MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the three months ended June 30, 2012

August 27, 2012

General

This Management Discussion and Analysis ("MD&A") is dated August 27, 2012 and is in respect of the three months ended June 30, 2012. The following discussion of the financial condition and results of operations of Rare Earth Metals Inc. (the "Company") constitutes management's review of the factors that affected the Company's financial and operating performance for the period ended June 30, 2012.

Additional information relating to the Company is available on the SEDAR website at www.sedar.com.

The discussion should be read in conjunction with the condensed consolidated interim financial statements for the period ended June 30, 2012 and the consolidated annual financial statements and corresponding notes to the consolidated annual financial statements for the year ended March 31, 2012. The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Unless otherwise stated, all amounts discussed herein are denominated in Canadian dollars.

Overview of the Company

Rare Earth Metals Inc. (the "Company" or "Rare Earth") is a Canadian development stage public company focused on the acquisition and development of mineral properties. The Company's common shares are listed on TSX Venture Exchange under the trading symbol "RA" and on the OTCQX under the trading symbol "RAREF".

The focus of the Company is to seek out and explore mineral properties of potential economic significance and advance these projects through prospecting, sampling, geological mapping and geophysical surveying, trenching, and diamond drilling in order for management to determine if further work is justified. The Company's property portfolio consists of projects focusing on rare earth metals and strategic metals.

Highlights

The three months ended June 30, 2012 and the period ended August 27, 2012 were highlighted by the following activities:

FINANCE

- The balance of cash and short-term investments was $2,047,673 as at June 30, 2012 and the balance of working capital as at June 30, 2012 was $1,977,328.

EXPLORATION

- $175,618 was incurred on exploration activities in 2012 (2011: $678,138) of which $65,757 was incurred in respect of the Springer project (2011: $56,644), $36,175 was incurred in respect of Red Wine Property (2011: $311,003). During 2011, aggressive drill programs were undertaken at both properties to define mineral resource estimates on the properties.

Mineral Properties

The Company's advanced projects are Lavergne -Springer, Red Wine and Clay-Howells. Other projects include Coldwell Complex, Manitouwadge Graphite and Hinton Coal. The Company has a portfolio of other less developed properties.

Lavergne-Springer

The Lavergne –Springer property is defined by the mineral rights to one patented claim and ten contiguous mining claims in northeast Ontario, currently 100% held by Rare Earth Metals, and cover an area of approximately 775.5 ha. It is located in Springer Township in northeastern Ontario, immediately north of the Town of Sturgeon Falls and 80 km east of Sudbury, Ontario, and has good road access and is approximately 6.5 km west of the Crystal Falls hydroelectric dam, on the Sturgeon River. In March 2012, Rare Earth Metals purchased the surface rights to the eastern half of the patented map, an area of 64 ha, that covers the known Lavergne-Springer deposit. Rare Earth Metals also holds the mineral rights to 14 other mineral claims in the Springer Township and adjacent Townships of Field to the north and Pedley to the east.

The Lavergne-Springer property covers a historic showing previously drilled in 1969 by Geophysical Engineering and Surveys Ltd. of North Bay, Ontario. Partial drill results from the historic four-hole program included 0.98% Rare Earth Oxide (REO) over 112.7 meters which included a higher grade section of 1.22% REO over 63.3 meters (DDH-L-69-1). Since acquiring the Property in 2011, Rare Earth Metals has conducted sampling of old pits and trenches from historic work completed in the 1960's by Geophysical Engineering and Surveys Ltd., and have completed mineralogical and mineral processing studies, drilling, mapping, and airborne magnetic and radiometric geophysical surveys on the Lavergne-Springer project. Twenty of 22 drill holes totalling 6080 meters intersected rare earth mineralization along an 800 m strike length within a granitoid (granitic gneiss) at roughly 0° azimuth to 20° azimuth and appears to dip sub-vertically to steeply dipping to the east. The Lavergne-Springer deposit is classified as a carbonatite that has intruded into a granite gneiss (granitoid) host. The host granitoid rocks appear to have undergone varying (weak to intense) hydrothermal alteration. Mineral characterization studies have confirmed the nature of the REE mineralogy to be synchysite, a calcium REE fluorocarbonate mineral.

In May, 2012 Rare Earth announced its initial National Instrument 43-101 compliant resource estimate in respect of the Lavergne - Springer project. The resource estimate was completed by Tetra Tech Wardrop (Tetra Tech) of Toronto, Ontario. A summary of the results is as follows:

- 4.2 million tonnes grading at 1.14 % total rare earth oxide (TREO), with approximately 6% of the TREO being made up of heavy rare earth metals and oxides (HREOs), at a 0.9% TREO cut-off grade in the indicated category.

- 12.7 million tonnes grading at 1.17 % TREO, with approximately 4% of the TREO being made up of HREOs, at a 0.9% TREO cut-off grade in the inferred category.
- **Neodymium content is 17% of the TREO in the indicated category and 15.6% in the inferred category.**
- The resource calculation is based on 5,619 m of drilling in 20 holes, and 3,087 assay samples covering approximately 800 metres of strike length to an average depth 250 metres.
- Resource areas remain open along multiple directions and to depth.
- Additional drilling is recommended for the next phase of exploration to add to the confidence level of the inferred and indicated reserves and to build on the reserve base.

2011 exploration program

Between June 14 and 21, 2011, a semi-detailed mapping program was conducted on the Property. REE mineralization was observed to occur within hematite, carbonate, fluorite, pyrite mineralized veins and fractures closely associated with a late intrusive body showing replacement alteration by carbonatitic fluids which cuts across the regional structure.

In June 2011, Rare Earth Metals retained Dr. Roger H. Mitchell at Lakehead University in Thunder Bay, ON, to undertake a petrographic study and identification of the major REE bearing minerals. The study concluded that REE mineralization is essentially **synchysite**, a REE-fluoro-carbonate mineral, typically prismatic, and fine to coarse grain up to 300 microns in size. The synchysite distribution was determined to be very heterogeneous and associated mainly, but not entirely, with fluorite, barite and Fe-oxide/hydroxides; liberation of this assemblage appeared not to be problematic.

In July, 2011, Rare Earth Metals retained Anthony Mariano, a consulting mineral exploration geologist and REE specialist based in Carlisle, Massachusetts, USA, to conduct a mineralogical and preliminary bench scale mineral processing study on selected samples from the 2011 drill core. Results from this study confirm synchysite as a mono-mineralic source of the REE mineralization, thus eliminating complications with physical processing from other rare earth minerals. Attempts to concentrate synchysite on a bench scale were successful through the use of magnetic and gravity techniques. The fine–grained nature of the synchysite mineralization indicates flotation as a potential technique for physical processing.

In September 2011, a 960 line kilometre airborne radiometric and magnetic survey was completed by Geo Data Solutions Inc., of Laval, QC. The survey was flown by helicopter, over the 16 km length of the Property. Flight line spacing was nominally 100 m, with a closer spacing of 50m along the Lavergne-Springer segment of the Property.

Between June 2011 and February 2012, Rare Earth Metals has conducted two phases of diamond drilling on the Lavergne-Springer deposit. A total of 6,080m were drilled from 22 HQ-size drillholes. Twenty of the drillholes intersected the known Lavergne-Springer deposit totalling 5,619 m.

2012 outlook

Metallurgical test work to determine concentrate and metal recoveries on the Lavergne- Springer mineralzation is ongoing. Rare Earth Metals has retained Xstrata Process Support (XPS), based in Sudbury, ON, to conduct grinding and flotation test work on a bulk sample from the 2011-2012 drill core samples to determine potential recovery methods. This test work is expected to be completed in Q3 2012.

Contingent on excellent concentrate and recoveries resulting from the metallurgical test work, additional drilling is warranted to further investigate and develop the known Property. Additional drilling will determine, with greater confidence, both the continuity and extents of the rare earth mineralization. The recommended drilling includes step-out drilling to the north and laterally to the east and west of

identified mineralization. The next phase of drilling, tentatively scheduled for Q4 2012 – Q1 2013 would be comprised of 7300 meters within 23 drill holes and would focus on the northern half of the deposit within the area of higher REO grades. Pending positive results, further drilling may be considered.

Red Wine Complex

The Red Wine property is located in west central Labrador, approximately 160 km northwest of Happy Valley-Goose Bay and 120 km northeast of Churchill Falls, and between 15 km and 60 km from the Orma Lake Road, a hydro dam access road leading from Churchill Falls to a number of dykes and dams on the east side of the Smallwood Reservoir. The property's location near a road and access to electricity, deep water port and railhead is a huge positive towards the potential to develop a resource. During 2010-2011 a total of thirteen land packages totaling approximately 340 Sq. Km. in the Red Wine Complex situated within the westernmost part of the Central Mineral Belt of Labrador were staked and optioned, and covered over 70% of the new emerging Rare Metal Belt. These properties included: Mann #1, Two Tom Lake, Red Wine #2, Playfair Option, Cornerstone, Quinlan et al, Hicks and Zimtu Resources. Descriptions of the terms of these agreements are outlined in the consolidated financial statements dated March 31, 2012.

Geologically the Red Wine Belt consists of a Mesoproterozoic peralkaline suite of intrusive and volcanic rocks that form a 53 km long by 20 km wide, arcuate shaped body. The belt was the centre of a mini-staking rush beginning in mid-2009 when Rare Earth Elements (REE) became a "hot commodity" of global interest due to a forecast shortage of some of the critical individual REE. This staking originally concentrated on the known rare metal occurrences including Mann #1, Two Tom and Eudialyte Hill and spread out to cover all of the known peralkaline rocks. Rare metal mineralization appears to occur as three distinct styles.
- The first type is highly anomalous in REE/Nb/Be and is found throughout the upper part of the upper volcanic sequence where the Light REEs (6% to 8%) predominate, however there are indications that sections of the Two Tom may have much higher HREO ratios. This type includes Mann #1, Two Tom, Mann #2, Michelin # 1 and Ten Mile Lake occurrences.
- The second style of mineralization is characterized by highly anomalous Zr/REE values which are hosted by Eudialyte bearing pegmatite and syenite units within the lower intrusive sequence of the Red Wine Group. North Red Wine # 1 and North Red Wine # 2 are examples of this style of mineralization.
- A third style of REE mineralization identified in 2011 has a high Heavy REO to Total REO ratio. The mineralization at Dory Pond is an example of this.

In 2010 Rare Earth Metals Inc. contracted Aeroquest Ltd. of Mississauga, Ontario to complete a low-level airborne radiometric and magnetics survey over the Red Wine Property totaling 2806 line kilometers at 100 meter line spacing. The results of the survey included identification of 73 high priority radiometric/magnetic anomaly clusters, occurring over a total strike length of 51 kilometers across the property, many of which are associated with known mineralized trends. In addition to follow-up prospecting and trenching a diamond drilling program of 18 holes comprising 2920 metres were completed. Nb – Be – REE mineralization was intersected with intersections up to 1.45% TREO, 0.14% Nb_2O_5 and 0.14% BeO over 83.25 meters at Two Tom and 1.71% TREO, 0.24% Nb_2O_5 and 0.20% BeO over 27.0 meters at Mann #1. Preliminary mineralogy studies conducted by SGS Mineral Services of Lakefield, Ontario indicate the Rare Earth mineralization found at Two Tom and Mann#1 are concentrated in 2 main minerals: monazite and a REE – calcium silicate.

Work over the past two years has partially defined two deposits with large tonnage potential containing between 1.1 and 1.8%TREO, up to 0.3% Nb_2O_3 and 0.3% BeO. Besides the Two Tom - Mann style of mineralization there are a number of showings and REE trends found throughout the belt and include the Mann#2/Ten Mile Lake, the Michelin, the South Playfair, the B3 South, and the Dory Pond/Eudialyte Hill prospect areas that exhibit high Heavy Rare Earth to Light Rare Earth ratios and Eudialyte dominated REE/Zr zones.

2011 exploration program

Work carried out at the Red Wine project during 2011 included prospecting, soil sampling and diamond drilling. In-fill drilling was completed at the Two Tom prospect and a 43-101 compliant resource was calculated. In the Dory Pond/Eudialyte Hill area, prospecting, soil sampling and drilling was completed in order to advance and identify a number of Heavy Rare Earth targets. A description of the results is outlined below.

Two Tom - The 2011 drilling tested the Two Tom mineralized zone on 100 meter sections as a prerequisite to the calculation of a resource. A total of 23 holes have now been drilled on the Two Tom REE/Beryllium/Niobium Zone. This total includes ten holes completed in 2010 and thirteen holes completed between June and September, 2011. Wardrop, a TetraTech Company retained by Rare Earth Metals to complete an independent resource report for the Two Tom Deposit, completed the report on December 10, 2011. Highlights of the report are as follows:

- Inferred Mineral Resource of 40.635 million tonnes grading at 1.18% total rare earth oxide (TREO), 0.26% Niobium Oxide (Nb205) and 0.18% Beryllium oxide (BeO) at a 0.60% TREO cut-off grade in the inferred category
- Neodymium content is 15.9% of the TREO
- Calculation is based on over 5,140 m of drilling in 22 holes, and 4 trenches (44.2m), and 2,647 assay samples covering approximately 1,200 metres of strike length to an average depth 200 meters
- Resource areas open along multiple directions and to depth
- Additional drilling recommended for next phase of drilling. RA is earning a 100% interest in the Two Tom property which is subject to two option agreements. The northwest half of the zone is optioned from Zimtu Capital Corp. and the southeast half is optioned from Roland and Eddie Quinlan.

Heavy REE Prospects - Numerous new rare earth element mineralized occurrences were located in 2011 through prospecting and follow-up of airborne anomalies. These occurrences are notable because of the percentages of heavy rare earth elements that were obtained from the sampling. Of particular note is the Dory Pond prospect which is 100% owned by Rare Earth and encompasses a cluster of REE rich boulders that have been traced over a distance of 4 km; prospect sample results include values up to 8.48% total rare earth oxides (TREO) and 4.63% zirconium oxide (ZrO2). Values from the prospect samples also contained very significant Heavy Rare Earth content that varied from 4% to 54% TREO. Soil geochemistry was also completed over the Dory Pond REE–Zr Mineralized Zone. Results outline three separate high REE zones from 250 meters to 1600 meters wide. The largest of these soil anomalies is the Dory “Mega” Soil Target ---- This target consists of a 3 km by 2 km REE –in-soil anomaly located in the southern half of the Dory Pond claims and outlined quite distinctively as a V shaped anomaly. The source rocks for this anomaly are not known and has yet to be drill tested.

A portion of the 2011 drilling was targeted on the Dory Pond/ Eudialyte Hill prospect. A total of six holes were completed, and best results included an intersection of 1.55% TREO (HREO/TREO of 42.1%) over 21.0 meters within a wider intersection of 1.11% TREO (HREO/TREO of 41%) over 42.9 meters from hole B3N-03. The HREO composition within the 21.0 meter interval includes: Y2O3 (0.43%), Dy2O3 (0.061%), Gd2O3 (0.050%), and Er2O3 (0.040%). Mineralogical analysis carried out on one sample of the split core has confirmed that greater than 95% of the REE are contained in an as yet unnamed mineral (Y-REE Silicate) with a grain size of >100um. A relatively pure REE concentrate was successfully separated from a small sample that was subjected to magnetic and heavy liquid separation. These factors are a positive for the potential extraction of HREE from the Dory Pond area and additional mineralogical and metallurgical analysis is required.

2012 outlook

In 2012, the Company's priorities in the Red Wine Complex changed considerably and three "Advanced Project Areas" were isolated in order to concentrate on the known "resources" and new opportunities. These Advanced Projects are the Two Tom Deposit, the Mann #1 Deposit and the Dory Pond/Eudialyte Hill Prospect. To that end a number of option agreements were terminated and/or revised to reduce the total land holdings to approximately 83 Sq. Km. The terminated options included the Playfair, Cornerstone, Belmont, Hicks Partridge River, Hicks and Quinlan Ten Mile Lake properties and portions of the Zimtu property. Future work at the Red Wine Peralkaline Belt will be focused on the Dory Pond Heavy REE mineralization. Exploration at Dory Pond over the past two seasons has defined an east-northeast trending zone of Heavy REE mineralization (the HREO Corridor). The corridor is defined by a series of highly radioactive outcrops and high grade HREO grab samples. The trend is centered on the ore grade drill intersection referred to as the B3N-03 Zone. The Zone has a minimum strike length of 750 meters and strikes onto Search/GWG claims where recent results released by Search confirm that the zone continues for at least another 350 meters. Discussions with Search and GWG are in progress. The Dory Pond area is shaping up as the best target for Heavy Rare Earths in the Red Wine belt and this recent work has outlined a number of new targets for additional drill testing. Proposed work includes diamond drilling step out holes on the B3N-03 Zone and target testing at the "Mega" Soil Anomaly

<u>Clay-Howells Property</u>

The Clay-Howells property consists of 45 patented claims (mining and surface) and 49 unpatented claims (mining) totaling 11,781 hectares and is located 70 kilometers north-northeast of Kapuskasing, Ontario. The property is accessible by existing forest roads leading north from the mill town of Kapuskasing, where infrastructure including highway, railroad, pipelines and airports are readily available. Compilation and research carried out in July/August, 2009 on the patented claims confirmed the presence of a moderately sized iron (magnetite) deposit, located on the eastern side of the Clay-Howells Carbonatite Unit. This Carbonatite unit had been outlined by government surveys as a plus 100 sq. km. unit composed of syenite, nepheline syenite and carbonatite, however previous exploration was limited to the discovery and definition drilling of the massive magnetite (Clay-Howells Deposit) in the late 1950's. No systematic work had ever been carried out for REEs or Niobium. Because of its REE potential and its similiarity to the Bayan Obo Iron-REE Mine in China, the Company purchased a 100% interest in the patented claims subject to a 2-per-cent net smelter return royalty ("NSR"). The Company has 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.

Clay-Howells is a Neo-Proterozoic Alkalic Intrusive Complex that has many classic features of circular (ring dike) anorogenic alkalic complexes worldwide. The late, locally discordant carbonatitic complex is very rich in LREE, Nb, with notable HREE & Y. In the past two years, the Company has completed airborne geophysics, ground geophysics, prospecting, mineralogy studies and a diamond drilling program designed to test the rare earth element ("REE") potential of the historical iron ore resource drilled by Mattagami Mining in the late 1950's and to explore for additional REE showings within the Clay-Howells Carbonatite Unit. Drilling in 2010 (5,432 meters in 18 holes) on the Clay-Howells property delineated near surface REE - Nb mineralization over a strike length of 700 meters and to a vertical depth of up to 250 meters from the surface. All holes were successful in intersecting the magnetite/REE zones over substantial width, and geochemical analysis of the drill core show that the Clay-Howell Fe - REE deposit is light rare element (LREE) enriched. The average cumulative drilled width of the magnetite zone, which appears to be represented as two main lenses, is approximately 67 meters.

Composite samples of drill core from selected areas within the magnetite zones were submitted for metallurgical/mineralogical analysis to Xstrata Process Support of Falconbridge, Ontario to give a better idea of the mineral separation qualities of the iron, REEs and Niobium. Preliminary results from this test work indicate that a large majority of the magnetite and rare earth mineralogy is coarse grained and

that there is a consistent upgrading of REE grade into the Non Magnetic fraction and a substantial upgrade of the Iron content in the Magnetic fraction. The mineralogical analysis of the feed composites indicates the host rock is a Mn-bearing magnetite. EPMA analysis indicates an average Mn content of 2.81%. REE mineralogy consists essentially of phosphates and silicates. EPMA analysis indicates the phosphates are similar to monazite, but contain lower levels phosphorus than typical monazites. Trace levels of allanite and very rare grains of fergusonite were also identified in the composites. In summary 69.7% of the material reported to the Magnetic fraction and 30.3% reported to the Non Magnetic fraction. Improvements in the recovery of the REE to the non-magnetic fraction require optimization and further test work.

2011 exploration program

Work carried out at the Clay Howells project during 2011 included prospecting, mineralogy studies and diamond drilling. Drilling activities in 2011 were conducted during the period February 28th to April 10th, 2011. Drilling targeted regional magnetic anomalies around the Clay-Howells Alkalic Complex. A total of 2154.5 metres of drill core and 235 samples were recovered from 8 diamond drill holes. Mineralization intersected a number of massive magnetite bands that have elevated rare earth element (REE), niobium (Nb), and iron (Fe) mineralization in three of the holes. In September, 2011 Rare Earth announced its initial National Instrument 43-101 compliant resource estimate in respect of the Clay-Howells project. The resource estimate was completed by Tetra Tech Wardrop (Tetra Tech) of Toronto, Ontario. A summary of the results is as follows:

- 8.5 million tonnes grading at 0.73% total rare earth oxide (TREO), 0.13% Niobium Oxide (Nb205) and 44.17% iron oxide (Fe2O3) at a 0.6% TREO cut-off grade in the inferred category
- 40.4 million tonnes grading at 0.48% TREO and 34.62% Fe2O3 within a larger 0.2% TREO gradeshell
- HREO/TREO ratio is 10%
- Calculation is based on over 5436 m of drilling in 18 holes and 1825 assay samples covering 700 meters of strike length to an average depth 280 meters
- Resource areas open along multiple directions and to depth

The Company contracted Michael Richards and Dr. D. R. Lentz from the University of New Brunswick to complete a mineralogy study on drill core samples from the 2010-2011 drilling programs. Their studies concluded that the Clay Howells a ferro-carbonatite that has evolved to a magnetite-rich calico-carbonatite. Magnetite saturation has resulted in crystal settling to produce numerous magnetite-rich layers enriched in monazite, fergusonite, brithloite, bastnaesite, columbite, pyrochlore and apatite. The ratios for ore-forming elements with proportion of magnetite, suggests that the magnetite is key and that the mineralization is entirely of igneous origin.

Jack Lifton, a well-respected expert on REE economics, visited the Clay-Howells site and offered the following comments: “The Clay-Howells’ deposit represents an excellent opportunity to develop a ‘polymetallic boutique’ operation in which one or more valuable products are able to subsidize the cost of others making the combination of them into a profit-making mining operation. I consider Clay-Howells to be a magnetite mine with rare earth and niobium by-products. This means that the preparation and beneficiation of the magnetite will naturally separate it from the rare earths and niobium. The prepared magnetite at that stage will then be saleable at a profit to the thermal coal washing industry (as ‘heavy media’).”

2012 outlook

Future work will concentrate on the resource at the main Clay-Howells Prospect and regional till sampling on the 110 square kilometer carbonatite.

Coldwell Complex

The Coldwell property was staked by Rare Earth Metals Inc. in 2010-2011 and is 100% owned by the Company. The Company staked 740 claim units encompassing 128 square kilometers (49 square miles) or 12,800 ha over the Coldwell Alkaline Complex in Northern Ontario. The Coldwell Property is between Pic River and Dead Horse Creek, on the north shore of Lake Superior, 275 km east of Thunder Bay. The town of Marathon is located approximately 16 kilometers southeast from the centre of the property. The southern part of the Coldwell Property is accessed by Highway 17, the Canadian Pacific Railway and the Lake Superior shore. Access to the northern part of the property is obtained by exploration and logging roads leading north from Highway 17. Parts of the property which are inaccessible from roads are best reached by helicopter from the Marathon Airfield.

The Coldwell Alkaline Complex is the largest Alkali Intrusive Complex in North America encompassing an area of 580 square kilometers. The intrusion was emplaced during Middle Proterozoic midcontinent rifting into Archean rocks. The Coldwell Complex consists of several intrusive episodes of gabbro and syenite and a metavolcanic roof pendant, and the Coldwell rocks, specifically the syenites, exhibit anorgenic (A-type) characteristics, i.e. peralkaline, aluminous with fluorine, HFSE, and LREE enrichment. Previous exploration in the Coldwell suite of alkali rocks was focused on the PGM-Copper-Nickel potential and includes Stillwater's Marathon PGM project located on the eastern rim of the Complex. The RA property mainly covers the central and western sections of the Complex. There are 12 historic occurrences of niobium, zirconium, yttrium, and REE's documented on the property to date. Values up to 1.2% Ce205, 1.35% Nb2O5 and 2.44% ZrO2 were reported from grab samples.

2011 exploration program

Field work including airborne surveying and prospecting was initiated on this project in May, 2011. New prospect sample results include values ranging from 0.03% up to 3.97% TREO with HREO/TREO ratios ranging from 9% to 54%. Niobium values were also highly prospective with values ranging from 0.02% Nb2O5 to 1.29% Nb2O5. The sampling program was focused on airborne radiometric anomalies outlined from the recently completed 1522 line kilometer airborne magnetic and radiometric survey. These new discoveries confirm that the Coldwell Property hosts REE mineralization with a significant Heavy REE component and the zones tend to be associated with radiometric anomalies which in some cases are several kilometers in size.

2012 outlook

Follow up prospecting, trenching and sampling is planned to further evaluate these occurrences. The Company is seeking a joint venture partner to aid in the future development of this prospect.

Hinton Coal Property

The Hinton Property is located approximately 306 kilometres west of Edmonton, Alberta. It covers an area measuring approximately 2,752 hectares. The closest major centre is Hinton, Alberta, located approximately 19 kilometres to the southeast. There are several operating coal mines in the area. The property is readily accessible via Alberta's Highway 40 and from a network of secondary roads. In addition it benefits from proximity to western Alberta's rail network with links to Vancouver's Westshore Terminals and to the Port of Prince Rupert, all of which facilitates the shipping of coal to international destinations.

On June 25, 2008, the Company acquired 100% ownership in the Hinton Coal Property (the "Hinton Property") in the Foothills Region of central Alberta. On July 30, 2008, the Company filed a NI 43-101 Technical Report for the Hinton Property. This report can be viewed on the Company's website or on SEDAR. The in-place resource estimates are as follows:

In-Place Coal Resources Suitable for Surface Mining to 12:1 Strip Ratio
(tonnes)

	Measured	Indicated	Inferred
HV C Bituminous (thermal)	47,032,000	2,557,000	161,000

In-Place Coal Resources Suitable for Surface Mining from 12:1 to 20:1 Strip Ratio
(tonnes)

	Measured	Indicated	Inferred
HV C Bituminous (thermal)	33,339,000	23,838,000	8,559,000

	Measured and Indicated	**Inferred**
Total Resources	106,766,000	8,720,000

The coal resources on the Hinton Property were estimated based on previous exploration drilling. A total of 87 coal exploration drill holes covering 7,067 metres were drilled in and around the area. The high volatile, bituminous, low sulphur coal of the Hinton Property is part of the Coalspur Formation. The quality of the coal indicates that it is suitable for the international export thermal coal market after beneficiation. The Company has completed a preliminary engineering study on the development of this project.

2011 exploration program

No further exploration was completed in 2011. The Company continued to seek opportunities to divest its interest in this property.

2012 outlook

The Company continues to own a 100% interest in the Hinton Coal property and is working towards divesting its interest in this non-core asset.

Manitouwadge Graphite Property

The Manitouwadge Graphite project consists of a total of 223 unpatented claim units encompassing 35.7 square kilometers (13.8 square miles) or 3568 ha. The property was staked by Rare Earth Metals Inc. in 2011 and is 100% owned by the Company. The property is located approximately 30 to 40 kilometers northeast of the town of Manitouwadge, Ontario. The property location offers admirable infrastructure being accessible by road from the town of Manitouwadge which is located at the end of Highway 614, and 50 kilometers north of its junction with the Trans-Canada Highway, 331 kilometres (206 mi) east of Thunder Bay and 378 kilometres (235 mi) west of Sault Ste. Marie, north-western Ontario. Manitouwadge was founded by Noranda (now part of Xstrata) in the early 1950s to support the

company's Geco copper mine, and mining historically has been at the forefront of Manitouwadge's economic activity. Access to the western part of the property is obtained by logging roads leading north from Manitouwadge. Parts of the property which are inaccessible from roads are best reached by helicopter from the Marathon Airfield.

Geologically, the property is underlain by migmatites and gneisses of the Quetico Metasedimentary Sub-Province. The country rock strikes generally east-west and is composed of strongly metamorphosed metasediments. The property encompasses the Thomas Lake Road Graphite Occurrence, a flake graphite showing, locally up to 20%, as well as several airborne electromagnetic conductors which were identified from a 1989 geophysical survey completed by Dighem Surveys for Noranda Exploration Services.

A due diligence prospecting program was undertaken by the Company in April, 2012 and values ranging up to 6.17% C-graphite were obtained from samples of three new graphite occurrences along a minimum 900 meter trend coincident with three parallel conductive zones located within an intense magnetic low. The (AEM) anomalies associated with the graphite horizons have a strike length exceeding 4 km. The Company has also recently completed a trenching/chip sampling program and a preliminary mineralogy/particle size analysis. Results from the trenching/chip sampling include 3.92% C-Graphite over 8.0 meters (m) from the North Zone, 2.96% C-Graphite over 12 m from the Central Zone, and 4.18% C-Graphite over 6.5 m from the South Zone (Thomas Lake Road Occurrence). The particle size analysis completed on a crushed portion of a sample from the North Zone which analyzed 9.27% C-Graphite confirmed the presence of flake graphite, recognized in both the plus 65 mesh (0.212 mm) and plus 35 mesh (0.425 mm) fractions with 42.9% of the total Graphite reporting to the plus 35 mesh and 69.4% of total Graphite in the plus 65 mesh fraction. The sample was also sent for a mineralogical analysis to determine the grain size of graphite and a semi-quantitative mineralogical analysis. Significant graphite liberation is achieved when stage-ground to passing 20 mesh. Flake size determinations show a size of 310 microns which is considered coarse flake graphite.

The Company also recently (June, 2012) completed a 22 kilometer cut grid as well as completed 18.5 kilometers of ground horizontal loop electromagnetic (HLEM) survey on the property. The HLEM survey delineated 6 conductors that range in strike length from 150 meters to greater than 1.6 kilometers. Three of the conductors are coincident with the three graphitic horizons where results from trench chip samples range from 4 to 12 meters thick with grades ranging from 2.04% to 4.18% carbon.

2012 outlook

Metallurgical test work involving gravity separation and froth flotation tests to get an early understanding of how well the flake graphite can be concentrated is ongoing. Geologic mapping of the property is scheduled to be done by mid-July to complete the prioritization for drill testing. A number of other similar AEM “conductors” in the area have also been staked and will be evaluated for their graphite potential. Rare Earth Metals Inc. is currently seeking business opportunities for this property.

Exploration and Evaluation Expenditures

The Company's Exploration and evaluation assets represent costs incurred to acquire these assets. These costs are capitalized pursuant to the Company's accounting policy for recording such costs. During the three month period ended June 30, 2012 and year ended March 31, 2012, the changes in the Company's exploration and evaluation assets balance are as follows:

Mineral Interests	Hinton Coal $	Clay-Howells $	Springer $	Coldwell Complex $	Red Wine Complex $	Manitouwadge Graphite $	Other $	Total $
Balance, March 31, 2011	1,020,000	424,043	-	122,002	758,494	-	11,044	2,335,583
Acquisition costs for the year	-	2,706	444,990	-	289,051	12,800	60,404	809,951
Write-downs	-	-	-	-	(164,878)	-	-	(164,878)
Balance, March 31, 2012	1,020,000	426,749	444,990	122,002	882,667	12,800	71,448	2,980,656
Acquisition costs for the period	-	-	88,000	-	-	20,714	-	108,714
Write-downs	-	-	-	-	-	-	-	-
Balance, June 30, 2012	1,020,000	426,749	532,990	122,002	882,667	33,514	71,448	3,089,370

The Company's exploration costs represent expenditures to undertake and support exploration activities on the Company's properties.

During the three month period ended June 30, 2012, the Company recorded the following exploration expenditures:

Exploration Expenditures	Clay-Howells $	Springer $	Coldwell Complex $	Red Wine Complex $	Manitouwadge Graphite $	Other $	Total $
Prospecting	-	-	1,625	-	5,249	10,544	17,418
Geology	1,585	56,235	-	11,288	5,741	1,526	76,375
Geophysical	-	-	1,463	-	10,737	-	12,200
Line cutting	-	-	-	-	18,900	-	18,900
Trenching	-	-	-	-	9,992	-	9,992
Diamond drilling	24	9,522	-	24,887	-	-	34,433
Other	-	-	-	-	1,500	4,800	6,300
Exploration Expenditures for the period	1,609	65,757	3,088	36,175	52,119	16,870	175,618

During the three month period ended June 30, 2011, the Company recorded the following exploration expenditures:

Exploration Expenditures	Clay-Howells $	Springer $	Coldwell Complex $	Red Wine Complex $	Other $	Total $
Prospecting	815	6,066	6,086	106,024	178	119,169
Geology	2,116	26,038	1,824	10,946	18	40,942
Geophysical	2,625	500	61,963	1,950	-	67,038
Trenching	-	-	-	3,465	-	3,465
Diamond drilling	233,244	24,040	-	188,618	-	445,902
Other	-	-	-	-	1,622	1,622
Exploration Expenditures for the period	238,800	56,644	69,873	311,003	1,818	678,138

Selected Annual Financial Information

Year Ended March 31,		2012		2011		2010
		(IFRS)		(IFRS)		(GAAP)
Revenue (Interest income)	$	107,277	$	59,812	$	16,771
Loss and comprehensive loss	$	(5,572,355)	$	(5,399,737)	$	(2,181,012)
Loss per share – basic and diluted	$	(0.07)	$	(0.07)	$	(0.04)
Total assets	$	5,647,815	$	10,498,223	$	12,129,849
Income tax expense (recovery)	$	(418,955)	$	(233,813)	$	NIL
Dividends	$	NIL	$	NIL	$	NIL

Summary of Quarterly Results

The following table sets out selected quarterly information for the eight most recently completed quarters since incorporation.

	First Quarter Ended June 30, 2012 ($)	Fourth Quarter Ended March 31, 2012 ($)	Third Quarter Ended December 31, 2011 ($)	Second Quarter Ended September 30, 2011 ($)	First Quarter Ended June 30, 2011 ($)	Fourth Quarter Ended March 31,2011 ($)	Third Quarter Ended December 31, 2010 ($)	Second Quarter Ended September 30, 2010 ($)
	Under IFRS							
Revenue – Interest income	**(8,583)**	**3,677**	**14,532**	**58,905**	**30,163**	**24,189**	**8,257**	**14,929**
Exploration costs	**175,618**	**579,923**	**472,946**	**2,296,991**	**678,138**	**647,936**	**404,827**	**1,703,452**
Expenses	**269,963**	**384,926**	**374,177**	**513,783**	**601,113**	**701,077**	**478,107**	**599,016**
Loss and comprehensive loss for the Period	**(437,564)**	**(902,408)**	**(836,991)**	**(2,737,298)**	**(1,095,658)**	**(1,128,979)**	**(824,217)**	**(2,280,954)**
Loss Per Share	**(0.01)**	**(0.01)**	**(0.01)**	**(0.04)**	**(0.01)**	**(0.01)**	**(0.01)**	**(0.03)**

Financial and Operational Performance

Financial Condition

The Company's cash balance as at June 30, 2012 was $37,646 (March 31, 2012: $71,860) as well as short-term investments totaling $2,010,027 (March 31, 2012: $2,169,517). All investments are held in fully liquid instruments with Canadian Financial Institutions.

Current assets of the Company as at June 30, 2012 were $2,090,477 compared to $2,534,334 as at March 31, 2012. The decrease was attributable to the redemption of short-term investments for the purpose of exploration and general expenditures.

Total assets as at June 30, 2012 were $5,303,747 compared to $5,647,815 as at March 31, 2012, a decrease resulting from the redemption of short-term investments for the purpose of exploration and general expenditures.

Current liabilities as at June 30, 2012 were $113,149 compared to $163,102 at March 31, 2012. This decrease is attributable to a decrease in accounts payable and accrued liabilities at the period end.

Shareholders' equity decreased to $5,190,598 at June 30, 2012 from $5,484,713 at March 31, 2012 due to exploration and general expenditures that increased the deficit to $13,590,668 at June 30, 2012 from $13,153,104 at March 31, 2012.

Results of Operations

The Company earned interest and investment income of $(8,583) during the three month period ended June 30, 2012 (June 30, 2011: $30,163) as a result of interest earned on short term investments during the period. The decrease was attributable to early redemption of bonds to allocate the funds to money market funds.

Total expenses for the period ended June 30, 2012 were $269,963 compared to $601,113 for comparative period in the previous year. The decrease is attributable to a decrease in share-based payments as the price of the stock options granted and vested during the period decreased from the prior period. There was a significant decrease in Advertising and promotion from the prior year in an effort to preserve working capital. Loss and comprehensive loss for the period ended June 30, 2012 was $437,564 or $0.01 loss per share compared to $1,095,658 or $0.01 loss per share at June 30, 2011.

Expenses incurred during the three month period ended June 30, 2012 consist of:

- Depreciation of $8,925
- Consulting fees $9,475
- Advertising and promotion $6,270
- Listing, filing and transfer agent $16,334
- Office and miscellaneous $16,259
- Professional fees $14,625
- Rent $12,796
- Share-based payments $95,449
- Travel and accommodation $2,954
- Wages & benefits $86,876

The cumulative deficit from inception of the Company is $13,590,668.

Cash Flows

The Company used cash of $149,590 in operating activities during the period ended June 30, 2012 versus cash used in operating activities of $1,102,921 in the comparative period in the prior year. Main components of the decrease in cash used in operating activities include a decrease of exploration costs from $678,138 in 2011 compared to $175,618 in 2012 and in 2011 $150,000 in deposits were made to secure drilling contractors for the summer exploration programs at Springer and Red Wine.

There were no cash flows from financing activities during the three month periods June 30, 2012 and 2011.

Cash flows from investing activities were $115,376 for the period ended June 30, 2012 versus cash flows from investing activities of $1,126,141 for the period ended June 30, 2011. The decrease was the result of a decrease in the redemption of short-term investments for exploration and evaluation assets, exploration and general expenditures.

Liquidity and Capital Resources

As of June 30, 2012, the Company had $37,646 in cash (March 31, 2012: $71,860) and held short-term investments of $2,010,027 (March 31, 2012: $2,169,517). Interest and other receivables were $26,883

(March 31, 2012: $264,235) and prepaid expenses and deposits were $15,921 (March 31, 2012: $28,722).

Accounts payable and accrued liabilities of $113,149 at June 30, 2012 (March 31, 2012: $163,102) includes period end accrual for expenditures on mineral properties, legal fees, consultants and other amounts. These were incurred in the normal course of business and settled subsequently.

Working capital at June 30, 2012 was $1,977,328 (March 31, 2012: $2,371,232).

At this time the Company does not own or operate any revenue producing mineral properties, and accordingly, does not have cash flow from operations. The Company raises funds for exploration, development and general overhead and other expenses through the issuance of shares from treasury. This method has been the principal source of funding for the Company since inception.

The Company also funds exploration at certain of its properties through option agreements with other companies who have agreed to fund exploration in exchange for the right to earn an interest in the properties.

In addition to the funds in the Company's treasury, the Company intends to continue raising funds for future exploration and general overhead and other working capital through the continuation of issuances of shares from treasury and through earn-in or option agreements with other mineral exploration and mining companies.

During the three month period ended June 30, 2012, the Company issued 800,000 shares with a value of $48,000 in connection with payments on exploration and evaluation assets compared to 530,000 shares issued with a value of $104,900 during the period ended June 30, 2011.

The Company applies the fair value method of accounting for share-based payments to directors, officers, employees and consultants and accordingly $95,449 (June 30, 2011: $243,343) is recorded as stock-based compensation expense and under capital stock as share-based payments for the 779,826 options vesting to directors, officers, employees and consultants during the period ended June 30, 2012.

The Company's success in funding its project expenditures is dependent upon its ability to raise adequate equity financing. If in the event that future private placement financings cannot be closed, the Company would have to review its budgeted project expenditures and revise where necessary including reviewing property option agreements to determine if continuance in such agreements on their anniversary dates is feasible. Management continues to seek out capital required to undertake its exploration work commitments and for working capital to meet project work commitments.

Going Concern

The condensed consolidated interim financial statements of the Company for the three month period ended June 30, 2012 have been prepared in accordance with International Financial Reporting Standards ("IFRS") 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 mineral properties and exploration expenditures 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 is a development stage Company and has not earned any significant revenue to date. The Company is in the process of exploring its resource properties and has not yet determined whether these properties contain ore reserves that are economically recoverable.

Shares Subject to Escrow or Hold Periods

As of June 30, 2012, 855,000 of the Company's issued and outstanding common shares are subject to an escrow agreement under which the shares will be released on December 14, 2012.

Off-Balance Sheet Arrangements

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

Contractual Obligations

The Company has commitments as described in note 4 with respect to certain agreements on its mineral property interests.

During Fiscal 2010, the Company entered into two separate lease agreements for field vehicles requiring aggregate monthly payments totaling $1,471. The lease terms are for 36 months and expire in February 2013. The Company entered into a lease agreement for office equipment requiring aggregate monthly payments of $134.

During the fiscal year ended March 31, 2012, the Company terminated one of the lease agreements for the use of an automobile.

Related Party Transactions

Refer to Note 7 of June 30, 2012 condensed consolidated interim financial statements.

Current and Future Changes in Accounting Policy Including Initial Adoption of International Financial Reporting Standards ("IFRS")

Statement of Compliance

The condensed interim financial statements, including comparatives for the three month period ended June 30, 2012, have been prepared using accounting policies in compliance with IFRS as issued by the International Accounting Standards Board ("IASB"). The disclosures concerning the transition from Canadian Generally Accepted Accounting Principles ("GAAP") to IFRS are included in Note 12 of the annual audited financial statements for the year ended March 31, 2012.

Impact of Adopting IFRS on the Company's Business

The adoption of IFRS has resulted in some changes to the Company's accounting systems but largely the impact has been minimal from the perspective of the day to day operations. The greatest changes occurred in the manner and extent of disclosures contained in the Audited Annual Financial Statements. The transition adjustments and related GAAP to IFRS reconciliations are detailed in Note 12 of the Audited Annual Financial Statements for the year ended March 31, 2012 and for a complete set of IFRS reconciliations, refer to the Audited Financial Statements for the March 31, 2012 year.

Ongoing IFRS Conversion Monitoring

The Company has completed its IFRS conversion process, which included a scoping and planning phase, preparation of detailed assessments of IFRS standards and transition adjustments, and implementing the adjustments and changes within each of the Company's operations. On an ongoing basis, the Company will continue to monitor the preparation of financial information in accordance with IFRS, as well as continue to monitor ongoing changes in the IFRS standards which may impact the Company's reporting in future periods. The IASB is currently working on several projects which could

result in new or revised IFRS standards or IFRIC interpretations that could have an impact on the Company's financial reporting in future periods.

Note 12 to the Audited Financial Statements for the year ended March 31, 2012 includes further details on the significant transition adjustments between Canadian accounting principles and IFRS, and details on the Company's decisions on first-time adoption exemptions and accounting policies under IFRS are included in Note 2 of the Audited Annual Financial Statements.

Recent Accounting Pronouncements

The International Accounting Standards Board issued the following standards which have not yet been adopted by the Company: IFRS 9, 'Financial instruments – Classification and Measurement', IFRS 10, 'Consolidated Financial Statements', IFRS 11, 'Joint Arrangements', IFRS 12, 'Disclosure of Interests in Other Entities', IFRS 13, 'Fair Value Measurement', IAS 27, 'Separate Financial Statements', and amended IAS 28, 'Investments in Associates and Joint Ventures'. With the exception of IFRS 9, each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

The following is a brief summary of the new standards:

IFRS 9 – Financial Instruments – Classification and Measurement

This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss. This standard is effective for years beginning on or after January 1, 2015.

IFRS 10 – Consolidation

IFRS 10 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 so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation – Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

IFRS 11 – Joint Arrangements

IFRS 11 requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supercedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities-Non-monetary Contributions by Venturers.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. The objective is to require the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

IFRS 13 – Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

Amendments to Other Standards

In addition, there have been amendments to existing standards, including IAS 27, "Separate Financial Statements', and IAS 28, 'Investments in Associates and Joint Ventures'. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10, 11, 12 and 13.

Risk Management

The Company's financial instruments are comprised of cash and cash equivalents, receivables, investments and accounts payable and accrued liabilities.
The Company's financial instruments are exposed to certain risks, including credit risk, liquidity risk, interest rate risk and market risk.

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 commercial 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.

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.

Interest Rate Risk

The Company's interest revenue earned on cash and or 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.

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.

Other MD&A Requirements

Additional Disclosure for Venture Issuers without Significant Revenues:

As of June 30, 2012, the Company has incurred and capitalized $3,089,370 (March 31, 2012: $2,980,656) as exploration and evaluation assets since inception of the Company net of write-downs and recoveries.

Outstanding Share Data

At the date of this management's discussion and analysis, there are 86,662,141 common shares outstanding as well as: (a) stock options to purchase an aggregate of 8,690,000 common shares expiring at various dates between February 15, 2013 and January 18, 2017 and exercisable at various prices between $0.17 and $0.60 per share; and (b) share purchase warrants to purchase an aggregate of 3,419,754 common shares expiring at various dates between November 10, 2012 and December 6, 2012 and exercisable at various prices between $0.22 and $0.35. For additional details of share data, please refer to Note 6 of the June 30, 2012 condensed consolidated interim financial statements.

The Company is authorized to issue an unlimited number of voting shares and an unlimited number of preferred shares issuable in series.

Dividend Policy

No dividends have been paid on any shares of the Company since the date of incorporation, and it is not contemplated that any dividends will be paid in the immediate or foreseeable future.

Legal Proceedings

To the knowledge of the Company, there are no actual or pending legal proceedings to which the Company is or is likely to be a party or of which any of its assets are likely to be subject.

Indebtedness of Directors, Officers, Promoters and Others

No director, officer, or promoter or other member of management of the Company, or any Associate or Affiliate of any such person, is or has been indebted to the Company.

Conflicts of Interest

There are potential conflicts of interest to which the directors and officers of the Company will be subject in connection with the operations of the Company. Some of the directors and officers have been and will continue to be engaged in the identification and evaluation, with a view to potential acquisition of interests in businesses and corporations on their own behalf and on behalf of other corporations, and situation may arise where the directors and officers will be in direct competition with the Company. Conflicts, if any, will be subject to the procedures and remedies under the Business Corporations Act (Ontario).

Risk Factors

Risks associated with exploration and mining operations

The exploration and development of mineral properties involves a high degree of risk which cannot be avoided despite the experience, knowledge and careful evaluation of prospective properties by management. There can be no assurance commercial quantities of ore will be discovered on the Company's mineral properties. Even if such commercial quantities are subsequently discovered by the Company's exploration efforts, there can be no assurance such properties can be brought in to commercial production.

Operations may be subject to disruption due to weather conditions, labour unrest or other causes beyond the control of the Company. Hazards such as unexpected formations, pressures, flooding, or other conditions over which the Company does not have control may be encountered and may adversely affect the Company's operations and financial results.

Environmental Risks

Environmental legislation is continuing to evolve such as will require strict standards and enforcement, increased fines and penalties for non-compliance, more stringent assessment of proposed projects and a greater degree of corporate responsibility. There can be no assurance that future changes to environmental legislation may not adversely affect the Company's operations.

Mineral Market

The market for minerals is subject to factors beyond the Company's control, such as market price fluctuation, currency fluctuation and government regulation. The effect of such factors cannot be accurately calculated. The existence of any or all such factors may restrict the access to a market, if same exists, for the sale of commercial ore which may be discovered.

Funding Requirements

In order to move forward with its exploration and development activities, the Company will likely require additional funding. There can be no guarantee that such funds will be available as and when required or, if available, be accessible on reasonable commercial terms.

Reliance on Management

The Company anticipates that it will be heavily reliant upon the experience and expertise of management with respect to the further development of the mineral properties. The loss of any one of their services or their inability to devote the time required to effectively manage the affairs of the Company could materially adversely affect the Company.

Auditors, Transfer Agents and Investor Relations

The auditors of the Company are DeVisser Gray LLP, Chartered Accountants of Vancouver, British Columbia.

The Transfer Agent and Registrar for the Common Shares of the Company is Computershare of Vancouver, British Columbia.

Commitments and Contingencies

Except as otherwise discussed, the Company is in compliance with commitments required by contractual obligations in the normal course of business.

Disclosure and Internal Financial Controls

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that:

(i) the audited financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the years presented by the audited financial statements; and

(ii) the financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the years presented by the audited financial statements.

In contrast to the certificate required under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109), the Company utilizes the Venture Issuer Basic Certificate which does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in NI 52-109. In particular, the certifying officers filing the Certificate are not making any representations relating to the establishment and maintenance of:

(i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

(ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's IFRS.

The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate.

Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

Forward Looking Statements

This management discussion and analysis contains certain forward-looking statements relating but not limited to the Company's expectations, intentions, plans and beliefs. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan", "intend", "estimate", "may", and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Forward-looking information may include reserve and resource estimates, estimates of future production, unit costs, costs of capital projects and timing of commencement of operations, and is based on current expectations that involve a number of business risks and uncertainties. Factors that could cause actual results to differ materially from any forward-looking statement include, but are not limited to, failure to establish estimated resources and reserves, the grade and recovery of ore which is mined varying from estimates, capital and operating costs varying significantly from estimates, delays in obtaining or failures to obtain required governmental, environmental or other project approvals, inflation, changes in exchange rates, fluctuations in commodity prices, delays in the development of projects and other factors. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from expected results.

Potential shareholders and prospective investors should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Shareholders are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific that contributes to the possibility that the predictions, forecasts, projections, and various future events will not occur. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or other such factors which affect this information, except as required by law.