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

For the three months ended June 30, 2011

September 28, 2011

General

This Management Discussion and Analysis ("MD&A") is dated September 28, 2011 and is in respect of the three months ended June 30, 2011. 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 three months ended June 30, 2011.

The discussion should be read in conjunction with the condensed consolidated interim financial statements and corresponding notes to the condensed consolidated interim financial statements for the three months ended June 30, 2011. The Company's condensed consolidated interim 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.

Additional information relevant to the Company's activities can be found on SEDAR at www.sedar.com

History of the Company

Rare Earth Metals Inc., formerly East Energy Corp. (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".

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 (the "Transaction"). As a result, the Company issued 39,630,000 common shares (approximately 54% of the issued shares of the Company) to the shareholders of REM. This transaction is considered to be a reverse takeover transaction and under the provisions of EIC 10, the Company is considered to be a continuation of REM. REM is now a wholly owned subsidiary of the Company. Refer also to note 4 of the audited March 31, 2011 consolidated financial statements.

Reverse Takeover and Comparative Figures

As described above, the condensed consolidated interim financial statements are inclusive of the completion of a reverse takeover transaction, recorded in the period, whereby REM Metals Corp., the continuing entity for accounting purposes is considered to have acquired the assets and liabilities of East Energy in a business combination pursuant to the provisions the CICA Handbook EIC 10.

REM was incorporated on June 16, 2009 and its first fiscal year end was for the period from incorporation to March 31, 2010 (“Fiscal 2010”). The Company was inactive during the period from June 16, 2009 to June 30, 2009 and, accordingly, there are no comparative figures for that period.

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

Going Concern

The condensed consolidated interim financial statements of the Company for the three months ended June 30, 2011 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, is in the process of exploring its resource properties and has not yet determined whether these properties contain ore reserves that are economically recoverable.

Overview of Business

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.

Financial and Operational Performance

Financial Condition

The Company’s cash balance as at June 30, 2011 was $190,687 (March 31, 2011: $167,467) as well as short-term investments totaling $6,084,054 (March 31, 2011: $7,470,664). All investments are held in fully liquid instruments with Canadian Financial Institutions.

Current assets of the Company as at June 30, 2011 were $6,691,394 compared to $8,011,020 as at March 31, 2011. 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, 2011 were $9,522,370 compared to $10,498,223 as at March 31, 2011, a decrease resulting from the redemption of short-term investments for the purpose of exploration and general expenditures.

Current liabilities as at June 30, 2011 were $528,947 compared to $757,385 at March 31, 2011. This decrease is attributable to a decrease in accounts payable and accrued liabilities at the period end. The deferred premium on flow-through shares has been recovered as flow-through funds are expended on qualified exploration expenditures.

Shareholders' equity decreased to $8,993,423 at June 30, 2011 from $9,740,838 at March 31, 2011 due to exploration and general expenditures.

Results of Operations

The Company earned interest income of $30,163 during the three months ended June 30, 2011 (June 30, 2010:$12,437) as a result of interest earned on short term investments during the period. The increase was attributable to higher interest rates on interest bearing investments in the current year compared to the prior year.

Total expenses for the three months ended June 30, 2011 were $601,113 compared to $545,753 for comparative period in the previous year. The increase was generally attributable to an increase in Advertising and promotion. The increase in Advertising and promotion was the result of attending more conferences and obtaining additional consulting services in an effort to expand Company visibility. Loss and comprehensive loss for the three months ended June 30, 2011 was $1,095,658 or $0.01 loss per share compared to $1,165,587 or $0.01 loss per share at June 30, 2010.

Expenses incurred during the three months ended June 30, 2011 consist of:

- Depreciation of $11,446
- Consulting fees $17,288
- Advertising and promotion $135,743
- Listing, filing and transfer agent $21,263
- Office and miscellaneous $24,176
- Professional fees $20,950
- Rent $11,666
- Share-based payments $243,343
- Travel and accommodation $23,451
- Wages & benefits $91,787

The cumulative deficit from inception of the Company is $8,676,407.

Cash Flows

The Company used cash of $1,102,921 in operating activities during the three months ended June 30, 2011 versus cash used in operating activities of $1,214,659 in the comparative period in the prior year.

Cash flows from investing activities were $1,126,141 for the three months ended June 30, 2011 versus cash flows from investing activities of $921,690 for the three months ended June 30, 2010. The increase was the result of an increase in the redemption of short-term investments for exploration and evaluation assets, exploration and general expenditures.

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, 2011 ($)	Fourth Quarter Ended March 31,2011 ($)	Third Quarter Ended December 31, 2010 ($)	Second Quarter Ended September 30, 2010 ($)	First Quarter Ended June 30, 2010 ($)	Fourth Quarter Ended March 31, 2010 ($)	Third Quarter Ended December 31, 2009 ($)	Second Quarter Ended September 30, 2009 ($)
	Under IFRS					Under Canadian GAAP		
Revenue – Interest income	**30,163**	**24,189**	**8,257**	**14,929**	**12,437**	**7,921**	**8,850**	**-**
Exploration costs	**678,138**	**647,936**	**404,827**	**1,703,452**	**589,871**	**1,048,612**	**167,423**	**109,256**
Expenses	**601,113**	**701,077**	**478,107**	**599,016**	**545,753**	**694,367**	**132,148**	**56,287**
Loss and comprehensive loss for the Period	**(1,095,658)**	**(1,128,979)**	**(824,217)**	**(2,280,954)**	**(1,165,587)**	**(1,742,979)**	**(290,721)**	**(165,543)**
Loss Per Share	**(0.01)**	**(0.01)**	**(0.01)**	**(0.03)**	**(0.02)**	**(0.03)**	**(0.01)**	**(0.01)**

Selected Annual Financial Information

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

Liquidity and Capital Resources

As of June 30, 2011, the Company had $190,687 in cash (March 31, 2011: $167,467) and held short-term investments of $6,084,054 (March 31, 2011: $7,470,664). Interest and other receivables were $96,012 (March 31, 2011: $289,366) and prepaid expenses and deposits were $197,664 (March 31, 2011: $26,557). Finally, staking security deposits were $122,977 at June 30, 2011 (March 31, 2011: $56,966). The increase in prepaid expenses and deposits was the result of paying deposits to secure drilling companies for the exploration program.

Accounts payable and accrued liabilities of $444,486 at June 30, 2011 (March 31, 2011: $509,344) 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.

The deferred premium on flow-through shares was $84,461 at June 30, 2011 (March 31, 2011: $248,041). The decrease was the result of the Company using flow-through funds for qualified exploration expenditures.

Working capital at June 30, 2011 was $6,162,447 (March 31, 2011: $7,253,635).

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 fund 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, 2011, the Company issued 530,000 shares in connection with payments on exploration and evaluation assets.

The Company applies the fair value method of accounting for share-based payments to directors, officers, employees and consultants and accordingly $243,343 (June 30, 2010: $344,361) is recorded as stock-based compensation expense and under capital stock as share-based payments for the 813,508 options vesting to directors, officers, employees and consultants during the period ended June 30, 2011.

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.

Mineral Properties

Red Wine Complex

The Red Wine property is located in west central Labrador, 110 km northeast of Churchill Falls and between 15 km and 40 km from the Orma Lake Road, an all-weather hydro dam access road. The Company has staked and completed a number of option agreements which has allowed it to tie up approximately 75% of the belt. Its present land position totals 1360 claim units comprising 340 sq km. A total of thirteen land packages were staked and optioned. These properties include: Mann #1, Two Tom Lake, Red Wine #2, Playfair Option, Cornerstone, Quinlan et al, Hicks (2 agreements), Belmont Resources and Zimtu Resources. Descriptions of the terms of these agreements are outlined in the condensed consolidated financial statements dated June 30, 2011.

Work carried out at the Red Wine project during Fiscal 2011 included camp setup at the end of the Orma Lake road, airborne geophysics, prospecting, channel sampling and diamond drilling. Rare Earth Element (REE) mineralization is found throughout the claim groups and 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. It is characterized by variable aegerine, biotite and syenite bodies within a banded paragneiss unit. The deposits found to date include Mann #1, Two Tom, Mann #2, Michelin # 1 and Ten Mile Lake. They are generally lenticular bodies up to 100 meters wide and appear to be structurally controlled within the rhyolites. The second style of mineralization is characterized by highly anomalous Zr/REE values which is hosted by Eudyolite bearing syenite units within the lower intrusive sequence of the Red Wine Group. A third style of REE mineralization has been identified and it has a high Heavy REO to Total REO ratio. The mineralization at Dory Pond and Playfair South are examples of this.

Prior to the reporting period, results were received and tabulated from the drilling and trenching completed earlier. The drilling has partially outlined two lenses of REE mineralization with intersections up to 1.45% TREO, 0.14% Nb2O5 and 0.14% BeO over 83.25 meters at Two Tom and 1.71% TREO, 0.24% Nb2O5 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.

Two Tom - The 2011 drilling is planned to test the Two Tom mineralized zone on 100 meter sections as a prerequisite to the calculation of a resource. Wardrop, a TetraTech Company, has been retained by Rare Earth Metals to complete an independent resource report for the Two Tom Deposit, expected to be completed by the first quarter of 2012. A total of seven holes of the planned twelve infill drill holes, have been completed, and all holes intersected the REE/Nb/Be zone over substantial widths (drill thicknesses between 50 meters and 131 meters). The results include best intersections of 2.05% TREO, 0.22% Nb2O3, 0.23% BeO over 96.2 meters within a larger zone of mineralization which assayed 1.52% TREO, 0.17% Nb2O5 and 0.18% BeO over 148.3 meters in drill hole DDH-TT-12, 1.86% TREO over 121.5 meters within a larger zone of mineralization which assayed 1.46% TREO over 195.15 meters in drill hole DDH-TT-13, 1.82% TREO over 89 meters in drill hole DDH-TT-14, and 2.15% TREO over 120 meters within a larger zone of mineralization which assayed 1.68% TREO over 176.5 meters in drill hole DDH-TT-15b.

Mann #1 -This prospect is located 18 km west of the Two Tom. It was drill tested over a strike length of 600 meters and trenching has expanded the zone to over 1,000 meters. All six holes hit the REE/Niobium/Beryllium Zone with a best result of 1.71% TREO, 0.24%Nb2O5, and 0.20% BeO over 27 meters within a wider zone of 1.04% TREO over 70.5 meters. The zone is open in all directions and additional drilling is required to better define the geometry, tonnage and grade of this near surface zone.

Heavy REE Prospects -Numerous other prospects were located this summer through prospecting, airborne anomalies and include the South Playfair, B3 South, and the Dory Pond/Eudialyte Hill prospects. These occurrences are notable because of the percentages of heavy rare earth elements that were obtained from the sampling.

The South Playfair anomalies are located on ground optioned from Playfair Resources which allows for RA to earn a 50% interest in the property. The claims host a cluster of radiometric anomalies over several kilometers from which analysis of 54 prospect samples have returned values ranging up to 5.37% total rare earth oxides (TREO) and 4.77% zirconium oxide (ZrO2). The HREO/TREO ratio for these samples ranged from 5% to 85% with an average of 22% for values greater than 0.5% TREO.

The B3 South anomalies are 100% owned and are located 18 kilometers southwest of the Mann#1 deposit. Two new showings have been delineated with values ranging up to 1.59% TREO and 1.79% ZrO2. The TREO values ranged from 1% to 65 % Heavy Rare Earth Oxides.

The Dory Pond prospect is 100% owned and consists of a cluster of REE rich boulders associated with an airborne radiometric anomaly. The boulders have been traced over a distance of 2 km and results include values up to 6.72% total rare earth oxides (TREO) and 1.23% zirconium oxide (ZrO2) from 53 prospect samples. The HREO/TREO ratio for these samples ranged from 3% to 64% with an average of 18% for values greater than 0.5% TREO.

The 2011 drilling is being targeted on the Dory Pond/ Eudialyte Hill prospect. A total of six holes were recently completed, and initial results indicate this area has a substantial Heavy Rare Earth component. Results from the first reported drill hole in this area returned 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. Additional prospecting and soil sampling on the Dory Pond, B3 South Block, and a number of other prospective areas will also be done in order to prioritize targets for additional drill testing.

Clay-Howells Property

The Clay-Howells property consists of 45 patented claims (mining and surface) and 49 unpatented claims (mining) totaling 11,781 hectares and is located 40 kilometres north-northeast of Kapuskasing, Ontario. In 2009, 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.

Prior to this reporting period, the Company had completed ground geophysics 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. A total of 5,432 meters were drilled in 18 holes using two drill rigs. All holes were successful in intersecting the magnetite/REE zones over substantial widths. Generally the deposit was drilled on sections 100 meters apart for a total of 700 meters in strike length. The zone is still open in all directions. Results from the 2010 drilling include intersections up to 105.3 metres grading 57.83% Fe_2O_3, 0.694% TREO and 0.14% Nb_2O_5. Higher grade Rare Earth zones within the magnetite include 2.45% TREO over 4.9 metres. The average cumulative drilled widths of the magnetite zone, which appears to be represented as two main lenses, is approximately 67 metres. The amount of Heavy Rare Earths within the Total Rare Earths varies from 5% to 20% with an average of 10%. In summary the drill program confirmed the presence of a substantial Iron/REE/Nb deposit.

Composite samples of drill core from selected areas within the magnetite zones were submitted for metallurgical/mineralogical analysis 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. In summary 69.7% of the material reported to the Magnetic faction and 30.3% reported to the Non Magnetic faction.

The Company also carried out additional airborne geophysics on the northern part of the property and prospecting, targeting a number of geophysical targets located outside the main deposit. The prospecting and airborne interpretation identified a number of additional REE targets that were drill tested during winter, 2011. Approximately 2154 metres was completed in eight holes. The drilling was designed to test a number of high priority magnetic zones located outside of the main Clay Howells Deposit and consist of both discrete magnetic highs and magnetic lows associated with circular features within the Clay-Howells Carbonatite Complex. Results from this program included a number of narrow REE/Iron intersections.

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

On July 19, 2011, the Company announced that Wardrop, a Tetra Tech Company (Tetra Tech) has been contracted to undertake a resource evaluation of the Clay-Howells Main deposit. The resource calculation is expected to be completed by the end of August and the expected completion date of the report is early September.

Jack Lifton, who is a well respected expert on REE and an advisor to the Company, recently 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 benefication 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")."…"A mining operation economically and physically similar to the one I am proposing for Clay-Howells, a polymetallic boutique, is well into development (it is producing magnetite) in Turkey and will soon come to the European market (where demand for all of its products exceeds supply) as a supplier of magnetite heavy media for thermal coal washing and a producer of concentrates of titanium, zirconium, and rare earths. The combination of Clay-Howells' mineralogy, its potential as well as actual infrastructure in place, and of well known metallurgical techniques makes this deposit an excellent candidate to be rapidly developed into a polymetallic boutique capable of producing rare earth concentrates competitively with "anyone" anywhere."

Coldwell Complex

The Company staked 706 claim units over the Coldwell Alkaline Complex in Northern Ontario. The Coldwell Alkaline Complex is the largest alkali complex in North America encompassing an area of 580 square kilometers. The largest REE deposits in Canada such as Avalon's Nalencho deposit and Quest Uranium's Strange Lake deposit are hosted in alkali complexes. The Coldwell Complex has good infrastructure with a major highway, port, and the town of Marathon within kilometers of the property. There are 12 historic occurrences of niobium, zirconium, yttrium, and REE's documented on the property to date. Field work including airborne surveying and prospecting was initiated on this project in May, 2011.

Springer Township

During the reporting period, the Company completed agreements to acquire the Lavergne rare earth prospect in Springer Township, located immediately north of the town of Sturgeon Falls and 80km east of Sudbury, Ontario. Two separate option agreements were finalized for the patented mineral rights and surface rights covering the Prospect and a third option agreement was negotiated for a package of unpatented mining claims contiguous to the patented ground.

On July 18, 2011, the Company announced that drill core samples were examined by Dr. Mariano briefly for mineralogy and mode of occurrence and concludes that the samples consist of dispersed clusters of fine-grained synchysite.

Dr. Mariano had the following comments: "This is a very exciting project. This potential resource must have been overlooked until now because of its minimal radioactive signature, lack of outcrop and lack of serious historical work. Of course it remains to be seen if tonnage and grade are sufficient, but if they are, this is a deposit that has a lot going for it including: very promising mineralogy, incredible logistics and, I expect, potential for cost effective metallurgy. The mineralization is located in the heart of nickel mining country, proximal to major highways, railways and hydro electrical power. Plus it is in a part of the world with a skilled labour force, existing mining infrastructure and within 200 miles from Toronto."

Dr. Mariano is a geological consultant specializing in rare earths and other rare metals, a seasoned mineralogist and petrographer, and is a recognized authority on REE mineralogy and deposits at a world level. Tony integrates his strong knowledge of geology and extractive metallurgy to predict success of failure of proposed rare earth ventures.

A total of 7 holes were completed in the summer of 2011 to test the Lavergne REE Mineralized Zones. The results received to date from the first three holes indicate that the West Lavergne REE Mineralized Zone is LREE enriched with cerium, lanthanum and neodymium being most abundant. One of the five rare earth elements identified by the U.S. Department of Energy in a December 20, 2010 "Critical

Materials Strategy" document as most critical to the U.S. economy over the next 15 years is the light rare earth neodymium (the other four are heavy rare earths - dysprosium, terbium, yttrium and europium). The results from the first three holes include a best intersection of 1.51% TREO over 124.7 meters within a larger zone of mineralization which assayed 1.43% TREO over 157.5 meters. Included in the 124.7 meter intersection are higher grade zones of mineralization with values of 1.65% TREO over 90.2 meters and 2.00% over 10.5 meters. Of particular note in this zone is the unusually low radioactivity associated with the host REE mineralization. (Thorium ranges from 12 ppm to 320 ppm averaging 57 ppm and Uranium is < 30 ppm uranium). The latest hole is the most northerly hole to date and shows that the West Lavergne Zone maintains its widths and grades of REE in this direction. The zone remains completely open on strike and at depth. Additional drill testing is planned during the winter, 2012 when freezing conditions will allow easier access.

The Company has contracted Dr. Anthony Mariano to conduct a bench metallurgical test on samples from the drilling to assess the potential of the ease or otherwise with which the rare earths can be liberated from the host minerals.

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.

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 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.

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.

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 period ended June 30, 2011, the changes in the Company's exploration and evaluation assets balance are as follows:

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

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	-	25,400	47,522	(318)	333,839
Write-downs	-	-	-	-	-	-	-	-
Balance, June 30, 2011	1,020,000	424,043	261,235	122,002	783,894	47,522	10,726	2,669,422

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

Exploration Expenditures	Clay-Howells $	Springer $	Coldwell Complex $	Red Wine Complex $	James Bay $	Genex $	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	-	-	-	-	500	1,122	1,622
Exploration Expenditures for the period	238,800	56,644	69,873	311,003	500	1,318	678,138

During the year ended March 31, 2011, the Company recorded the following exploration expenditures:

Exploration Expenditures	Clay-Howells $	Lackner $	Coldwell $	Red Wine Complex $	Other $	Total $
Prospecting	246,628	24,197	16	728,821	4,936	1,004,598
Geology	96,926	4,787	325	217,067	15,805	334,910
Geophysical	26,960	400	1,625	97,969	-	126,954
Trenching	-	-	-	239,308	238	239,546
Diamond drilling	826,480	-	-	784,763	-	1,611,243
Other	4,170	-	500	803	23,362	28,835
Exploration Expenditures for the year	1,201,164	29,384	2,466	2,068,731	44,341	3,346,086

Share Capital Transactions – Prior to the Closing of the Reverse Takeover Transaction

Prior to the closing of the reverse takeover transaction on December 16, 2009, REM Metals Corp. (formerly Rare Earth Metals Inc., a private company) entered into the following finance transactions:

i. 3.6 million seed shares were issued to the founders of REM at a price of $0.001 per common share for gross proceeds of $3,600.
ii. 50,000 common shares valued at $2,500 were issued to an arm's length party in connection with a finders' fee on a property agreement.
iii. REM completed a private placement by issuing 15,980,000 common shares of REM at an issue price of $0.05 per common share for gross proceeds of $799,000.
iv. In conjunction with the reverse takeover transaction, REM completed a private placement offering with PowerOne Capital Markets Limited ("PowerOne") for aggregate gross proceeds of $5 million consisting of 20 million units at a price of $0.25 per unit, each unit consisting of one common share and one half of one common share purchase warrant, each whole warrant entitling the holder to purchase an additional common share of the Company at a price of $0.35 per share for a period of 24 months following the closing of the private placement. Pursuant to the offering, PowerOne was paid a cash commission equal to $400,000 and issued 2 million broker warrants with each broker warrant entitling PowerOne to purchase a common share of the Company for $0.25 for a period of 24 months following the closing of the private placement.

All shares issued by REM prior to the reverse takeover transaction were exchanged for shares of the Company on a one-for-one basis with certain of the shares subject to trading restrictions.

Shares subject to escrow or hold periods

As of June 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 June 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.

Off-Balance Sheet Arrangements

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

Contractual Obligations

The Company has commitments as described in note 6 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.

Related Party Transactions

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

Payee	Description of Relationship	Nature of Transaction	June 30, 2011 Amount $	June 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	43,474	69,917
Gordon J. Fretwell Law Corporation	Company controlled by Gordon Fretwell, Secretary	Legal fees charged/accrued during the period	10,000	18,498
Eastrock Exploration Inc.	Company controlled by Wayne Reid, Director	Payments for geological consulting services and reimbursement of exploration expenditures	14,916	27,958
Felix Geo-Consultants	Company controlled by Reg Felix, VP Exploration	Payments for geological consulting services and reimbursement of exploration expenditures	39,550	39,745

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 $10,000 (2010: $18,498) to Gordon J. Fretwell Law Corporation, $3,842 (2010:$6,901) to Eastrock Exploration Inc., $4,724 (2010: $37,741) to Stares Contracting Corp., and $5,650 (2010: $7,228) 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 $104,768 (June 30, 2010: $99,106) in salaries and benefits and $155,213 (June 30, 2010: $207,932) in share-based payments.

<u>Current and Future Changes in Accounting Policy Including Initial Adoption of International Financial Reporting Standards ('IFRS')</u>

Statement of Compliance

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 and after January 1, 2011, with the option available to early adopt IFRS from periods beginning on or after January 1, 209 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 first 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.

Initial Adoption of IFRS

IFRS 1 "First-time Adoption of International Financial Reporting Standards" sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional balance sheet date with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied. Following the initial examination the Company has applied the following exemptions to its opening balance sheet dated April 1, 2010:

i. Business Combinations IFRS 1 indicates a first-time adopter may elect not to apply IFRS 3 Business Combinations retrospectively to business combinations that occurred before the date of transition to IFRS. The Company will take advantage of this election and will apply IFRS 3 to business combinations that occur on or after April 1, 2010. As the Company has not chosen to early adopt, these standards will affect the accounting for any business combinations completed after April 1, 2011.

ii. IFRS 2 – Share-based payment transactions IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 Share-based Payments to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested or will vest prior to April 1, 2010.

    In order to allow the users of the financial statements to better understand other changes between IFRS and GAAP that do not have any quantitative effect or adjustments to the Company's financial statements, the following qualitative explanation of the differences between GAAP and IFRS is provided:

    Property, plant and equipment: GAAP and IFRS allow the use of original cost less depreciation as the cost based. IFRS requires separate depreciation rate for components that depreciate differently.

    Exploration for and Evaluation of Mineral Resources: GAAP and IFRS allow the capitalization of acquisition costs and expenditure of exploration costs associated with the exploration for and evaluation of mineral resources.

As stated on Note 2 of the condensed consolidated interim financial statements, these are the Company's first 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 of the condensed consolidated interim financial statements have been applied in preparing the condensed consolidated interim financial statements for the three months ended June 30, 2011, the comparative information for the three months ended June 30, 2010, the financial statements for the year ended March 31, 2011 and the preparation of an opening IFRS statement of financial position on the Transition Date, April 1, 2010.

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

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

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 employee benefit reserve". As a result, the Company believes a reclassification would be necessary in the equity section between "Contributed surplus" and the "Equity settled employee benefits reserve" account. For comparatives, as at June 30, 2010, the entire "Contributed surplus" account was reclassified into "Equity settled employee benefit reserve". Additionally, as at March 31, 2011, "Contributed surplus" account was reclassified as "Equity settled employee benefit 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).

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 if disclosures contained in the Condensed Interim Financial Statements. The transition adjustments and related GAAP to IFRS reconciliations are detailed in note 14 of the corresponding Condensed Interim Financial Statements for the three months ended June 30, 2011.

The Company's staff and advisors involved in the preparation of financial statements have been appropriately trained on the relevant aspects of IFRS and the changes to accounting policies. In addition, the Board of Directors and Audit Committee have been updated regularly throughout the Company's IFRS transition process, and are aware of the key changes affecting the Company as a result of transition to IFRS.

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 ongoing changes in the IFRS standards which may impact the Company's reporting in future periods. The International Accounting Standards Board 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 14 to the Condensed Interim Financial Statements for the three months ended June 30, 2011 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 Condensed Interim Financial Statements.

Future Accounting Changes

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company but may have a future impact on the Company's operations: IFRS 9 – Financial Instruments, IFRS 11 – Joint Arrangements, and IFRS 13 – Fair Value Measurement. In addition the IASB made amendments to existing standards that may impact the Company's operations: IAS 28 – Investments in Associates and Joint Ventures has been amended to include joint ventures in its scope and to address the changes in IFRS 11 and IFRS 13.

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, 2013.

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 recognized 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.

<u>Risk Management</u>

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.

iii. *Derivative financial instruments*

As at June 30, 2011, the Company has no derivative financial instruments.

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, 2011, the Company has incurred and capitalized $2,669,422 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 82,403,082 common shares outstanding as well as: (a) stock options to purchase an aggregate of 6,115,000 common shares expiring at various dates between January 15, 2012 and September 1, 2016 and exercisable at various prices between $0.35 and $0.60 per share; and (b) share purchase warrants to purchase an aggregate of 11,549,724 common shares expiring at various dates between November 15, 2011 and December 16, 2011 and exercisable at various prices between $0.35 and $0.60. For additional details of share data, please refer to note 8 of the June 30, 2011 condensed consolidated interim financial statements.

The Corporation 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 Corporation 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 Corporation, there are no actual or pending legal proceedings to which the Corporation 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 Corporation, or any Associate or Affiliate of any such person, is or has been indebted to the Corporation.

Conflicts of Interest

There are potential conflicts of interest to which the directors and officers of the Corporation will be subject in connection with the operations of the Corporation. 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 Corporation. 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 Corporation's mineral properties. Even if such commercial quantities are subsequently discovered by the Corporation'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 Corporation. Hazards such as unexpected formations, pressures, flooding, or other conditions over which the Corporation does not have control may be encountered and may adversely affect the Corporation'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 Corporation's operations.

Mineral Market

The market for minerals is subject to factors beyond the Corporation'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 Corporation 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 Corporation 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 Corporation could materially adversely affect the Corporation.

Auditors, Transfer Agents and Investor Relations

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

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

Investor Relations services are provided by Clair Calvert, based in Winnipeg, Manitoba.

Commitments and Contingencies

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

In November 2010, the Company raise gross proceeds of $1,847,106 as a result of the issuance of flow-through shares. Under this arrangement, common shares are issued which transfer the tax deductibility of mineral property exploration expenditures to investors. Proceeds receive on the issuance of these shares have been a credit to capital stock and the related exploration costs will be charged to exploration expenditures in the year in which they are incurred. Proceeds received from the issuance of a flow-through are restricted to be used only for allowable Canadian resource property exploration expenditures within a two year period.

At the date of this management's discussion and analysis, the Company has incurred the required expenditures for the flow-through funds raised in 2010.

Forward Looking Statements

This management discussion and analysis contains certain forward-looking statements relating but not limited to the Corporation'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 Corporation 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.