

## **NOTICE TO SHAREHOLDERS**

### **RARE EARTH METALS INC.**

(A Development Stage Enterprise)

Consolidated Financial Statements

**For the Nine Months Ended December 31, 2010**

### **Responsibility for Consolidated Financial Statements**

The accompanying consolidated financial statements for Rare Earth Metals Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these accounting principles have been set out in the March 31, 2010 audited consolidated financial statements. Recognizing that the Company is responsible for both the integrity and objectivity of the consolidated financial statements, management is satisfied that these consolidated financial statements have been fairly presented. In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its independent auditors have not reviewed the unaudited interim consolidated financial statements for the period ended December 31, 2010.

**RARE EARTH METALS INC.**  
(A Development Stage Enterprise)

**Consolidated Financial Statements**  
**December 31, 2010**

<b><u>Index</u></b>	<b><u>Page</u></b>
Consolidated Balance Sheets	1
Consolidated Statements of Operations, Comprehensive Loss and Deficit	2
Consolidated Statements of Cash Flows	3
Notes to Consolidated Financial Statements	4

**RARE EARTH METALS INC.**  
**Consolidated Balance Sheets**  
**(A Development Stage Enterprise)**  
**(See Note 1 – Basis of presentation)**  
**(Unaudited - Prepared by Management)**

As at	December 31, 2010 \$	March 31, 2010 \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	366,825	496,496
Short-term investments (Note 6)	8,098,569	9,836,024
Interest and other receivables	100,461	102,206
Prepaid expenses	19,862	14,098
Refundable security deposits (Note 12)	73,428	9,800
<b>Total current assets</b>	<b>8,659,145</b>	<b>10,458,624</b>
Mineral interests (Note 7)	2,251,466	1,573,758
Property and equipment (Note 8)	153,263	97,467
<b>Total assets</b>	<b>11,063,874</b>	<b>12,129,849</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 10)	149,668	672,443
<b>Total liabilities</b>	<b>149,668</b>	<b>672,443</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 9(a))	12,476,489	8,831,039
Warrants (Note 9(b))	3,671,318	4,423,960
Contributed surplus (Note 9(c))	1,250,364	383,419
Deficit	(6,483,965)	(2,181,012)
<b>Total shareholders' equity</b>	<b>10,914,206</b>	<b>11,457,406</b>
<b>Total liabilities and shareholders' equity</b>	<b>11,063,874</b>	<b>12,129,849</b>

Commitments – Notes 7 and 14

Approved on behalf of the Board of Directors:

" Michael Stares "

Director

" Bill Harper "

Director

*See Accompanying Notes to Consolidated Financial Statements*

**RARE EARTH METALS INC.**  
**(A Development Stage Enterprise)**  
**Consolidated Statements of Operations, Comprehensive Loss and Deficit**  
**(Unaudited - Prepared by Management)**

	Three Months Ended December 31, 2010 \$	Three Months Ended December 31, 2009 \$	Nine Months Ended December 31, 2010 \$	Nine Months Ended December 31, 2009 \$
<b>Exploration costs (Note 7)</b>	404,827	167,423	2,698,151	276,679
<b>Expenses</b>				
Amortization of equipment	10,193	1,304	30,580	1,304
Consulting fees (Note 10)	31,525	16,514	51,227	19,814
Advertising and promotion	48,901	29,106	156,807	29,106
Listing, filing and transfer agent	22,372	(3,705)	44,566	9,374
Office and miscellaneous	20,408	19,650	58,878	20,107
Professional fees	24,267	48,278	55,271	76,847
Rent	11,739	4,000	36,458	4,000
Stock-based compensation	178,212	6,688	866,945	6,688
Telephone	6,042	675	13,999	675
Travel and accommodation	60,726	9,638	120,241	20,520
Wages & benefits	63,722	-	187,903	-
	478,107	132,148	1,622,875	188,435
<b>Operating loss</b>	(882,934)	(299,571)	(4,321,026)	(465,114)
<b>Other income (loss)</b>				
Interest and sundry income	8,257	8,850	35,623	8,850
Fees earned on mineral properties	2,258	-	2,258	-
Change in fair market value of investments	16,007	-	39,178	-
Write-down of mineral interests	-	-	(58,986)	-
<b>Loss and comprehensive loss for the period</b>	(856,412)	(290,721)	(4,302,953)	(456,264)
<b>Deficit, beginning of period</b>	(5,627,553)	(165,543)	(2,181,012)	-
<b>Deficit, end of period</b>	(6,483,965)	(456,264)	(6,483,965)	(456,264)
<b>Loss per share – basic and diluted</b>	(0.01)	( 0.01)	(0.06)	( 0.01)
<b>Weighted average number of common shares outstanding</b> - basic and diluted	78,738,492	45,110,565	75,239,862	41,463,498

*See Accompanying Notes to Consolidated Financial Statements*

**RARE EARTH METALS INC.**  
**(A Development Stage Enterprise)**  
**Consolidated Statements of Cash Flows**  
**(Unaudited - Prepared by Management)**

	Three Months Ended December 31, 2010 \$	Three Months Ended December 31, 2009 \$	Nine Months Ended December 31, 2010 \$	Nine Months Ended December 31, 2009 \$
<b>Cash flows from (used in) operating activities</b>				
Loss for the period	(856,412)	(290,720)	(4,302,953)	(456,264)
Adjustments for items not involving cash:				
- amortization	10,193	1,304	30,580	1,304
- stock-based compensation	178,212	6,688	866,945	6,688
- change in fair market value of investments	(16,007)	-	(39,178)	-
- write-down of mineral interests	-	-	58,986	-
Change in non-cash working capital items:				
- Interest and other receivables	110,952	(32,833)	1,745	(40,772)
- prepaid expenses	44,740	3,833	(5,764)	3,833
- refundable security deposits	(63,678)	-	(63,628)	(7,550)
- accounts payable and accrued liabilities	(489,736)	(9,981)	(522,775)	90,676
	<u>(1,081,736)</u>	<u>(321,709)</u>	<u>(3,976,042)</u>	<u>(402,085)</u>
<b>Cash flows used in financing activities</b>				
Shares issued for cash, net of costs	1,695,690	4,541,119	1,695,690	5,343,719
Proceeds from exercise of stock options	-	-	30,000	-
Proceeds from exercise of warrants	633,000	-	636,500	-
	<u>2,328,690</u>	<u>4,541,119</u>	<u>2,362,190</u>	<u>5,343,719</u>
<b>Cash flows used in investing activities</b>				
Mineral property acquisition costs	(102,872)	(41,542)	(206,076)	(483,442)
Acquisition of property and equipment	-	(1,418)	(86,375)	(1,418)
Purchase of short-term investments	(1,850,000)	-	(1,850,000)	-
Net redemption of short-term investments	796,082	-	3,626,632	-
	<u>(1,156,790)</u>	<u>(42,960)</u>	<u>1,484,181</u>	<u>(484,860)</u>
Cash received in reverse takeover	-	176,400	-	176,400
<b>Increase (decrease) in cash and cash equivalents</b>	<b>90,164</b>	<b>4,352,850</b>	<b>(129,671)</b>	<b>4,633,174</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>276,661</b>	<b>280,324</b>	<b>496,496</b>	<b>-</b>
<b>Cash and cash equivalents, end of period</b>	<b>366,825</b>	<b>4,633,174</b>	<b>366,825</b>	<b>4,633,174</b>
Interest received in cash	4,421	794	24,080	794

**Supplemental cash flow information (Note 13)**

*See Accompanying Notes to Consolidated Financial Statements*

## **RARE EARTH METALS INC.**

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

December 31, 2010

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### **1. Basis of presentation**

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

These financial statements have been prepared assuming the Company will continue on a going-concern basis, or that it will continue to realize its assets and meet its obligations in the normal course of business. The Company has incurred losses since inception and has an accumulated operating deficit of \$6,501,205 at December 31, 2010 (\$2,181,012 at March 31, 2010). The ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate equity financing to fund its exploration and administrative expenses. These financial statements do not contain any adjustments to the amounts and classification of assets and liabilities which might be necessary should the Company become unable to continue as a going concern.

### **2. Reverse Takeover and Comparative Figures**

On December 16, 2009, the Company completed the acquisition of a private company known as REM Metals Inc. ("REM", formerly Rare Earth Metals Inc.) by acquiring all of the issued and outstanding shares of REM by issuing one common share of the Company for each common share of REM. As a result, the Company issued 39,630,000 common shares (approximately 54% of the issued shares of the Company) to the shareholders of REM. This transaction is considered to be a reverse takeover transaction and under the provisions of the Canadian Institute of Chartered Accountant handbook EIC 10, the Company is considered to be a continuation of REM and as such, the comparative figures would normally be those of REM. REM is now a wholly owned subsidiary of the Company. Refer also to Note 5.

### **3. Significant Accounting Policies**

#### **a) Basis of Accounting**

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Summarized below are those policies considered particularly significant to the Company.

## **RARE EARTH METALS INC.**

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

December 31, 2010

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### b) Use of Estimates

The presentation of financial statements in conformity with Canadian GAAP requires the Company's management to make estimates and assumptions that affect the amounts reported in these financial statements and related notes. Management regularly reviews the estimates and assumptions that affect the consolidated financial statements, although actual results may be materially different from these estimates and assumptions. Areas where significant estimates and assumptions are required by management include the determination of impairment for capitalized mineral property expenditures and the variables for use in calculating stock-based compensation.

### c) Short-term Investments

Short-term investments consist of guaranteed investment certificates with remaining terms to maturity of greater than 90 days when acquired. Marketable securities are valued at market based on the published price at the balance sheet date. Short-term investments are classified as held-for-trading financial instruments in accordance with the requirements of Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855 "Financial Instruments", adopted by the Company on January 1, 2007. These investments are recorded at fair value, with unrealized gains and losses being recorded in income in the current period.

### d) Property and Equipment

Purchased property and equipment are recorded at cost. Amortization is provided using the declining-balance method using annual rates as follows:

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

Amortization is provided at half the annual rate in the year of acquisition and the year of disposal.

### e) Mineral interests

Mineral property and mineral rights acquisition costs are capitalized until the viability of the mineral interest is determined. If a mineral ore body is discovered, capitalized costs will be amortized over their estimated useful lives following the commencement of production. Otherwise, capitalized acquisition costs are expensed when it is determined that the mineral property has no future economic value. Capitalized amounts (including capitalized development costs) are written down if future cash flows, including potential sales proceeds, related to the mineral property are estimated to be less than the property's total carrying value. Management of the Company reviews the carrying value of each mineral property periodically, and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Reductions in the carrying value of a property would be recorded to the extent that the total carrying value of the mineral property exceeds its estimated fair value.

## **RARE EARTH METALS INC.**

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

December 31, 2010

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Exploration costs are expensed as incurred. When it is determined that a mining deposit can be economically and legally extracted or produced based on established proven and probable reserves, further exploration costs and development costs incurred after such determination will be capitalized. The establishment of proven and probable reserves is based on results of final feasibility studies which indicate whether a property is economically feasible. Upon commencement of commercial production, capitalized costs will be transferred to the appropriate asset categories and amortized over their estimated useful lives. Capitalized costs, net of salvage values, relating to a mining deposit which is abandoned or considered uneconomic for the foreseeable future will be written off.

f) Impairment

The carrying values of mineral interests and plant, property and equipment are reviewed on an annual basis and when changes in circumstances suggest their carrying value may become impaired. Management considers assets to be impaired if the carrying value exceeds the estimated undiscounted future projected cash flows from the use of the asset and its eventual disposition. If impairment is deemed to exist, the assets will be written down to fair value with a charge to operations.

g) Asset Retirement Obligations

The Company records the fair value of liabilities for asset retirement obligations in the period in which they are incurred and in which a reasonable estimate of such costs can be made. The asset retirement obligation is recorded as a liability, with a corresponding increase to the carrying amount of the related asset and depreciated over the life of the asset. Over time, the liability is increased to reflect an interest element (accretion expenses) considered in its initial measurement at fair value. The amount of liability is subject to re-measurement at each reporting period. It is possible that the Company's estimates of its ultimate reclamation and closure liabilities could change as a result of changes in regulations, the extent of environmental remediation required, and the means of reclamation or cost estimates. Changes in estimates are accounted for prospectively from the date the estimate is revised.

As at December 31, 2010, the Company did not have any asset retirement obligations.

h) Revenue/Income Recognition

The Company recognizes interest income on cash and cash equivalents and short-term investments, as it is earned.

i) Share Capital

Common shares issued for non-monetary consideration are recorded at their fair market value based upon the closing trading price of the Company's shares on the TSX Venture Exchange on the date of the agreement to issue the shares. Shares issued as property option payments are valued at their fair market value on the date of issuance.

j) Stock-based Compensation



## **RARE EARTH METALS INC.**

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

December 31, 2010

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The Company records compensation associated with stock options granted using a fair value measurement basis and records the expense when the options vest with the recipients.

The proceeds received by the Company on the exercise of options are credited to share capital and the related contributed surplus, originally recognized when the options were granted, is transferred to share capital.

### k) Financial Instruments and Financial Risk

The Company's financial instruments, at December 31, 2010, consist of cash and short-term deposits, accounts payable and accrued liabilities. Cash and short-term deposits have been classified as held-for-trading, the carrying values of which approximate their fair values due to their short term nature. Accounts payable and accrued liabilities are classified as other financial liabilities, measured at amortized cost using the effective interest rate method, however due to their short term nature, their carrying amounts approximate fair value.

### l) Future Income Taxes

The Company follows the liability method of accounting for income taxes. Future income taxes are recorded for the future tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases on the balance sheet date. Future income tax assets and liabilities are measured using substantially enacted income tax rates expected to apply in the year in which temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in substantially enacted rates is included in operations. A future income tax asset is recorded when the probability of the realization is more likely than not.

### m) Impairment of Long-Lived Assets

Long-lived assets are assessed for impairment when events and circumstances warrant, when the carrying amounts of the assets exceeds their estimated undiscounted net cash flow from use or their fair value, at which time the impairment is charged to earnings.

### n) Loss Per Share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Basic loss per share is calculated using the weighted-average number of common shares outstanding during the period.

### o) Environmental Expenditures

The operations of the Company have been, and may in the future be, affected from time to time in varying degree by changes in environmental regulations, including those for site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company vary greatly from country to country and are not predictable.

Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against operations as incurred or capitalized and amortized

## **RARE EARTH METALS INC.**

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

December 31, 2010

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depending on their expected future economic benefit. Estimated future removal and site restoration costs are recognized when the ultimate liability is reasonably determinable, and are charged against operations over the estimated remaining life of the related business operations, net of expected recoveries.

#### **4. Changes in Accounting Policies**

##### **Adoption of New Accounting Standards**

###### **Assessing Going Concern**

Effective January 1, 2009, the Company adopted new Canadian Institute of Chartered Accountants ("CICA") Handbook section 1400 which was amended to include requirements for management to assess and disclose an entity's ability to continue as a going concern. The Company has included the required disclosures recommended by section 1400 in Note 1 of these financial statements.

###### **Financial Instruments - Disclosure and Presentation**

In May 2009, the CICA amended Section 3862, Financial Instruments - Disclosure to include additional disclosure requirements about fair market value measurements for financial statements and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. The Company has included disclosures recommended by sections 3862 and 3863 in Note 11 of these financial statements.

###### **Deferred exploration costs**

On March 27, 2009, the Emerging Issues Committee issued EIC-174 Mining Exploration Costs. This EIC provides additional guidance in light of the potential adverse impact of the current economic and financial turmoil on the carrying value of the deferred exploration costs. The EIC is effective for financial statements issued on or after the date of the date of the EIC. Management applied a market approach in its review using data relating to forward prices, ongoing feasibility studies and management's assessment of the Company's ability to fund ongoing exploration. In management's estimation there has been no impairment to its mineral assets upon the adoption of the new standard.

## **RARE EARTH METALS INC.**

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

December 31, 2010

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### **Goodwill and intangible assets**

On January 1, 2009, the Company adopted CICA Handbooks section 3064 "Goodwill and intangible Assets", which replaced CICA Handbooks section 3062 "Goodwill and Other Intangible Assets" as well as CICA Handbook section 3450 "Research and Development". This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

Adoption of this new standard did not have a material impact on the Corporation's financial statements and disclosures.

### **Future Accounting Changes**

#### **CICA Sections 1582, 1601, 1602 Business Combinations, Consolidations, and Non-Controlling Interests**

In January 2009, the AcSB issued the following Handbook sections: 1582 - Business Combinations, 1601 - Consolidations, and 1602 - Non-Controlling Interests. These new Sections will be applicable to financial statements relating to the Company's interim and fiscal year end beginning on or after January 1, 2011. Early adoption is permitted. The Company does not expect that there will be any material impact upon its adoption of these new sections on its consolidated financial statements.

### **New Canadian Accounting Pronouncements**

#### **International Financial Reporting Standards ("IFRS")**

In February 2008 the Canadian Accounting Standards Board announced 2011 as the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The specific implementation is set for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require restatement for comparative purposes of amounts reported by the Company for the period ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

## **5. Business Combination**

As described in Note 2, these consolidated financial statements are inclusive of the completion of a reverse takeover transaction, recorded in Fiscal 2010, whereby REM Metals Corp., the continuing entity for accounting purposes is considered to have acquired the assets and liabilities of East Energy in a business combination.

## RARE EARTH METALS INC.

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

December 31, 2010

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
Mineral interests		1,020,000
Property and equipment		<u>13,852</u>
Net assets acquired	\$	<u>7,864,381</u>

### 6. Short-term Investments

As at December 31, 2010 the Company had \$8,098,569 (March 31, 2010: \$9,836,024) in short-term investments consisting of cashable guaranteed investment certificates in major Canadian Banks, money market funds and bonds maturing from January 28, 2011 to November 22, 2011. The yields on these investments are 1.00% to 6.24% per year. These investments are fully liquid and available at the request of the Company, and accordingly they have been classified as a current asset in these consolidated unaudited interim financial statements.

### 7. Mineral Interests

The company has capitalized the following acquisition costs of its mineral property interests during the nine month period ended December 31, 2010:

Mineral Interests	Hinton Coal \$	Clay- Howells \$	Lackner \$	Coldwell \$	Red Wine Complex \$	Genex \$	Total \$
Balance, March 31, 2010	1,020,000	414,926	58,986	-	79,846	-	1,573,758
Acquisition costs for the period	-	6,411	-	98,412	631,647	224	736,694
Write-downs	-	-	(58,986)	-	-	-	(58,986)
Balance, December 31, 2010	1,020,000	421,337	-	98,412	711,493	224	2,251,466

During the nine month period ended December 31, 2010, the Company incurred the following exploration expenditures that were expensed as incurred:

Exploration Expenditures	Clay- Howells \$	Lackner \$	Coldwell \$	Red Wine Complex \$	Other \$	Total \$
Prospecting	219,038	23,886	-	720,989	4,581	968,494
Geology	60,431	4,787	-	170,675	14,830	250,723
Geophysical	26,310	400	975	93,045	-	120,730
Trenching	-	-	-	232,457	238	232,695
Diamond drilling	176,346	-	-	923,941	-	1,100,287
Other	4,170	-	-	500	20,552	25,222
Exploration Expenditures for the period	486,295	29,073	975	2,141,607	40,201	2,698,151

## **RARE EARTH METALS INC.**

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

December 31, 2010

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### Hinton Coal Property

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

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

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

### Clay-Howells Property

The Clay-Howells property consists of 45 patented claims (mining and surface) and is located 30 kilometres north-northeast of Kapuskasing, Ontario. During the Fiscal 2010, the Company entered into an agreement to acquire a 100% interest in the Clay-Howells property. Pursuant to the agreement, in order to exercise the option, the Company must pay to the optionor a non-refundable deposit of \$20,000 (paid) and a further \$330,000 on or before October 21, 2009 (paid). Upon exercise of the option by the Company, the optionor will retain a 2-per-cent net smelter revenue royalty ("NSR"). The Company shall have the right and option to purchase, at any time, one-half of the NSR in consideration of the payment of \$1-million to the optionor.

### Lackner Property

The Lackner property consisted of 105 unpatented claim units and was located 25 kilometres southeast of Chapleau, Ontario. During Fiscal 2010, the Company entered into an option agreement on September 9, 2009 to acquire up to a 90% interest in the Lackner property by making minimum cash payments totaling \$2.625 million, issuing shares of the Company with a value of \$2.625 million, and finally, completing exploration work totaling \$1.75 million, all over a seven year period. On signing of the Lackner property agreement, the Company made a \$50,000 cash payment. As of August 9, 2010, the Company elected to terminate the Lackner property option agreement, and accordingly, the Company has written off the related acquisition costs.

### Red Wine Complex

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

#### *Mann #1, Two Tom*

Pursuant to an option agreement dated September 29, 2009 as amended November 3, 2009 between the Company and Roland Quinlan, Marilyn Quinlan, Andrew Quinlan and Eddie Quinlan (the "Mann Optionors"), the Company may acquire a 100% interest in the Mann # 1 and Two Tom Lake properties (the "Optioned Properties"). Pursuant to the agreement, in order to exercise the option and earn a 100% interest in the Optioned Properties, the Company must make the following payments and share issuances to the Mann Optionors:

## **RARE EARTH METALS INC.**

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

December 31, 2010

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(a) within 60 days of the date of the agreement, pay \$25,000 (paid) and issue 60,000 shares (issued); (b) pay \$35,000 (paid) and issue 135,000 shares (issued) on September 29, 2010; (c) pay \$45,000 and issue 135,000 shares on September 29, 2011; and (d) pay \$70,000 and issue 170,000 shares on September 29, 2012.

Upon the Company exercising the option, the Mann Optionors will retain a 2% net smelter royalty ("NSR") in the Optioned Properties and beginning on the September 29, 2014, the Company will issue 20,000 shares per annum to the Mann Optionors as an advance royalty payment, all of which share issuances will be credited against royalty payments payable once commercial production commences. The Company may at any time purchase one-half (1%) of the NSR from the Mann Optionors for \$1,000,000.

### *Ten Mile Lake/Letitia Lake*

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

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

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

### *Partridge River*

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

## **RARE EARTH METALS INC.**

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

December 31, 2010

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acquisition. The Company may, at any time, purchase 1% of the net smelter return for \$1,000,000.

### *Zimtu*

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

### *Hick's Partridge River*

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

### *Northcott/Hare Hill*

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

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

## **8. Property and Equipment**

**RARE EARTH METALS INC.**

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

December 31, 2010

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	December 31, 2010			March 31, 2010		
	Cost \$	Accumulated Amortization \$	Net \$	Cost \$	Accumulated Amortization \$	Net \$
Computer equipment	9,851	1,788	8,063	4,668	199	4,469
Computer software	8,585	4,629	3,956	4,066	1,030	3,036
Office equipment & furniture	11,221	1,847	9,374	10,447	261	10,186
General equipment	40,000	6,850	33,150	40,000	1,000	39,000
Field equipment	105,676	17,324	88,352	38,399	1,440	36,959
Signs	3,915	670	3,245	3,915	98	3,817
Vehicles	8,025	902	7,123	-	-	-
Total	187,273	34,010	153,263	101,495	4,028	97,467

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**9. Share Capital**

(a) Common Stock



**RARE EARTH METALS INC.**

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

December 31, 2010

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Authorized: unlimited common shares without par value  
Issued: 81,303,082

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	Shares	Amount \$
Balance, March 31, 2009	33,792,134	13,559,328
Less: share issue costs	-	(59,516)
Elimination of the Company's share capital net of the net asset value of the Company pursuant to the purchase of the Company by REM Metals Corp.	-	(13,499,812)
Adjustment to increase in book value of the Company's share capital to that of REM Metals Corp., the continuing entity for accounting purposes, immediately prior to the reverse takeover transaction*	-	5,805,100
Issuance of common shares of the Company to acquire the outstanding share capital of REM Metals Corp.	39,630,000	7,864,381
Less: share issue costs	-	(458,882)
Less: value of warrants issued with common shares	-	(3,665,761)
Less: value of warrants issued to agents	-	(775,795)
Warrants exercised	48,000	16,800
Reclassified from exercise of warrants	-	17,596
Common shares in connection with property agreements	60,000	27,600
Balance, March 31, 2010	73,530,134	8,831,039
Issued pursuant to private placement for cash	4,015,448	1,847,106
Less: value of warrants issued to investors	-	(166,124)
Less: share issue costs	-	(151,416)
Common shares in connection with property agreements	1,267,500	530,618
Common shares issued upon exercise of warrants	2,390,000	636,500
Reclassified from exercise of warrants	-	918,766
Common shares issued upon exercise of stock options	100,000	30,000
Balance, December 31, 2010	81,303,082	12,476,489

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

## **RARE EARTH METALS INC.**

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

December 31, 2010

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- (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 in 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.

During the period ended December 31, 2010, the Company completed a non-brokered private placement for gross proceeds of \$1.85 million by issuing 4,015,448 million flow-through units at a price of \$0.46 per unit. Each unit consists of one flow-through common share and one half of one share purchase warrant with each whole warrant entitling the holder to acquire one additional common share at a price of \$0.60 per share for a period of one year from closing. Pursuant to the private placement, cash commissions totaling \$134,176 were paid to the finders.

### (b) Share Purchase Warrants

A summary of the outstanding share purchase warrants issued by the Company for the nine month period ended December 31, 2010 and March 31, 2010 is as follows:

**RARE EARTH METALS INC.**

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

December 31, 2010

	Number of Warrants	Weighted Average Exercise Price \$
Outstanding at March 31, 2009	1,250,000	1.20
Issued during the period to investors	10,000,000	0.35
Issued during the period to agents	2,000,000	0.25
Expired during the period	(1,250,000)	1.20
Exercised during the period	(48,000)	0.35
Outstanding at March 31, 2010	11,952,000	0.33
Exercised during the period	(2,390,000)	0.27
Issued during the period to investors	2,007,724	0.60
Outstanding at December 31, 2010	11,569,724	0.39

Share purchase warrant transactions during Fiscal 2010 and for the nine month period ended December 31, 2010 are as follows:

	Amount \$
Outstanding at March 31, 2009	-
Issued during the period to investors	3,665,761
Issued during the period to agents	775,795
Exercised during the period	(17,596)
Outstanding at March 31, 2010	4,423,960
Exercised during the period	(918,766)
Issued during the period to investors	166,124
Outstanding at December 31, 2010	3,671,318

For all warrants issued prior to the period ended March 31, 2010, the fair values have been estimated using the Black-Scholes Option Pricing Model and the following assumptions: dividend yield of 0%, expected volatility of 146.3%, a risk-free interest rate of 0.25% and an expected life of 2 years. The value of the warrants reduced the proceeds attributed to share capital and are recognized under capital stock as share purchase warrants.

For all warrants issued during the current period, the fair values have been estimated using the Black-Scholes Option Pricing Model and the following assumptions: dividend yield of 0%, expected volatility of 104.8% to 105%, a risk-free interest rate of 1.18% and an expected life of 1 year. The value of the warrants reduced the proceeds attributed to share capital and are recognized under capital stock as share purchase warrants.

As at December 31, 2010, the following share purchase warrants were outstanding:

**RARE EARTH METALS INC.**

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

December 31, 2010

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<b>Number of common shares issuable</b>	<b>Exercise price \$</b>	<b>Date of expiry</b>
9,562,000	0.35	December 16, 2011
1,932,724	0.60	November 15, 2011
75,000	0.60	November 23, 2011
11,569,724		

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**(c) Contributed Surplus**

A summary of changes in contributed surplus during Fiscal 2010 and for the nine month period ended December 31, 2010 are as follows:

	\$
Balance at March 31, 2009	1,463,103
Stock-based compensation	129,691
Adjustment on reverse takeover transaction	(1,592,794)
Stock-based compensation	383,419
Balance at March 31, 2010	383,419
Forfeited	(552)
Stock-based compensation	867,497
Balance at December 31, 2010	1,250,364

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**(d) Stock Options**

The Company may grant options to the Company's directors, officers, employees and service providers under the Company's stock option plan. The maximum number of common shares reserved for issuance under the plan is 14,717,026. The Company recognizes stock-based compensation in connection with stock options granted over their respective vesting periods, with stock options typically vesting in various increments and having a maximum term of five years.

**RARE EARTH METALS INC.**

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

December 31, 2010

Stock option transactions during Fiscal 2010 and for the nine month period ended December 31, 2010 are as follows:

	Number	Weighted Average Exercise Price \$
Options outstanding at March 31, 2009	2,665,000	0.60
Expired / cancelled / forfeited	(2,250,000)	0.59
Granted	3,015,000	0.55
Options outstanding at March 31, 2010	3,430,000	0.56
Expired / cancelled / forfeited	(100,000)	0.55
Granted	600,000	0.35
Exercised	(100,000)	0.30
Options outstanding at December 31, 2010	3,830,000	0.53

The weighted-average fair value of options granted during the nine month period ended December 31, 2010 was \$0.35. Each option entitles the holder to purchase one common share.

<u>Options Outstanding</u>				<u>Options Exercisable</u>	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (yr)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 0.35 - \$0.81	3,830,000	3.54	\$ 0.53	3,089,267	\$0.53

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

	<b>2010</b>
Risk-free interest rate	<b>1.36% - 2.91%</b>
Dividend yield	<b>0%</b>
Volatility	<b>98% - 137%</b>
Approximate expected lives	<b>2 - 5 years</b>

(e) Shares subject to escrow or hold periods

As of December 31, 2010, 3,420,000 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 June 14, 2011.

**RARE EARTH METALS INC.**

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

December 31, 2010

As of December 31, 2010, 5,572,000 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 June 14, 2011.

**10. Related Party Transactions**

The Company paid or accrued the following amounts to related parties during the nine month period ended December 31, 2010 and December 31, 2009:

Payee	Description of Relationship	Nature of Transaction	December 31, 2010 Amount \$	December 31, 2009 Amount \$
Stares Contracting Corp.	Company controlled by Michael Stares, Director and Officer and Stephen Stares, Director	Payments for equipment rentals, supply of labour and reimbursement of exploration expenditures	124,944	50,537
Gordon J. Fretwell Law Corporation	Company controlled by Gordon Fretwell, Secretary	Legal fees charged/accrued during the period	45,662	51,794
Eastrock Exploration Inc.	Company controlled by Wayne Reid, Director	Payments for geological consulting services and reimbursement of exploration expenditures	97,367	78,717
Felix Geo-Consultants	Company controlled by Reg Felix, VP Exploration	Payments for geological consulting services and reimbursement of exploration expenditures	125,060	-

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 \$13,140 (2009: \$33,027) to Gordon J. Fretwell Law Corporation, \$2,747 (2009:\$19,120) to Eastrock Exploration Inc., \$7,064 (2009: nil) to Stares Contracting Corp., and \$2,825 (2009: nil) to Felix Geo-Consultants. The repayment terms are similar to the repayment terms of non-related party trade payables.

## **RARE EARTH METALS INC.**

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

December 31, 2010

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### **11. Financial Instrument Risks**

The Company's financial instruments are exposed to the following risks:

#### *Credit Risk*

The Company's primary exposure to credit risk is the risk of illiquidity of cash and short-term deposits, amounting to \$8,465,394 at December 31, 2010 (\$10,332,520 at March 31, 2010). As the Company's policy is to limit cash holdings and short-term deposits to instruments issued by major Canadian banks, or investments of equivalent or better quality, the credit risk is considered by management to be minimal.

#### *Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to pay financial instrument liabilities as they come due. The Company's only liquidity risk from financial instruments is its need to meet operating accounts payable requirements. The Company has maintained sufficient cash balances to meet these needs at December 31, 2010.

#### *Interest Rate Risk*

The Company has been exposed to interest rate risk on its cash and short-term deposits. The majority of these deposits have been in discounted instruments with pre-determined fixed yields. Interest rate movements will affect the fair value of these instruments so the Company manages maturity dates of these instruments to match cash flow needs, enabling realization at no loss in almost all cases. Unrealized gains and losses are reported in other comprehensive income.

At December 31, 2010, the Company maintained all of its cash balance on deposit in a chequing account with a major Canadian bank.

#### *Fair Value of Financial Instruments*

During 2009, CICA handbook section 3862 "Financial Instruments - Disclosures" was amended to require enhanced disclosure of financial instrument fair value measurements and liquidity risks. Financial instruments must be classified at one of three levels within a fair value hierarchy according to the relative reliability of the inputs used to estimate their values. The three levels of the hierarchy are as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3: Inputs that are not based on observable market data

**RARE EARTH METALS INC.**

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements

December 31, 2010

The Company's financial instruments carrying amounts and fair values by categories and levels per the fair value hierarchy are as follows:

	Fair Value Level	2010	
		Hold for trading at fair value \$	Loans and receivables/ other financial liabilities at amortized cost \$
<b>Financial assets:</b>			
Cash	1	366,825	-
Short-term investments	1	8,098,569	-
Other receivables		-	100,461
Refundable security deposits		-	73,428
		<b>8,465,394</b>	<b>173,889</b>
<b>Financial liabilities:</b>			
Accounts payable and accrued liabilities		-	149,668
		-	<b>149,668</b>

**12. Refundable Security Deposits**

Refundable security deposits of \$73,428 represent security amounts paid to the Government of Newfoundland and Labrador in connection with mineral property claims located in the Province of Newfoundland. These deposits are refundable to the Company upon submission by the Company of a report covering the first year work requirements which meets the requirements of the Government of Newfoundland and Labrador.

**13. Supplemental Cash Flow Information**

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

	December 31, 2010 \$ (Note 2)
<b>Non-cash financing activities</b>	
Common shares issued for property acquisition and finders agreements	530,618
<b>Non-cash investing activities</b>	
Common shares issued for property acquisition and finders agreements	(530,618)



#### **14. Commitments**

The Company has commitments as described in Note 7 with respect to certain agreements on its mineral property interests.

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

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

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	\$
2011	19,077
2012	19,077
2013	14,664
2014	1,190
	<hr/> 54,008 <hr/>

#### **15. Comparative figures**

Certain of the 2009 numbers presented for comparative purposes have been reclassified to conform with the presentation adopted in the current year.