RARE EARTH METALS INC

(A Development Stage Enterprise)

Condensed Consolidated Interim Financial Statements
For the six months ended September 30, 2011

(Stated in Canadian Dollars)

NOTICE TO SHAREHOLDERS

The accompanying financial statements for Rare Earth Metals Inc. have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") consistently applied. Only changes in accounting policies have been disclosed in these unaudited condensed consolidated interim financial statements. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly presented. In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited condensed consolidated interim financial statements for the period ended September 30, 2011.

RARE EARTH METALS INC.
(A Development Stage Enterprise)

September 30, 2011

RARE EARTH METALS INC.
(A Development Stage Enterprise)

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Prepared by Management - Unaudited)

As at	September 30, 2011 $	March 31, 2011 $
		(note 14)
ASSETS		
Current		
Cash	364,968	167,467
Short-term investments (Note 5)	3,138,912	7,470,664
Interest and other receivables	313,322	289,366
Prepaid expenses and deposits	49,950	26,557
Refundable security deposits (Note 12)	122,977	56,966
	3,990,129	8,011,020
Exploration and evaluation assets (Note 6)	2,888,995	2,335,583
Property and equipment (Note 7)	156,627	151,620
Total assets	7,035,751	10,498,223
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 9)	444,713	509,344
Deferred premium on flow-through shares	-	248,041
	444,713	757,385
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	12,340,660	12,069,710
Reserves (Note 8)	5,664,083	5,251,877
Deficit	(11,413,705)	(7,580,749)
Total shareholders' equity	6,591,038	9,740,838
Total liabilities and shareholders' equity	7,035,751	10,498,223

These condensed consolidated interim financial statements are authorized for issue by the Board of Directors on November 28, 2011. They are signed on the Company's behalf by:

"Michael Stares " Director

"*Stephen Stares"* Director

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

RARE EARTH METALS INC.
(A Development Stage Enterprise)

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Prepared by Management - Unaudited)

	Three Months Ended September 30, 2011 $	Three Months Ended September 30, 2010 $	Six Months Ended September 30, 2011 $	Six Months Ended September 30, 2010 $
		(Note 14)		(Note 14)
Exploration costs (Note 6)	2,296,991	1,703,452	2,975,129	2,293,323
Expenses				
Depreciation	11,527	11,308	22,973	20,387
Consulting fees (Note 9)	10,463	12,325	27,750	19,702
Advertising and promotion	137,930	69,681	273,675	107,906
Listing, filing and transfer agent	20,194	19,737	41,457	22,194
Office and miscellaneous	21,684	21,184	45,860	46,427
Professional fees	16,462	5,602	37,411	31,004
Rent	11,666	11,740	23,333	24,719
Share-based payments	168,863	344,372	412,206	688,733
Travel and accommodations	13,998	39,568	37,448	59,515
Wages and benefits	97,566	63,499	189,353	124,182
Part XII.6 tax expense	3,430	-	3,430	-
	513,783	599,016	1,114,896	1,144,769
Loss before the following:	(2,810,774)	(2,302,468)	(4,090,025)	(3,438,092)
Interest and sundry income	58,905	14,929	89,068	27,366
Adjustment to fair market value for investments	(28,412)	6,585	(38,562)	23,171
Write-down of exploration and evaluation assets (Note 6)	(41,478)	-	(41,478)	(58,986)
Recognized premium on flow through shares	84,461	-	248,041	-
Loss and comprehensive loss for the period	(2,737,298)	(2,280,954)	(3,832,956)	(3,446,541)
Loss per share - basic and diluted	(0.04)	(0.03)	(0.05)	(0.05)
Weighted Average Shares Outstanding - basic and diluted	82,176,763	73,586,123	81,814,703	73,498,293

RARE EARTH METALS INC.
(A Development Stage Enterprise)

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
(Prepared by Management)
For the Six Months Ended September 30, 2011

	Share capital		Reserves			
	Number of shares	**Share Capital**	**Warrants**	**Equity Settled benefits**	**Deficit**	**Total**
	#	**$**	**$**	**$**	**$**	**$**
Balance as at April 1, 2010 (Note14)	73,530,134	8,831,039	4,423,960	383,419	(2,181,012)	11,457,406
Issued for cash:						
Exercise of warrants	10,000	7,166	(3,666)	-	-	3,500
Exercise of options	100,000	30,000	-	-	-	30,000
Share-based payments	-	-	-	688,733	-	688,733
Shares issued on property acquisitions	190,000	74,100	-	-	-	74,100
Comprehensive loss for the period	-	-	-	-	(3,446,541)	(3,446,541)
Balance at September 30, 2010	73,830,134	8,942,305	4,420,294	1,072,152	(5,627,553)	8,807,198
Issued for cash:						
Private Placements	4,015,448	1,847,106	-	-	-	1,847,106
Exercise of warrants	2,400,000	1,562,432	(922,432)	-	-	640,000
Shares issued on property acquisitions	1,127,500	478,018	-	-	-	478,018
Share issue costs	-	(151,416)	-	-	-	(151,416)
Value of warrants issued to investors	-	(126,881)	126,881	-	-	-
Deferred premium on flow-through shares	-	(481,854)	-	-	-	(481,854)
Share-based payments	-	-	-	554,982	-	554,982
Comprehensive loss for the period	-	-	-	-	(1,953,196)	(1,953,196)
Balance at March 31, 2011	81,373,082	12,069,710	3,624,743	1,627,134	(7,580,749)	9,740,838
Shares issued on property acquisitions	1,165,000	270,950	-	-	-	270,950
Share-based payments	-	-	-	412,206	-	412,206
Comprehensive loss for the period	-	-	-	-	(3,832,956)	(3,832,956)
Balance at September 30, 2011	82,538,082	12,340,660	3,624,743	2,039,340	(11,413,705)	6,591,038

RARE EARTH METALS INC.
(A Development Stage Enterprise)

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Prepared by Management - Unaudited)

	Six Months Ended September 30, 2011 $	Six Months Ended September 30, 2010 $
CASH FLOWS FROM (USED IN):		
OPERATING ACTIVITIES		
Comprehensive loss for the period	(3,832,956)	(3,446,541)
Depreciation	22,973	20,387
Share-based payments	412,206	688,733
Adjustment to fair market value for investments	38,562	(23,171)
Write-down of exploration and evaluation assets	41,478	58,986
Increase in interest and other receivables	(23,956)	(109,207)
Increase in prepaid expenses	(23,393)	(50,504)
Decrease (increase) in refundable security deposits	(66,011)	50
Decrease in accounts payable and accrued liabilities	(64,631)	(33,039)
Recognized premium on flow-through shares	(248,041)	-
Cash flows used in operating activities	(3,743,769)	(2,894,306)
FINANCING ACTIVITIES		
Proceeds from exercise of stock options	-	30,000
Proceeds from exercise of warrants	-	3,500
Cash flows from financing activities	-	33,500
INVESTING ACTIVITIES		
Expenditures on exploration and evaluation assets	(323,940)	(103,204)
Acquisition of property and equipment	(27,980)	(86,375)
Net redemption of short-term investments	4,293,190	2,830,550
Cash flows from used in investing activities	3,941,270	2,640,971
Increase (decrease) in cash and cash equivalents	197,501	(219,835)
Cash and cash equivalents, beginning of period	167,467	496,496
Cash and cash equivalents, end of period	364,968	276,661

Supplemental information (see note 13)

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

1. Nature of Operations and Continuance of Operations

Rare Earth Metals Inc. ("Rare Earth" or "the Company", formerly East Energy Corp., "East Energy") is a development stage public company 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.

The accompanying financial statements have been prepared on the basis applicable to a going concern. The appropriateness of using the going concern basis is dependent upon, among other things, future profitable operations, and the ability of the Company to raise additional capital. Specifically, the recovery of the Company's investment in exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to develop its properties and establish future profitable production from the properties, or from the proceeds of their disposition. The Company has working capital in the amount of $3,548,846 (March 31, 2011: $7,253,635) and has a deficit in the amount of $11,413,705 (March 31, 2011: $7,580,749). The Company has not earned any revenues to date and is considered to be in the exploration stage.

2. Summary of Significant Accounting Policies

Statement of Compliance and Conversion to International Financial Reporting Standards

The Canadian Accounting Standards Board ("AcSB") confirmed in February 2008 that IFRS will replace Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises for financial periods beginning on or after January 1, 2011, with the option available to early adopt IFRS from periods beginning on or after January 1, 2009 upon receipt of approval from the Canadian Securities regulatory authorities.

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

These are the Company's second set of IFRS condensed consolidated interim financial statements for part of the period covered by the first IFRS annual financial statements to be presented in accordance with IFRS for the year ending March 31, 2012. Previously, the Company prepared its annual and interim financial statements in accordance with GAAP.

Basis of Presentation

The condensed consolidated interim financial statements have been prepared using the measurement basis specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

The preparation of financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

These condensed consolidated interim financial statements including comparatives have been reported on the basis of IFRS standards that are expected to be effective or available for early adoption on March 31, 2012, the Company's first annual reporting date.

The standards that will be effective or available for voluntary early adoption in the annual financial statements for the year ending March 31, 2012 are subject to change and may be affected by additional interpretations. Accordingly the accounting policies for the annual period that are relevant to these financial statements will be determined only when the first IFRS financial statements are prepared for the year ending March 31, 2012.

The preparation of these condensed consolidated interim financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under GAAP. The accounting policies set out below have been applied consistently to all periods presented in these financial statements. They also have been applied in preparing an opening IFRS balance sheet at April 1, 2010 for the purposes of the transition to IFRS, as required by IFRS 1, First Time Adoption of International Financial Reporting Standards (IFRS 1). The impact of the transition from GAAP to IFRS is explained in note 14.

The condensed consolidated interim financial statements are presented in Canadian dollars (CDN), which is also the functional currency of the Company.

Basis of Consolidation

Business combinations that occurred prior to January 1, 2010 were not accounted for in accordance with IFRS 3, Business Combinations ("IFRS 3") or IAS 27, Consolidated and Separate Financial Statements ("IAS 27"), as the Company in the transition year chose to apply the IFRS 1 exemption discussed in note 14.

For business combinations occurring after April 1, 2010, the requirements of IFRS 3 have been applied. The consideration transferred by the Company to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Company, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Company recognizes identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognized in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognized amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognized in profit or loss immediately.

These condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiary REM Metals Corp. All intercompany transactions and balances have been eliminated.

Investments in Joint Ventures

Entities whose economic activities are controlled jointly by the Company and other ventures independent of the Company (joint ventures) are accounted for using the proportionate consolidation method, whereby the Company's share of the assets, liabilities, income and expenses is included line by line in the condensed consolidated interim financial statements.

Unrealized gains and losses on transactions between the Company and its joint ventures are eliminated to the extent of the Company's interest in those entities. Where unrealized losses are eliminated, the underlying asset is also tested for impairment.

Amounts reported in the financial statements of jointly controlled entities have been adjusted where necessary to ensure consistency with the accounting policies of the Company.

Income taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it provides a valuation allowance against the excess.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of taxable income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income (such as the revaluation of land) or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

Flow-Through Financing

The Company raises equity through the issuance of flow-through shares. Under this arrangement, shares are issued which transfer the tax deductibility of mineral property exploration expenditures to investors. The Corporation allocates the proceeds from the issuance of these shares between the offering of shares and the sale of the tax benefits. The allocation is made based on the difference between the quoted price of the shares and the amount the investor pays for the flow-through shares. A deferred flow through premium liability is recognized for the difference. The liability is reversed when the expenditures are made and is recorded in the statement of loss and comprehensive loss. The spending also gives rise to a deferred tax timing deference between the carrying value and tax value of the qualifying expenditure.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a specified period.

Property and Equipment

Purchased property and equipment are carried at acquisition costs less subsequent depreciation and impairment losses.

Depreciation is recognized on a declining balance basis to write down the cost of valuation less estimated residual value of property and equipment. The periods generally applicable are:

Computer equipment	30%
Computer software	100%
General and field equipment	20 - 30%
Office equipment and furniture	30%
Signs	20%
Vehicles	30%

Material residual value estimates and estimates of useful life are updated as required, but at least annually, whether or not the asset is revalued.

Gains or losses arising on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in profit or loss within “other income” or “other expenses”.

Environmental Rehabilitation

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight-line method. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for the restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses.

The Company has no material restoration, rehabilitation and environmental costs as the disturbance to date is minimal.

Impairment

At each financial position reporting date the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair values less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value to their present value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash generating units to which the exploration activity relates. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating units to which the asset belongs.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment is recognized immediately in profit or loss.

Loss per share

The Company presents basic and diluted loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the profit or loss attributable to common share holders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

Segment reporting

An operating segment is a component of an entity (i) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), (ii) whose operating results are regularly reviewed by the entity's management, and (iii) for which discrete financial information is available. The Company has only one single reportable operating segment.

Share Capital

Share capital represents the fair value of consideration received.

Operating expenses

Operating expenses are recognized in profit and loss upon utilization of the services or at the date of their origin.

Share-based payment transactions

The Company operates an equity-settled share-based remuneration plan for its employees, directors and consultants. None of the Company's plans feature any options for a cash settlement.

All goods and services received in exchange for the grant of any share-based payments are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the equity instruments granted. The fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets and performance conditions).

All share-based remuneration is ultimately recognized as an expense in profit or loss with a corresponding credit to 'reserves'.

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any related reserves amount transferred to share capital.

Interest

Interest income and expenses are reported on an accrual basis using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term investments, highly liquid investments that are readily convertible into known amounts or cash and which are subject to an insignificant risk of changes in value.

Exploration and Evaluation Assets

Exploration and evaluation assets include the costs associated with exploration and evaluation activity (e.g. geological, geophysical studies, exploratory drilling and sampling), and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. The Company follows the practice of capitalizing all costs related to the acquisition of mineral claims and expenses all costs relating to the exploration and evaluation of mineral claims and crediting all revenue received against the cost of related claims. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in the income statement.

Capitalized costs, including general and administrative costs, are only allocated to the extent that these costs can be related directly to operational activities in the relevant area of interest where it is considered likely to be recoverable by future exploration or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves.

Exploration and evaluation expenditures are expensed as incurred.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, capitalized costs attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

Recoverability of the carrying amount of the capitalized costs is dependent of successful development and commercial exploration, or alternatively, sale of the respective areas of interest.

Financial instruments

Financial assets and financial liabilities are recognized when the company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value adjusted by transaction costs and subsequently accounted for at amortized cost, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets and financial liabilities are measured subsequently as described below.

Financial assets

For the purpose of subsequent measurement and whether any resulting income and expense is recognized in profit or loss or in other comprehensive income.

- Loans and receivables
- Financial assets at fair value through profit or loss
- Held-to-maturity investments
- Available for sale financial assets

The category determines subsequent measurement and whether any resulting income and expense is recognized in profit or loss or in other comprehensive income.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within ‘office and general’, or ‘finance income’, except for impairment of trade receivables which is presented within ‘other expenses’.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The

Company’s cash and cash equivalents, deposits, trade and most other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets that are either classified as held-for-trading or that meet certain criteria conditions and are designated at fair value through profit or loss upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The fair values of derivative financial instruments are determined by reference to active market transactions or using a valuation technique where no active market exists.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as held-to-maturity if the Company has the intention and ability to hold them until maturity. The Company currently does not hold any investments designated into this category.

Held-to-maturity investments are measured subsequently at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

Available-for-sale investments

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Company does not hold any available-for-sale financial assets.

All other available-for-sale financial assets are measured at fair value. Gains and losses are recognized in other comprehensive income and reported within the available-for-sale reserve within equity, except for impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss. When the asset is disposed of or is determined to be impaired the cumulative gain or loss recognized in other comprehensive income is reclassified from the equity reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income. Interest calculated using the effective interest method and dividends are recognized in profit or loss within ‘finance income’.

Reversals of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

Financial liabilities

The Company's financial liabilities include trade and other payables.

Financial liabilities are measured subsequently at amortized cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognized in profit or loss.

All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at fair value through profit or loss.

All interest-related charges, and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within 'office and general expenses' or 'finance income'.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each financial position reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flow of the investment has been impacted. For unlisted shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterpart; or
- default of delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as amounts receivable, deposits and prepayments, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of the financial asset is reduced by the impairment loss directly through the use of an allowance account. When an amount receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decreases can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. In respect of AFS equity securities, impairment losses previously recognized through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized directly in equity.

The Company does not have any derivative instruments.

Significant accounting judgments and estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period.

Actual outcomes could differ from these estimates. The condensed consolidated interim financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed consolidated interim financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period which the estimate is revised and the revision affects both current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the balance sheet date that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

i. the recoverability of amounts receivable and prepayments which are included in the condensed consolidated interim statement of financial position

ii. the estimated useful lives of property and equipment which are included in the condensed consolidated interim statement of financial position and the related depreciation included in the condensed consolidated interim statement of comprehensive loss for the period ended June 30, 2011;

iii. the inputs used in accounting for share purchase option expense in the condensed consolidated interim statement of comprehensive loss; and

iv. the provision for income taxes which is included in the condensed consolidated interim statements of comprehensive loss and composition of deferred income tax assets and liabilities included in the condensed consolidated interim statement of financial position at June 30, 2011

Accounting standards effective in the current period but not yet adopted

IFRS 9, *Financial Instruments: Classification and Measurement,* issued in December 2009, effective for annual periods beginning on or after January 1, 2013, which early adoption permitted, introduces new requirements for the classification and measurement of financial instruments.

IFRS 10, 11, 12, and 13 are effective for annual periods beginning January 1, 2013, with early adoption allowed.

IFRS 10, *Consolidation*, requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity as to obtain benefits from its activities.

IFRS 11, *Joint Arrangements,* introduces new accounting requirements for joint arrangements, replacing IAS 31, *Interests in Joint Ventures*. It eliminates the option of accounting for jointly controlled entities by proportionate consolidation.

IFRS12, *Disclosure of Interests in Other Entities,* combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities.

IFRS 13, *Fair Value Measurement*, replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. It defines and provides guidance on determining fair value and requires disclosures about fair value measurements, but does not change the requirements regarding which items are measured or disclosed at fair value.

Management anticipates that these standards will be adopted in the Company's financial statements for the period beginning April 1, 2013 and has not yet considered the potential impact of the adoption of IFRS 9, 10, 11, 12, and 13.

IAS 28, *Investments in Associates and Joint Ventures*

As a consequence of the issuance of IFRS 10, 11 and 12, IAS 28 has been amended and will further provide accounting guidance for investments in associates and will set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard will be applied by the Company when there is joint control or significant influence over an investee.

3. Reverse Takeover and Comparative Figures

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 the Canadian Institute of Chartered Accountant handbook EIC 10, the Company is considered to be a continuation of REM and as such, the comparative figures would normally be those of REM. REM is now a wholly owned subsidiary of the Company. Refer also to Note 4.

4. Business Combination

As described in Note 3, these condensed consolidated interim financial statements are inclusive of the completion of a reverse takeover transaction, recorded in Fiscal 2010, 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 assets of Rare Earth at December 16, 2009 as follows:

Cash	$ 176,400
Short-term investments	6,650,000
Other working capital	4,129
Exploration and evaluation assets	1,020,000
Property and equipment	13,852
Net assets acquired	$ 7,864,381

5. Short-term Investments

As at September 30, 2011 the Company had $3,138,912 (March 31, 2011: $7,470,664) in short-term investments consisting of cashable guaranteed investment certificates in major Canadian Banks, money market funds and bonds maturing from February 3, 2012 to September 10, 2012. The yields on these investments are 1.50% to 5.29% per year.

These investments are fully liquid and available at the request of the Company, and accordingly they have been classified as a current asset in these condensed consolidated financial statements.

6. Exploration and evaluation assets

The Company has capitalized the following acquisition costs of its mineral property interests during the period ended September 30, 2011:

Mineral Interests	Hinton Coal $	Clay-Howells $	Springer $	Coldwell Complex $	Red Wine Complex $	James Bay $	Genex $	Total $
Balance, March 31, 2011	1,020,000	424,043	-	122,002	758,494	-	11,044	2,335,583
Acquisition costs for the period	-	-	261,235	-	286,451	47,522	(318)	594,890
Write-downs	-	-	-	-	(41,478)	-	-	(41,478)
Balance, September 30, 2011	1,020,000	424,043	261,235	122,002	1,003,467	47,522	10,726	2,888,995

During the period ended September 30, 2011, the Company incurred the following exploration expenditures that were expensed as incurred:

Exploration Expenditures	Clay-Howells $	Springer $	Coldwell Complex $	Red Wine Complex $	James Bay $	Genex $	Total $
Prospecting	1,028	6,457	16,087	359,631	-	1,236	384,439
Geology	55,775	44,612	5,643	92,591	325	618	199,564
Geophysical	3,600	52,530	72,126	2,275	-	-	130,531
Trenching	-	-	-	3,627	-	-	3,627
Diamond drilling	250,724	457,049	-	1,544,475	-	-	2,252,248
Other	-	-	-	-	500	4,220	4,720
Exploration Expenditures for the period	311,127	560,648	93,856	2,002,599	825	6,074	2,975,129

During the period ended September 30, 2010, the Company incurred the following exploration expenditures that were expensed as incurred:

Exploration Expenditures	Clay-Howells $	Lackner $	Red Wine Complex $	Genex $	Total $
Prospecting	167,664	23,886	642,956	4,581	839,087
Geology	46,765	4,787	130,837	14,830	197,219
Geophysical	25,038	400	85,179	-	110,617
Trenching	-	-	223,492	238	223,730
Diamond drilling	160,742	-	739,206	-	899,948
Other	4,170	-	500	18,052	22,722
Exploration Expenditures for the period	404,379	29,073	1,822,170	37,701	2,293,323

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.

The Company continues to own a 100% interest in the Hinton Coal property.

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 Fiscal 2010, 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.

Lackner Property

The Lackner property consisted of 105 unpatented claim units and was located 25 kilometres southeast of Chapleau, Ontario. During Fiscal 2010, the Company entered into an option agreement on September 9, 2009 to acquire up to a 90% interest in the Lackner property 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 a seven year period. On signing of the Lackner property agreement, the Company made a $50,000 cash payment. As of August 9, 2010, the Company elected to terminate the Lackner property option agreement, and accordingly, the Company has written off $58,986 in related acquisition costs.

Coldwell Complex

During Fiscal 2011, the Company completed the staking of 706 claim units over the Coldwell Alkaline Complex in Northern Ontario.

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.

Mann #1, Two Tom Lake

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 (issued); (b) pay $35,000 (paid) and issue 135,000 shares (issued) on September 29, 2010; (c) pay $45,000 (paid) and issue 135,000 shares (issued) on September 29, 2011; and (d) pay $70,000 and issue 170,000 shares on September 29, 2012.

Upon the Company exercising the option, the Mann Optionors will retain a 2% net smelter royalty ("NSR") in the Optioned Properties and beginning on September 29, 2014, 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 for $1,000,000.

Letitia Lake Property - Cornerstone Capital

Pursuant to an option agreement dated February 8, 2010, between the Company and Cornerstone Capital Resources Inc., the Company may earn a 51% interest in a 155 claim unit property. The Company must make the following payments and incur expenditures sufficient to maintain the property in good standing: (a) initial payment of $10,000 (paid) and 20,000 shares (issued), (b) first year expenditures of $50,000 (expended), (c) $10,000 on or before 12 months following the approval date (paid), issue an additional 20,000 shares on or before 12 months following the approval date (issued), (d) $20,000 on or before 24 months following the approval date, issue 40,000 shares on or before 24 months following the approval date, incur an additional $100,000 of exploration expenditures on or before 24 months following the approval date, and (d) incur an additional $200,000 of exploration expenditures on or before 36 months following the approval date.

Red Wine Property – Playfair Mining Ltd.

Pursuant to an option agreement dated February 8, 2010, between the Company and Playfair Mining Ltd., the Company may earn a 51% interest in 6 claim licences forming Playfair's Red Wine Property in Labrador. The Company must make the following payments and incur expenditures sufficient to maintain the property in good standing: (a) initial payment of $15,000 (paid) and 20,000 shares (issued), (b) first year expenditures of $100,000 (expended), (c) $15,000 on or before 12 months following the approval date (paid), and issue an additional 30,000 shares on or before 12 months following the approval date (issued), (d) $20,000 on or before 24 months following the approval date, issue 50,000 shares on or before 24 months following the approval date, and incur an additional $200,000 of exploration expenditures on or before 24 months following the approval date, and (d) $20,000 on or before 36 months following the approval date, issue 50,000 shares on or before 36 months following the approval date and incur an additional $200,000 of exploration expenditures on or before 36 months following the approval date.

Ten Mile Lake/Letitia Lake – Hicks agreement

Pursuant to an option agreement dated April 26, 2010 between the Company and Darrin Hicks, the Company may acquire a 100% interest in the claim licence located in the Ten Mile Lake/Letitia Lake area of west of central Newfoundland, known as the Hicks Property. Pursuant to the agreement, in order to exercise the option and earn a 100% interest in the Hicks Property, the Company must make the following payments and share issuances to Darrin Hicks: (a) on exchange approval, pay $1,500 (paid) and issue 5,000 shares (issued); (b) pay $7,500 (paid) and issue 10,000 shares (issued) on April 26, 2011; and (c) pay $10,000 and issue 15,000 shares on April 26, 2012. In addition, there is a 2% net smelter return relating to the acquisition. The Company may, at any time, purchase 1% of the net smelter return for $750,000.

Ten Mile Lake/Letitia Lake – Quinlan agreement

Pursuant to an option agreement dated April 26, 2010 between the Company and Eddie Quinlan, the Company may acquire a 51% interest in 5 claim licences and 61 claim units located in the Ten Mile Lake/Letitia Lake area of west of central Newfoundland, known as the Ten Mile Property. Pursuant to the agreement, in order to exercise the option and earn a 51% interest in the Ten Mile Lake Property, the Company must make the following payments and share issuances to Eddie Quinlan: (a) on exchange approval, pay $5,000 (paid) and issue 10,000 shares (issued); (b) pay $8,000 (paid) and issue 20,000 shares (issued) on April 26, 2011; and (c) pay $20,000 and issue 60,000 shares on April 26, 2012.

Once the above payments have been completed, the Company will have earned a 51% interest in the claims and additional work will be carried out as a joint venture.

Partridge River - Belmont Resources and International Montoro Resources

Pursuant to an option agreement dated August 30, 2010, between the Company and Belmont Resources Inc. and International Montoro Resources Inc., the Company may acquire a 75% interest in one claim licence comprising 23 claim units located in the Red Wine area of west central Labrador, Canada known as the Partridge River Property. The Company must make the following payments and share issuances to Belmont Resources Inc. and International Montoro Resources Inc.: (a) on signing, pay $5,000 (paid); (b) on exchange approval, pay $5,000 (paid) and issue 50,000 shares (issued); (c) pay $10,000, issue 50,000 shares and incur $50,000 of exploration expenditures on August 30, 2011; (d) pay $10,000, issue 50,000 shares and incur $100,000 of exploration expenditures on August 30, 2012; and (e) pay $20,000, issue 100,000 shares and incur $100,000 of exploration expenditures on August 30, 2013. In addition, there is a 2% net smelter return relating to the acquisition. The Company may, at any time, purchase 1% of the net smelter return for $1,000,000.

During the period, the Company elected to terminate the Partridge River – Belmont Resources and International Montoro Resources property option agreement, and accordingly, the Company has written off the related acquisition costs.

Hick's Partridge River

Pursuant to an option agreement dated September 1, 2010, between the Company and Darrin Hicks, the Company may acquire a 100% interest in 2 claim licences comprising of 12 claim units in the Letitia Lake area of west central Labrador, Canada known as the Hick's Partridge River Property. The Company must make the following payments and share issuances to Darrin Hicks: (a) on signing, pay $2,000 (paid) and issue 7,500 shares (issued); (b) pay $6,000 and issue 11,500 shares on September 1, 2011; (c) pay $12,500 and issue 16,500 shares on September 1, 2012; and (d) pay $17,500 and issue 20,000 shares on September 1, 2013. In addition, there is a 2% net smelter return relating to the acquisition. The Company may, at any time, purchase 1% of the net smelter return for $750,000.

During the period, the Company elected to terminate the Hick's Partridge River property option agreement, and accordingly, the Company has written off the related acquisition costs.

Red Wine Property - Zimtu

Pursuant to an option agreement dated August 31, 2010 and approved by the TSX-V September 30, 2010, between the Company and Zimtu Capital Corp., Gary Lewis, Aubrey Budgell and Neh Pinsent, the Company may acquire a 100% interest in 508 claim units located in the Red Wine/Letitia Lake area of west central Labrador, Canada, known as the Zimtu Property. The Company must make the following payments and share issuances to the Optionors: (a) $50,000 on signing (paid) and issue 1,000,000 shares (issued) on TSX-V approval of the formal agreement; (b) pay $50,000 (paid) and issue 500,000 shares (issued) on September 30, 2011; (c) pay $50,000 and issue 500,000 shares on September 30, 2012. The Optionors will maintain a 2% Net Smelter Returns Royalty ("NSR") on the Property; 1% of which the Company has the right to purchase from the Optionors for $1,000,000.

Northcott/Hare Hill

Pursuant to an option agreement dated November 10, 2010, between the Company and the Northcotts (vendor), the Company may acquire a 100% interest in a 20 claim unit property in western Newfoundland. The Company must make payments of $43,000 and issue 200,000 shares over three years (including $2,000 (paid) and 10,000 shares on approval (issued). Once vested, the vendor will be entitled to a 2% NSR. Half the NSR (1%) can be purchased by the Company for $1,000,000.

The Company has entered a joint venture with Ucore Rare Metals Inc. ("Ucore") dated December 3, 2010, to jointly fund exploration and development of the Northcott option. Terms of the joint venture with Ucore allows for both companies to maintain a 50% interest in the Northcott Property by funding 50% of the acquisition, exploration and development costs. The Company will be the operator and funding the initial $50,000 trenching and sampling program has been guaranteed by both companies. Once either party has expended in excess of $200,000 on the Property, and decides not to fund future programs, it will be diluted pro rata to a 1% NSR.

During the period, the Company elected to terminate the Northcott/Hare Hill property option agreement, and accordingly, the Company has written off the related acquisition costs.

Springer

Lavergne prospect

On June 7, 2011, the Company completed agreements to acquire the Lavergne rare earth prospect in Springer Township, located immediately north of the town of Sturgeon Falls and 80 km east of Sudbury, Ontario.

Terms of the initial agreement to option the Mineral Rights to the 128 hectare patent, covering the prospect, include staged payments of $217,000 over three years, including $36,000 on signing (paid). The owners will retain a 1% NSR (Net Smelter Royalty) and the Company will have the right to purchase half of this for $1,000,000. A second agreement was also completed to purchase the Surface Rights to the eastern half of the Patent (64 hectares) for a total of $150,000, in two payments.

Springer – Zimtu

A separate third agreement was negotiated with Zimtu Capital Corp. and two private prospectors (the "Optionors") to option a total of 40 unpatented claim units totaling 647 hectares adjacent to the above-described Patent. Terms of the Zimtu option agreement includes total payments of $200,000 and 2,000,000 shares over four years, including initial payments of $50,000 (paid) and 500,000 shares (issued). The Optionors will retain a 2% NSR on the 40 unpatented claim unit property with the Company having the right to purchase half of this for $1,000,000.

7. Property and Equipment

	September 30, 2011			March 31, 2011		
	Cost $	Accumulated Depreciation $	Net $	Cost $	Accumulated Depreciation $	Net $
Computer equipment	12,456	3,739	8,717	9,851	2,317	7,534
Computer software	9,182	7,583	1,599	9,182	6,624	2,558
Office equipment & furniture	12,142	3,306	8,836	11,221	2,376	8,845
General equipment	46,854	12,432	34,422	40,000	8,800	31,200
Field equipment	133,336	38,922	94,414	115,736	24,128	91,608
Signs	3,915	1,151	2,764	3,915	861	3,054
Vehicles	8,025	2,150	5,875	8,025	1,204	6,821
Total	225,910	69,283	156,627	197,930	46,310	151,620

8. Capital and Reserves

(a) Share Capital

Authorized: Unlimited common shares without par value.

During the year ended March 31, 2011, the Company completed a non-brokered private placement for gross proceeds of $1.85 million by issuing 4,015,448 million flow-through units at a price of $0.46 per unit. Each unit consists of one flow-through common share and one half of one share purchase warrant with each whole warrant entitling the holder to acquire one additional common share at a price of $0.60 per share for a period of one year from closing. Pursuant to the private placement, cash commissions totaling $134,176 were paid to the finders. As at September 30, 2011, the full amount of flow-through proceeds were expended.

(b) Share Purchase Warrants

Details of share purchase warrant transactions for the period are as follows:

	# of Warrants	Weighted Average Exercise Price $	Expiry
Outstanding at March 31, 2009	1,250,000	1.20	
Issued during the period to investors	10,000,000	0.35	Dec 2011
Issued during the period to agents	2,000,000	0.25	Dec 2011
Expired during the period	(1,250,000)	1.20	
Exercised during the period	(48,000)	0.35	
Outstanding at March 31, 2010	11,952,000	0.33	
Exercised during the period	(2,410,000)	0.27	
Issued during the period to investors	2,007,724	0.60	Nov 2011
Outstanding at March 31, 2011 and September 30, 2011	11,549,724	0.39	

For all warrants issued during the year ended March 31, 2011, the fair values have been estimated using the Black-Scholes Option Pricing Model and the following assumptions: dividend yield of 0%, expected volatility of 90.1% to 90.2%, a risk-free interest rate of 1.50 to 1.51% and an expected life of 1 year. The value of the warrants reduced the proceeds attributed to share capital and are recognized under shareholders' equity as part of reserves.

As at September 30, 2011, the following share purchase warrants were outstanding:

Number of common shares issuable	**Exercise price $**	**Date of expiry**
9,542,000	0.35	December 16, 2011
1,932,724	0.60	November 15, 2011
75,000	0.60	November 23, 2011
11,549,724		

Subsequent to the reporting period on November 4, 2011, the Company received TSX-Venture Exchange approval to extend the exercise period to November 10, 2012 for 2,007,724 warrants. These warrants were issued pursuant to the $1.85 million Private Placement that closed in November 2010. All other terms and conditions of the warrants remain the same.

(c) 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 under the plan is 16,480,616. The Company recognizes stock-based compensation in connection with stock options granted over their respective vesting periods, with stock options typically vesting in various increments and having a maximum term of five years.

Stock option transactions for the period ended September 30, 2011 and the year ended March 31, 2011 are as follows:

	Number	Weighted Average Exercise Price $
Options outstanding at March 31, 2010	3,430,000	0.56
Expired / cancelled / forfeited	(1,015,000)	0.58
Granted	3,525,000	0.37
Exercised	(100,000)	0.30
Options outstanding at March 31, 2011	5,840,000	0.45
Granted	275,000	0.37
Options outstanding at September 30, 2011	6,115,000	0.43

The weighted-average fair value of options granted during the period ended September 30, 2011 was $0.37. 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
$ 0.35 - $0.60	6,115,000	3.57	$ 0.43	5,384,375	$0.45

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

	2011	**2010**
Risk-free interest rate	**0.86% - 2.96%**	**1.36% - 2.91%**
Dividend yield	**0%**	**0%**
Volatility	**89% - 137%**	**98% - 137%**
Approximate expected lives	**2 – 5 years**	**2 - 5 years**

The following table summarizes information about the options outstanding at September 30, 2011 and March 31, 2011:

Expiry Dates	Exercise Price $	September 30, 2011 # of options	March 31, 2011 # of options
January 2012	0.55	200,000	200,000
August 2012	0.35	50,000	50,000
February 2013	0.38	200,000	200,000
July 2013	0.37	100,000	-
January 2015	0.60	65,000	65,000
January 2015	0.55	2,150,000	2,150,000
April 2015	0.35	450,000	450,000
August 2015	0.35	100,000	100,000
January 2016	0.37	2,625,000	2,625,000
July 2016	0.37	75,000	-
September 2016	0.37	100,000	-
		6,115,000	5,840,000

The Company applies the fair value method of accounting for share-based payments using an option pricing model.

Stock options granted to directors, officers and employees vested during the six months ended September 30, 2011 as follows:

Grant date	# of options	Exercise Price $	Expiry Date
January 15, 2010	146,455	0.55	January 15, 2015
January 20, 2010	4,068	0.55	January 20, 2015
January 22, 2010	1,220	0.60	January 22, 2015
April 29, 2010	62,060	0.35	April 29, 2015
August 25, 2010	20,327	0.35	August 25, 2015
January 14, 2011	929,271	0.37	January 14, 2016
July 5, 2011	35,051	0.37	July 5, 2016
September 1, 2011	32,252	0.37	September 1, 2016
	1,230,704		

The Company has calculated $382,922 as compensation expense and under capital stock as contributed surplus for the 1,230,704 options vesting to directors, officers and employees during the period:

- For options granted on January 15, 2010, the fair value of each vested option is $0.4853 and was estimated on the grant date with the following assumptions:

dividend yield of 0%, expected volatility of 136.86%, a risk-free interest rate of 2.70% and an expected life of approximately 5 years.

- For options granted on January 20, 2010, the fair value of each vested option is \$0.5768 and was estimated on the grant date with the following assumptions: dividend yield of 0%, expected volatility of 137.12%, a risk-free interest rate of 2.62% and an expected life of approximately 5 years.

- For options granted on January 22, 2010, the fair value of each vested option is \$0.5295 and was estimated on the grant date with the following assumptions: dividend yield of 0%, expected volatility of 137.12%, a risk-free interest rate of 2.55% and an expected life of approximately 5 years.

- For options granted on April 29, 2010, the fair value of each vested option is \$0.2023 and was estimated on the grant date with the following assumptions: dividend yield of 0%, expected volatility of 133.79%, a risk-free interest rate of 2.92% and an expected life of approximately 5 years.

- For options granted on August 25, 2010, the fair value of each vested option is \$0.2255 and was estimated on the grant date with the following assumptions: dividend yield of 0%, expected volatility of 131.77%, a risk-free interest rate of 2.79% and an expected life of approximately 5 years.

- For options granted on January 14, 2011, the fair value of each vested option is \$0.3045 and was estimated on the grant date with the following assumptions: dividend yield of 0%, expected volatility of 124.16%, a risk-free interest rate of 2.60% and an expected life of approximately 5 years.

- For options granted on July 5, 2011, the fair value of each vested option is \$0.1704 and was estimated on the grant date with the following assumptions: dividend yield of 0%, expected volatility of 118.45%, a risk-free interest rate of 2.32% and an expected life of approximately 5 years.

- For options granted on September 1, 2011, the fair value of each vested option is \$0.2388 and was estimated on the grant date with the following assumptions: dividend yield of 0%, expected volatility of 116.90%, a risk-free interest rate of 1.58% and an expected life of approximately 5 years.

Stock options granted to non-employees vested during the six months ended September 30, 2011 as follows:

Grant date	# of options	Exercise Price $	Expiry Date
January 15, 2010	28,477	0.55	January 15, 2015
April 29, 2010	6,990	0.35	April 29, 2015
February 11, 2011	92,924	0.38	February 11, 2013
July 27, 2011	41,238	0.37	July 27, 2013
	169,629		

The Company has calculated $29,284 as compensation expense and under capital stock as contributed surplus for the 169,629 options vesting to non-employees during the period:

- For options granted on January 15, 2010, the fair value of each vested option is $0.2615 and was estimated on the vesting date July 15, 2011 with the following assumptions: dividend yield of 0%, expected volatility of 122.18%, a risk-free interest rate of 2.62% and an expected life of approximately 3.50 years.

- For options granted on April 29, 2010, the fair value of each vested option is $0.2650 and was estimated on the vesting date April 29, 2011 with the following assumptions: dividend yield of 0%, expected volatility of 120.16%, a risk-free interest rate of 2.65% and an expected life of approximately 4 years.

- For options granted on February 11, 2011, the fair value of each vested option is $0.0801 and was estimated on the vesting date August 11, 2011 with the following assumptions: dividend yield of 0%, expected volatility of 88.66%, a risk-free interest rate of 0.86% and an expected life of approximately 1.4 years.

- For options granted on July 27, 2011, the fair value of each vested option is $0.1269 and was estimated on the vesting date July 27, 2011 with the following assumptions: dividend yield of 0%, expected volatility of 89.02%, a risk-free interest rate of 1.47% and an expected life of approximately 2 years.

Option pricing models require highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

(d) Shares subject to escrow or hold periods

As of September 30, 2011, 2,565,000 of the Company's issued and outstanding common shares are subject to an escrow agreement under which the shares will be released in stages every six months. Each future release will consist of 855,000 shares, with the next release date being December 14, 2011.

As of September 30, 2011, 2,786,000 of the Company's issued and outstanding common shares are subject to certain hold periods that expire in stages every six months. On each future expiry date the hold period will expire for 2,786,000 of the shares, with the next such date being December 14, 2011.

9. Related Party Transactions

The Company paid or accrued the following amounts to related parties during the periods ended September 30, 2011 and September 30, 2010:

Payee	Description of Relationship	Nature of Transaction	September 30, 2011 Amount $	September 30, 2010 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 exploration expenditures, and premises rental	57,356	102,573
Gordon J. Fretwell Law Corporation	Company controlled by Gordon Fretwell, Secretary	Legal fees charged/accrued during the period	23,043	18,498
Eastrock Exploration Inc.	Company controlled by Wayne Reid, Director	Payments for geological consulting services and reimbursement of exploration expenditures	31,019	60,248
Felix Geo-Consultants	Company controlled by Reg Felix, VP Exploration	Payments for geological consulting services and reimbursement of exploration expenditures	107,463	83,815

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 $23,043 (2010: $nil) to Gordon J. Fretwell Law Corporation, $7,628 (2010:$10,707) to Eastrock Exploration Inc., $4,207 (2010: $4,189) to Stares Contracting Corp., and $7,458 (2010: $8,475) to Felix Geo-Consultants. The repayment terms are similar to the repayment terms of non-related party trade payables.

Key management personnel remuneration during the period included $237,956 (September 30, 2010: $205,466) in salaries and benefits and $259,030 (September 30, 2010: $408,458) in share-based payments.

10. Capital Disclosures

The Company's objectives when managing capital are as follows:

- To safeguard the Company's ability to continue as a going concern;
- To raise sufficient capital to finance its exploration and evaluation activities on its mineral exploration properties;
- To raise sufficient capital to meet its general and administrative expenditures

The Company manages its capital structure and makes adjustment to it, based on the general economic conditions, its short term working capital requirements, and its planned exploration and evaluation program expenditure requirement. The capital structure of the Company is composed of working capital and shareholders' equity. The Company may manage its capital by issuing flow-through common share, or by obtaining additional financing.

The Company utilizes annual capital and operating expenditure budgets to facilitate the management of its capital requirement. These budgets are approved by management and updated for changes in the budgets underlying assumptions as necessary.

There were no changes in the Company's approach to managing capital during the period.
In order to maintain or adjust the capital structure, the Company considers the following:

i. Incremental investment and acquisition opportunities;
ii. Equity and debt capital available from capital markets;
iii. Equity and debt credit that may be obtainable from the marketplace as a result of growth in mineral reserves;
iv. Availability of other sources of debt with difference characteristics than the existing bank debt;
v. the sale of assets;
vi. limiting the size of the investment program; and
vii. new share issuances if available on favourable terms.

Except as otherwise disclosed, the Company is not subject to any external financial covenants at September 30, 2011.

11. Financial Instrument Risks

The Company's financial instruments are exposed to certain risks, including credit risk, liquidity risk, interest rate risk and market risk.

a) Credit Risk

Counterparty credit risk is the risk that the financial benefits of contracts with a specific counterparty will be lost if a counterparty defaults on its obligations under the contract. This includes any cash amounts owed to the Company by those counterparties, less any amounts owed to the counterparty by the Company where a legal right of offset exists and also includes the fair values of contracts with individual counterparties which are recorded in the financial statements.

i) Trade credit risk
The Company is in the exploration stage and has not yet commenced production or sales. Therefore, the Company is not exposed to significant credit risk and overall the Company's credit risk has not changed significantly from the prior period.

ii) Cash and cash equivalents
In order to manage credit and liquidity risk the Company's cash and short term investments are held through large Canadian Financial Institutions. Staking security deposits are held by the Government of Newfoundland.

iii) Derivative financial instruments
As at September 30, 2011, the Company has no derivative financial instruments.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet is financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure. The Company monitors and reviews current and future cash requirements and matches the maturity profile of financial assets and liabilities.

Accounts payable and accrued liabilities are due within the current operating period.

c) Interest rate risk

The Company's interest revenue earned on cash and short-term investments is exposed to interest rate risk. The Company does not enter into derivative contracts to manage this risk. The Company's exposure to interest rate risk is very low as the Company's short term investments are either fully liquid or bear short staggered maturity dates to mitigate the risk of fluctuating interest rates.

The Company limits its exposure to interest rate risk as it invests only in short-term investments at major Canadian financial institutions.

d) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices and is comprised of currency risk, interest rate risk, and other price risk. The Company currently does not have any financial instruments that would be impacted by changes in market prices.

12. Refundable Security Deposits

Refundable security deposits of $122,977 (March 31, 2011: $56,966) 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.

13. Supplemental Cash Flow Information

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

	September 30, 2011 $	September 30, 2010 $
Non-cash financing activities		
Common shares issued for property and finders agreements	270,950	74,100
Non-cash investing activities		
Common shares issued for property and finders agreements	(270,950)	(74,100)

14. Transition to International Financial Reporting Standards

As stated in note 2, these are the Company's second set of condensed consolidated interim financial statements for the period covered by the first annual financial statements prepared in accordance with IFRS.

The accounting policies in note 2 have been applied in preparing the condensed consolidated interim financial statements for the six months ended September 30, 2011, the comparative information for the six months ended September 30, 2010 and the financial statements for the year ended March 31, 2011.

In preparing its opening IFRS statement of financial position, comparative information for the six months ended September 30, 2010 and financial statements for the year ended March 31, 2011, the Company adjusted amounts reported previously in financial statements prepared in accordance with GAAP.

An explanation of how the transition from previous GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables.

The guidance for the first time adoption of IFRS are set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exception for first time adopters of IFRS. The Company elected to take the following IFRS 1 optional exemptions:

- to apply the requirements of IFRS 3, Business Combinations, prospectively from the Transition Date; and
- 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.

With respect to mandatory exceptions to retrospective application, hindsight was not used to create or revise estimates and, accordingly, the estimates previously made by the Company under Canadian GAAP are consistent with their application under IFRS.

14. Transition to International Financial Reporting Standards (Cont'd)

Reconciliation of Assets, Liabilities and Equity

	As at September 30, 2010			
	GAAP	Effect of transition to IFRS	Notes	IFRS
	$	$		$
ASSETS				
Current Assets				
Cash	276,661	-		276,661
Short-term investments	7,028,644	-		7,028,644
Interest and other receivables	211,413	-		211,413
Prepaid expenses	64,602	-		64,602
Refundable security deposits	9,750	-		9,750
Total current assets	7,591,070	-		7,591,070
Non-current assets	-	-		-
Exploration and evaluation assets	1,692,076	-		1,692,076
Property and equipment	163,456	-		163,456
Total non-current assets	1,855,532	-		1,855,532
	9,446,602	-		9,446,602
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	639,404	-		639,404
Total current liabilities	639,404	-		639,404
Equity				
Share capital	8,942,305	-		8,942,305
Warrants	4,420,294	(4,420,294)	c	-
Contributed surplus	1,072,152	(1,072,152)	c	-
Reserves	-	5,492,446	c	5,492,446
Deficit	(5,627,553)	-		(5,627,553)
Total equity	8,807,198	-		8,807,198
	9,446,602	-		9,446,602

14. Transition to International Financial Reporting Standards (Cont'd)

Reconciliation of Loss and Comprehensive Loss

	For the three months ended September 30, 2010			
	GAAP	Effect of transition to IFRS	Notes	IFRS
	$	$		$
Exploration costs	1,703,452	-		1,703,452
Expenses				
Depreciation	11,308	-		11,308
Consulting fees	12,325	-		12,325
Investor relations	69,681	-		69,681
Listing, filing and transfer agent	19,737	-		19,737
Office and miscellaneous	21,184	-		21,184
Professional fees	5,602	-		5,602
Rent	11,740	-		11,740
Share-based payments	344,372	-		344,372
Travel and accommodations	39,568	-		39,568
Wages & benefits	63,499	-		63,499
Loss before the following:	(2,302,468)	-		(2,302,468)
Interest and sundry income	14,929	-		14,929
Adjustment to fair market value for investments	6,585	-		6,585
Write-down of exploration and evaluation assets	-	-		-
Comprehensive loss for the period	(2,280,954)	-		(2,280,954)

14. Transition to International Financial Reporting Standards (Cont'd)

Reconciliation of Loss and Comprehensive Loss

	For the six months ended September 30, 2010			
	GAAP	Effect of transition to IFRS	Notes	IFRS
	$	$		$
Exploration costs	2,293,323	-		2,293,323
Expenses				
Depreciation	20,387	-		20,387
Consulting fees	19,702	-		19,702
Investor relations	107,906	-		107,906
Listing, filing and transfer agent	22,194	-		22,194
Office and miscellaneous	46,427	-		46,427
Professional fees	31,004	-		31,004
Rent	24,719	-		24,719
Share-based payments	688,733	-		688,733
Travel and accommodations	59,515	-		59,515
Wages & benefits	124,182	-		124,182
Loss before the following:	(3,438,092)	-		(3,438,092)
Interest and sundry income	27,366	-		27,366
Fees earned on mineral properties	-	-		-
Adjustment to fair market value for investments	23,171	-		23,171
Write-down of exploration and evaluation assets	(58,986)	-		(58,986)
Deferred income tax recovery	-	-	-	-
Comprehensive loss for the period	(3,446,541)	-		(3,446,541)

14. Transition to International Financial Reporting Standards (Cont'd)

Notes to Reconciliation:

(a) Basis of Consolidation

In accordance with IFRS 1, if a company elects to apply IFRS 3 Business Combinations retrospectively, IAS 27 Consolidated and Separate Financial Statements must also be applied retrospectively. As the Company elected to apply IFRS 3 prospectively, the Company has also elected to apply IAS 27 prospectively.

(b) Share-based payment

IFRS 2 Share-based payments requires the Company to measure share-based compensation related to share purchase options granted to employees at the fair value of the options on the grant date and to recognize such expense over the vesting period of the options. The recognition of such expense has been done with a "graded vesting" methodology.

The Company has elected 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. There was no impact on the financial statements. For the purposes of accounting for share-based payment transactions an individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. The fair values of options granted to employees were measured on the date of grant. The fair value of options granted to contractors and consultants are measured on the date the services are completed.

(c) Reclassification within equity section

IFRS requires an entity to present for each component of equity, reconciliation between the carrying amount at the beginning and end of the period, separately disclosing each change. The Company reviewed its contributed surplus account and concluded that as at the Transition Date, the entire amount of $383,419 relates to "Equity settled benefits reserve". As a result, the Company believes a reclassification would be necessary in the equity section between "Contributed surplus" and the "Equity settled benefits reserve" account. For comparatives, as at September 30, 2010, the entire "Contributed surplus" account was reclassified into "Equity settled benefits reserve". Additionally, as at March 31, 2011, "Contributed surplus" account was reclassified as "Equity settled benefits reserve".

(d) Deferred flow through premium

Under GAAP, the Company, in accounting for flow through funds received, recorded the funds to share capital. IFRS requires that excess to market value upon issuance of flow through common share be recorded in the statement of loss and comprehensive loss (deferred liability for flow through raised funds at time of issuance of flow through common shares and charged to the statement of loss and comprehensive loss as the necessary expenditures to be renounced under flow through common share agreements are spent).

15. Commitments

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

During 2010, the Company entered into lease agreements for the use of two automobiles for 36 month periods, expiring January 12, 2013 and January 26, 2013. The Company entered into a lease agreement for the use of a photocopier for 48 months, expiring January 2, 2014.

The Company's minimum annual lease payments required are payable as follows:

	$
2011	4,769
2012	19,077
2013	14,664
2014	1,190
	39,700

16. Income Taxes

a) Income Tax Information

The Company has non-capital losses available for deduction against future years' taxable income amounting to $5,166,000. The Company has not recognized any future benefit for these tax losses and resource deductions, as it is not considered likely that they will be utilized. If unused, these tax losses will expire as follows:

Year	Amount
2014	$ 25,000
2015	34,000
2026	262,000
2027	506,000
2028	721,000
2029	1,072,000
2030	571,000
2031	1,975,000
	$ 5,166,000

17. Subsequent Events

On November 17, 2011, the Company announced that it intends to conduct a non-brokered private placement of up to 8.9 million units ("Units") at a price of $0.17 per Unit to raise proceeds of up to $1.5 million.

Each Unit will consist of one flow-through common share and one half of a share purchase warrant with each full warrant entitling the holder to acquire one additional non-flow-through common share at a price of $0.22 per share for a period of one year from closing.