets		11,352,029		7,152,319
Mineral interests (Note 6)		1,505,942		1,020,000
Property and equipment (Note 7)		13,966		15,679
Total assets	$	12,871,937	$	8,187,998
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities (Note 9)	$	110,913	$	61,266
Total liabilities	$	110,913	$	61,266
SHAREHOLDERS' EQUITY				
Share capital (Note 8(a))		8,769,044		13,559,328
Warrants (Note 8(b))		4,441,556		-
Contributed surplus (Note 7(c))		6,688		1,463,103
Deficit		(456,264)		(6,895,699)
Total shareholders' equity		12,761,024		8,126,732
Total liabilities and shareholders' equity	$	12,871,937	$	8,187,998

See Accompanying Notes to Consolidated Financial Statements

Approved on behalf of the Board of Directors:

"Ken Cai"	"Wade Dawe"
Ken Cai	Wade Dave
Director	Director

RARE EARTH METALS INC.
Consolidated Statement of Operations and Deficit

(Unaudited - expressed in Canadian Dollars)

	Three Months Ended December 31, 2009	June 16, 2009 to December 31, 2009
Exploration costs	$ 167,423	$ 276,679
Administrative expenses		
Amortization of equipment	1,304	1,304
Consulting fees	16,514	19,814
Investor Relations	29,106	29,106
Listing, filing and transfer agent	(3,705)	9,374
Office and miscellaneous	19,650	20,107
Professional fees	48,278	76,847
Rent	4,000	4,000
Stock based compensation	6,688	6,688
Telephone	675	675
Travel and transportation	9,638	20,520
Total administrative expenses	132,148	188,435
Operating loss	(299,571)	(465,114)
Other income (loss)		
Interest and sundry income	8,850	8,850
	(290,721)	(456,264)
Loss for the period	(290,721)	(456,264)
Deficit, beginning of period	(165,543)	-
Deficit, **end of period**	(456,264)	(456,264)
Loss per share - basic and diluted	$ 0.006	$ 0.01
Weighted average number of common shares outstanding – basic and diluted	45,110,565	41,463,498

See Accompanying Notes to Consolidated Financial Statements

RARE EARTH METALS INC.
Consolidated Statements of Cash Flow

(Unaudited - expressed in Canadian Dollars)

	Three Months Ended December 31, 2009	June 16, 2009 to December 31, 2009
Cash flows from (used in) operating activities		
Loss for the period	$ (290,720)	$ (456,264)
Adjustment for items not involving cash:		
- amortization	1,304	1,304
- stock based compensation	6,688	6,688
Change in non-cash working capital items:		
- G.S.T. and other receivables	(32,833)	(40,772)
- prepaid expenses and deposits	3,833	3,833
- refundable security deposits	-	(7,550)
- accounts payable and accrued liabilities	(9,981)	90,676
	(321,709)	(402,085)
Cash flows from financing activities		
Shares issued for cash	4,541,119	5,343,719
	4,541,119	5,343,719
Cash flows used in investing activities		
Mineral property payment	(41,542)	(483,442)
Acquisition of equipment	(1,418)	(1,418)
	(42,960)	(484,860)
Cash received in reverse takeover transaction	176,400	176,400
Increase in cash and cash equivalents	4,352,850	4,633,174
Cash and cash equivalents, beginning of period	280,324	-
Cash and cash equivalents, end of period	$ 4,633,174	$ 4,633,174
Supplemental disclosure of cash flow information (see also note 12)		
Interest received in cash	$ 794	$ 794

See Accompanying Notes to Financial Statements

1. Nature of Operations and Going Concern

Rare Earth Metals Inc. ("Rare Earth" or "the Company", formerly East Energy Corp., "East Energy") is in the business of the acquisition and exploration of mineral property interests and has not yet determined whether or not these properties contain ore reserves that are economically recoverable. The ability of the Company to meet its commitments as they become payable, including the completion of acquisitions, exploration and development of mineral properties and projects, is dependent on the ability of the Company to obtain necessary financing.

Reverse takeover

On December 16, 2009, the Company completed the acquisition of a private company known as REM Metals Inc. ("REM", formerly Rare Earth Metals Inc.) by acquiring all of the issued and outstanding shares of REM by issuing one common share of the Company for each common share of REM. As a result, the Company issued 39,630,000 common shares (approximately 54% of the issued shares of the Company) to the shareholders of REM. This transaction is considered to be a reverse takeover transaction and under the provisions of EIC 10, the Company is considered to be a continuation of REM and as such, the comparative figures would normally be those of REM. However, because REM was incorporated in 2009, no such comparative figures exist. The comparative figures shown on the consolidated balance sheet are those of the Company. REM is now a wholly owned subsidiary of the Company. Refer also to note 4.

Going Concern

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

The Company has not generated any operating revenue to date and has experienced recurring operating losses.

The Company's financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes the realization of assets and discharge of liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent upon successful completion of additional financing, continuing support of creditors and upon its ability to attain profitable operations. Management's plan in this regard is to raise equity financing as required. These financial statements do not give effect to any adjustments that would be necessary should the Company not be able to continue as a going concern.

(Unaudited - Expressed in Canadian Dollars)

2. Significant Accounting Policies

These unaudited consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and are consistent with the policies outlined in the Company's audited financial statements for the year ended March 31, 2009. These consolidated financial statements are inclusive of the accounts of the Company and its wholly owned subsidiary REM Metals Corp. There have been no changes in the Company's accounting policies in the current period.

3. Accounting Changes

Mining Exploration Costs

Effective March 27, 2009, the Company adopted the Emerging Issues Committee ("EIC") Abstract 174, "Mining Exploration Costs". This standard provides guidance on the capitalization of exploration costs related to mining properties, in particular, and on impairment of long-lived assets. The adoption of this standard did not have a significant impact on the Company's financial statements.

New Canadian Accounting Standards

In February 2008, the CICA Accounting Standards Board ("CICA") confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in 2011 for public companies in Canada (i.e., IFRS will replace Canadian GAAP for public companies). The official changeover date will apply for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is continuing to assess the impact of the implementation of IFRS.

4. Business Combination

As described in Note 1, these consolidated financial statements are inclusive of the completion of a reverse takeover transaction, recorded in the period, whereby REM Metals Corp., the continuing entity for accounting purposes is considered to have acquired the assets and liabilities of East Energy in a business combination.

The cost of the acquisition was allocated to the net identifiable asset of Rare Earth at December 16, 2009 as follows:

Cash	$	176,400
Other working capital		6,654,12
Mineral interests		1,020,00
Property and		13,852
Net assets acquired	$	7,864,38

(Unaudited - Expressed in Canadian Dollars)

5. Short-term Investments

As at December 31, 2009, the Company has $6,650,000 (March 31, 2009 - $6,950,000) in short-term investments consisting of cashable guaranteed investment certificates in major Canadian Banks maturing from July 16 2010 to August 6, 2010. The yields on these investments are 0.5% (March 31, 2009 – 3%) per year.

6. Mineral Interests

Mineral Interests	Hinton Coal	Clay-Howells	Lackner	Red Wine Complex	Total
Balance, March 31, 2009	$ 1,020,000	$ -	$ -	$ -	$ 1,020,000
Acquisition costs	-	401,497	57,650	26,795	485,942
Balance, December 31, 2009	$ 1,020,000	$ 401,497	$ 57,650	$ 26,795	$ 1,505,942

Exploration expenditures for the nine months ended December 31, 2009					
Exploration Expenditures	Clay-Howells	Lackner	Red Wine Complex	Other	Total
Prospecting	39,241	4,446	14,167	533	58,387
Geology	43,596	10,660	12,914	340	67,510
Geophysical	103,962	28,335	-	-	132,297
Diamond drilling	17,093	-	-	-	17,093
Other	-	-	1,392	-	1,392
Total Exploration Expenditure	203,892	43,441	28,473	873	276,679

Hinton Coal Property

On June 25, 2008, the Company acquired 100% ownership in the Hinton Coal Property (the “Hinton Property”) in the Foothills Region of central Alberta for $1 million and a 5% net profits royalty on any sale of coal from the property. The $1 million purchase price was recorded as a mineral interest in accordance with the Company’s accounting policy.

On July 16, 2008, the Company issued 50,000 common shares at a value of $20,000 as a finder’s fee in conjunction with the above transaction.

Clay-Howells Property

The Clay-Howells property consists of 45 patented claims (mining and surface) and is located 30 kilometres north-northeast of Kapuskasing, Ontario. During the period, the Company entered into an agreement to acquire a 100% interest in the Clay-Howells property. Pursuant to the agreement, in order to exercise the option, the Company must pay to the optionor a non-refundable deposit of $20,000 (paid) and a further $330,000 on or before October 21, 2009 (paid). Upon exercise of the option by the Company, the optionor will retain a 2-per-cent net smelter revenue royalty (“NSR”). The Company shall have the right and option to purchase, at any time, one-half of the NSR in consideration of the payment of $1-million to the optionor.

6. Mineral Interests (continued)

Lackner Property

The Lackner property consists of 105 unpatented claim units and is located 25 kilometres southeast of Chapleau, Ontario. During the period, the Company entered into an option agreement to acquire up to a 90% interest in the project by making minimum cash payments totaling $2.625 million, issuing shares of the Company with a value of $2.625 million, and finally, completing exploration work totaling $1.75 million, all over seven anniversaries as follows:

(i) On signing: $50,000 cash payment (paid).
(ii) First anniversary: $25,000 cash payment, $25,000 worth of stock of the Company and must also spend a minimum of $100,000 in exploration expenditures.
(iii) Second anniversary: $25,000 cash payment and $25,000 worth of stock of the Company.
(iv) Third anniversary: $25,000 cash payment and $25,000 worth of stock of the Company.
(v) Fourth anniversary: $25,000 cash payment, $25,000 worth of stock of the Company and must incur an aggregate of $750,000 in exploration expenditures. At this point, a 50% interest in the project would be earned.
(vi) Fifth anniversary: $125,000 cash payment, $125,000 worth of stock of the Company and must incur a further $500,000 in exploration expenditures.
(vii) Sixth anniversary: $125,000 cash payment, $125,000 worth of stock of the Company and must incur a further $500,000 in exploration expenditures. At this point, a 70% interest in the project would be earned.
(viii) Seventh anniversary: $2.25 million cash payment and $2.25 million worth of stock of the Company. At this point, a 90% interest in the project would be earned.

During the period, the Company issued 50,000 shares with a value of $2,500 as a finders' fee in connection with the above transaction.

Red Wine Complex

The Company has acquired by option agreement and staking three properties: Mann #1 (37 claim units), Two Tom Lake (34 claim units) and Red Wine #2 (167 claim units acquired by staking) in Labrador. The properties are located in three separate claim groups located over a 30 kilometre length of the Red Wine Complex.

Pursuant to an option agreement dated September 29, 2009 as amended November 3, 2009 between the Company and Roland Quinlan, Marilyn Quinlan, Andrew Quinlan and Eddie Quinlan (the "Mann Optionors"), the Company may acquire a 100% interest in the Mann # 1 and Two Tom Lake properties (the "Optioned Properties"). Pursuant to the agreement, in order to exercise the option and earn a 100% interest in the Optioned Properties, the Company must make the following payments and share issuances to the Mann Optionors: (a) within 60 days of the date of the agreement, pay $25,000 (paid) and issue 60,000 shares; (b) pay $35,000 and issue 135,000 shares on the first anniversary of the date of the agreement; (c) pay $45,000 and issue 145,000 shares on the second anniversary of the date of the agreement; and (d) pay $70,000 and issue 175,000 shares on the third anniversary of the date of the agreement.

(Unaudited - Expressed in Canadian Dollars)

Upon the Company exercising the option, the Mann Optionors will retain a 2% net smelter royalty (“NSR”) in the Optioned Properties and beginning on the fifth anniversary of the agreement, the Company will issue 20,000 shares per annum to the Mann Optionors as an advance royalty payment, all of which share issuances will be credited against royalty payments payable once commercial production commences. The Company may at any time purchase one-half (1%) of the NSR from the Mann Optionors.

7. Property and Equipment

	December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ 8,981	$ 4,240	$ 4,741
Computer software	596	298	298
Office equipment and furniture	11,190	4,793	6,397
Leasehold improvements	4,134	1,604	2,530
	$ 24,901	$ 10,935	$ 13,966

	March 31, 2009		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ 8,159	$ 2,982	$ 5,177
Office equipment and furniture	11,190	3,664	7,526
Leasehold improvements	4,134	1,158	2,976
	$ 23,483	$ 7,804	$ 15,679

8. Share Capital

(Unaudited - Expressed in Canadian Dollars)

(a) Common Stock
Authorized: unlimited common shares without par value
Issued:

	Shares	Amount
Balance, March 31, 2008	33,892,582	$ 13,359,328
Finder's fee issued for mineral property	50,000	20,000
Cancellation of Escrow	(150,448)	-
Balance, March 31, 2009	33,792,134	13,559,328
Less: share issue costs	-	(59,516)
Elimination of the Company's share capital net of the net asset value of the Company pursuant to the purchase of the Company by REM Metals Corp.	-	(13,499,812)
Adjustment to increase in book value of the Company's share capital to that of REM Metals Corp., the continuing entity for accounting purposes, immediately prior to the reverse takeover transaction*	-	5,805,100
Issuance of common shares of the Company to acquire the outstanding share capital of REM Metals Corp.	39,630,000	7,864,381
Less: share issue costs	-	(458,881)
Less: value of warrants issued with common shares	-	(3,665,761)
Less: value of warrants issued to agents	-	(775,795)
Balance, December 31, 2009	73,422,134	8,769,044

* Common shares issued to acquire the outstanding share capital of REM Metals Corp. consists of the following:

(i) 3.6 million seed shares were issued to the founders of REM at a price of $0.001 per common share for gross proceeds of $3,600.

(ii) 50,000 common shares valued at $2,500 were issued to an arm's length party in connection with a finders' fee on a property agreement.

(iii) REM completed a private placement by issuing 15,980,000 common shares of REM at an issue price of $0.05 per common share for gross proceeds of $799,000.

(iv) In conjunction with the reverse takeover transaction, REM completed a private placement offering with PowerOne Capital Markets Limited ("PowerOne") for aggregate gross proceeds of $5 million consisting of 20 million units at a price of

(Unaudited - Expressed in Canadian Dollars)

$0.25 per unit, each unit consisting of one common share and one half of one common share purchase warrant, each whole warrant entitling the holder to purchase an additional common share of the Company at a price of $0.35 per share for a period of 24 months following the closing of the private placement.

Pursuant to the offering, PowerOne was paid a cash commission equal to $400,000 and issued 2 million broker warrants with each broker warrant entitling PowerOne to purchase a common share of the Company for $0.25 for a period of 24 months following the closing of the private placement.

With respect to the above seed share and private placement share issuances, 5.7 million shares are subject to an escrow agreement. Under the agreement, 20% of the shares in escrow will be released on the issuance of the Final Exchange Bulletin (the “Initial Release”) and an additional 15% will be released on each of the dates that are 6 months, 12 months, 18 months, 24 months, 30 months, and 36 months following the date of the Initial release. A further 13,930,000 shares are subject to a two year hold period with 20% to be released upon closing of the reverse takeover (released) and a further 20% released every six months thereafter. All shares issued in REM prior to the reverse takeover transaction were exchanged for shares of the Company on a one-for-one basis subject to the abovementioned restrictions.

(b) Share Purchase Warrants

A summary of the status of share purchase warrants granted by the Company is as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding at March 31, 2009	1,250,000	1.20
Issued during the period to investors	10,000,000	0.35
Issued during the period to agents	2,000,000	0.25
Expired	(1,250,000)	1.20
Outstanding at December 31, 2009	12,000,000	$ 0.33

(Unaudited - Expressed in Canadian Dollars)

The changes in share purchase warrants for the period ended December 31, 2009 and March 31, 2008 are as follows:

	Amount
Outstanding at March 31, 2009	-
Issued during the period to investors	3,665,761
Issued during the period to agents	775,795
Outstanding at December 31, 2009	4,441,556

For all types of warrants issued during the period, the fair values have been estimated using the Black-Scholes Option Pricing Model and the following assumptions: dividend yield of 0%, expected volatility of 146.3%, a risk-free interest rate of 0.25% and an expected life of 2 years. The value of the warrants reduced the proceeds attributed to share capital and are recognized under capital stock as share purchase warrants.

As at December 31, 2009, the following share purchase warrants were outstanding:

Expiry Dates	Number of Warrants	Weighted Average Exercise Price
December 16, 2011	10,000,000	0.35
December 16, 2011	2,000,000	0.25
Outstanding at December 31, 2009	12,000,000	$ 0.33

(c) Contributed Surplus

A summary of contributed surplus is as follows:

Balance at March 31, 2009	$ 1,463,103
Stock-based compensation	129,691
Balance at September 30, 2009	1,592,794
Adjustment on reverse takeover transaction	(1,592,794)
Stock-based compensation	6,688
Balance at December 31, 2009	$ 6,688

d) Stock Options

The Company may grant options to the Company's directors, officers, employees and service providers under the Company's stock option plan. The maximum number of common shares reserved for issuance is 4,620,616. The Company expenses stock options over their vesting period, with stock options typically vesting in various increments and having a maximum term of five years.

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In the period ended December 31, 2009, there were no stock options granted (2009 – nil). During the period ended June 30, 2009 the Company recorded $88,323 (2009 - $113,000) of stock-based compensation expenses. A summary of the status of options granted by the Company is as follows:

	Number	Weighted Average Exercise Price
Options outstanding at March 31, 2008	3,500,000	0.63
Granted	-	-
Exercised	-	-
Expired / cancelled / forfeited	(835,000)	0.72
Options outstanding at March 31, 2009	2,665,000	$ 0.60
Expired / cancelled / forfeited	(2,350,000)	0.59
Options outstanding at December 31, 2009	315,000	$ 0.70

The weighted-average fair value of options granted during the quarter ended December 31, 2009 was $0.70 (March 31, 2009 - $0.60). Each option entitles the holder to purchase one common share.

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (yr)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.61 - $0.81	315,000	1.6	$ 0.70	264,874	$0.71

The Company used the Black-Scholes option pricing model to determine the fair value of the options with the following assumptions:

	2010	2009
Risk-free interest rate	**4.00% - 4.66%**	4.00% - 4.66%
Dividend yield	**0%**	0%
Volatility	**98% - 124%**	98% - 124%
Approximate expected lives	**3 - 5 years**	3 - 5 years

Option pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates and therefore, in management's opinion,

8. Share Capital (continued)

(Unaudited - Expressed in Canadian Dollars)

existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

9. Related Party Transactions

The Company paid or accrued the following amounts to related parties during the period ended December 31, 2009:

Payee	Description of Relationship	Nature of Transaction	December 31, 2009 Amount ($)
Stares Contracting Corp.	Company controlled by Michael Stares, Director and Officer and Stephen Stares, Director	Payments for equipment rentals, supply of labour and reimbursement of expenses capitalized in deferred development expenditures	50,537
Gordon J. Fretwell Law Corporation	Company controlled by Gordon Fretwell, Director and Officer	Legal fees charged/accrued during the period	51,794
Eastrock Exploration Inc.	Company controlled by Wayne Reid, Director and Officer	Payments for geological consulting services and reimbursement of expenditures capitalized in deferred development expenditures	78,717
Minco Gold Corporation	Company related by a common director	Payments for rent and shared office expenses	6,000

The purchases from and fees charged by the related parties 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.

Included in accounts payable and accrued liabilities is $33,027 to Gordon J. Fretwell Law Corporation, $19,120 to Eastrock Exploration Inc., $6,000 to Minco Gold Corporation The repayment terms are similar to the repayment terms of non-related party trade payables.

10. Financial Instruments

Fair value - The fair value of cash, short-term investments, accrued interest receivable, receivables, and accounts payable and accrued liabilities approximates their carrying value due to the short-term nature of these financial instruments.

Exchange risk - The Company's functional currency is the Canadian dollar. Currently the Company conducts all exploration and administrative activities in Canada and as a result, the Company is not currently exposed to foreign exchange risk.

10. Financial Instruments (continued)

Interest rate risk - The Company has interest bearing assets which are cashable without notice or penalty and has no interest-bearing debt. Accordingly, it is not exposed to interest rate risk.

Credit risk - The Company generally places its short-term investment funds into government and Canadian bank debt securities and is therefore subject to minimal credit risk with regard to short-term investments.

11. Refundable Security Deposits

Refundable security deposits of $7,550 represent security amounts paid to the Government of Newfoundland and Labrador in connection with mineral property claims located in the Province of Newfoundland. These deposits are refundable to the Company upon submission by the Company of a report covering the first year work requirements which meets the requirements of the Government of Newfoundland and Labrador.

12. Supplemental Cash Flow Information

The following transactions did not result in cash flows and have been excluded from operating, financing and investing activities:

		December 31, 2009
Non-cash financing activities		
Common shares issued for non-cash Consideration	$	2,500
Non-cash investing activities		
Mineral properties financed through common share issuance	$	(2,500)

13. Commitments

The Company has commitments as described in note 6 with respect to certain agreements on its mineral property interests.