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

## For the year ended March 31, 2011

**July 27, 2011**

*The following discussion of the financial condition and results of operations of the Company constitutes management's review of the factors that affected the Company's financial and operating performance for the year ended March 31, 2011. The discussion should be read in conjunction with the audited annual consolidated financial statements of the Company for the year ended March 31, 2011, including the notes thereto.*

*Unless otherwise stated, all amounts discussed herein are denominated in Canadian dollars and all financial information (as derived from the Company's consolidated financial statements) has been prepared in accordance with Canadian generally accepted accounting principles.*

### Forward-looking Statements

This MD&A, which contains certain forward-looking statements, is intended to provide readers with a reasonable basis for assessing the financial performance of the Company. All statements, other than statements of historical fact, are forward-looking statements. The words "believe", "expect", "anticipate", "contemplate", "target", "plan", "intends", "continue", "budget", "estimate", "may", "will", "schedule" and similar expressions identify forward looking statements. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Known and unknown factors could cause actual results to differ materially from those projected in the forward-looking statements. Such factors include, but are not limited to, fluctuations in the currency markets such as Canadian dollar, fluctuations in commodity prices, changes in government legislation, taxation, controls, regulations and political and economic developments in Canada or other countries in which the Company carries or may carry on business in the future, and risks associated with development activities. Many of these facts can affect the Company's actual results and could cause actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, the Company.

Readers are cautioned that forward-looking statements are not guarantees of future performance. There can be no assurance that such statements will prove to be accurate and actual results and future events could differ materially from those acknowledged in such statements. The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except to the extent required by applicable laws.

## Company Overview

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". The Company is in the process of exploring for mineral properties and has not yet determined whether these properties contain reserves that are economically recoverable. The Company has not generated any operating revenue to date and has experienced recurring operating losses. The Company's ability to continue as a going concern is dependent upon successful completion of additional financing, continuing support of creditors and upon its ability to attain profitable operations. 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.

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 consolidated financial statements are inclusive of the completion of a reverse takeover transaction, recorded in the period, whereby REM Metals Corp., the continuing entity for accounting purposes is considered to have acquired the assets and liabilities of East Energy in a business combination 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 |
| Mineral interests | | 1,020,000 |
| Property and equipment | | 13,852 |
| Net assets acquired | $ | 7,864,381 |

### Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The Company maintains internal controls over financial reporting designed to provide reasonable assurance regarding the completeness and reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles (GAAP) in Canada. The Company has in place policies and procedures regarding the maintenance of records to ensure that all transactions are properly authorized and accurately recorded.

The Company has a limited number of staff and it is not always possible to achieve a complete segregation of incompatible duties. Management attempts to mitigate the risk of any material misstatements through compensating controls and "hands-on" involvement and knowledge of the senior management. However, a control system, no matter how well designed and functioning, can only provide reasonable, not absolute assurance the objectives of the control system are met.

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's Chief Executive Officer and the Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this MD&A, management of the Company, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian Securities Laws. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this MD&A, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual and interim filings and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time period specified by those laws and that material information is communicated to management of the Company including the Acting Chief Executive Officer and Chief Financial Officer, as appropriate to allow for accurate disclosure to be made on a timely basis.

## Company's Operations

### 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 consolidated financial statements dated March 31, 2011.

Work carried out at the Red Wine project during the fiscal year 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. t 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.

During the year ended March 31, 2011, 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** -This prospect was drill tested and trenched over a strike length of 1,100 meters. A total of 11 holes were completed and the main section of mineralization has been defined as a lens averaging 80 meters in thickness and completely open in all directions. The exploration program has also given good indications of parallel zones. The best result from the drilling at Two Tom was in hole TT-10 which assayed 1.45% TREO, 0.14% $Nb_2O_5$ and 0.14% BeO over 83.25 meters within a larger zone of mineralization which assayed 1.03% TREO, 0.10% $Nb_2O_5$ and 0.11% BeO over 168.5 meters.

**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%$Nb_2O_5$, 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 anticipated 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 prospects and the Dory Pond prospect. 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 ($ZrO_2$). 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 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 ($ZrO_2$) 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.

Follow up drilling and additional target definition work is planned for the summer, 2011. This work will be focused on delineating a resource on the Two Tom Zone. Drilling is also planned at the Mann#1 prospect and a number of the other REE prospects located during the 2010 prospecting program. Additional prospecting and soil sampling on the Dory Pond, South Playfair and a number of other prospective areas will also be done in order to prioritize these targets for 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

Subsequent to this reporting period (June 2011), the Company completed agreements to acquire the Lavergne rare earth prospect in Springer Township, located immediately north of the town of Sturgeon Falls and 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. Field work including diamond drilling is scheduled for late June, 2011.

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.

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 2,784 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.

## Mineral Interests and Exploration Costs

The Company's mineral interests represent costs incurred to acquire mineral property interests. These costs are capitalized pursuant to the Company's accounting policy for recording such costs. During the year ended March 31, 2011, the changes in the Company's acquisition cost balance are as follows:

| **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 | - | 9,117 | - | 122,002 | 678,648 | 11,044 | 820,811 |
| Write-downs | - | - | (58,986) | - | - | - | (58,986) |
| Balance, March 31, 2011 | 1,020,000 | 424,043 | - | 122,002 | 758,494 | 11,044 | 2,335,583 |

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

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 |

## Summary of Quarterly Results

The following table summarizes selected financial information for the most recently completed quarters.

| | 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 ($) |
|---|---|---|---|---|---|---|---|
| **Exploration costs** | **647,936** | **404,827** | **1,703,452** | **589,871** | **1,048,612** | **167,423** | **109,256** |
| **Expenses** | **701,077** | **478,107** | **599,016** | **545,753** | **694,367** | **132,148** | **56,287** |
| **Operating loss** | **(1,349,013)** | **(882,934)** | **(2,302,468)** | **(1,135,624)** | **(1,742,979)** | **(299,571)** | **(165,543)** |
| **Interest income** | **24,189** | **8,257** | **14,929** | **12,437** | **7,921** | **8,850** | **-** |
| **Other items** | **(5,773)** | **18,265** | **6,585** | **(42,400)** | **(31,232)** | **-** | **-** |
| **Net income (loss)** | **(1,330,597)** | **(856,412)** | **(2,280,954)** | **(1,165,587)** | **(1,766,290)** | **(290,721)** | **(165,543)** |
| **Net (loss) per share – basic** | **$(0.01)** | **$(0.01)** | **$(0.03)** | **$(0.02)** | **$(0.03)** | **$(0.01)** | **$(0.01)** |

During the most recently completed quarters, the Company had no discontinued operations or extraordinary items.

## Liquidity and Capital Resources

The Company is in the exploration stage and does not generate revenues. The Company relies on equity financing for its working capital requirements to fund its activities.

As at March 31, 2011, the Company had cash on hand in the amount of $167,467 (March 31, 2010: $496,496). Working capital at March 31, 2011 was $7,501,676 (March 31, 2010: $9,786,181). At March 31, 2011, the Company held $7,470,664 in short-term investments (March 31, 2010: $9,836,024). The yields at March 31, 2011 on these investments range from 1.50% to 5.00% per year.

Accounts payable and accrued liabilities at March 31, 2011 were $509,344 (March 31, 2010: $672,443).

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

The Company's cash position will enable the Company to meet its current obligations for the next 12 months.

## Financial condition

The Company's cash balance as at March 31, 2011 was $167,467 compared to $496,496 as at March 31, 2010. Current assets of the Company as at March 31, 2011 were $8,011,020 compared to $10,458,624 as at March 31, 2010. The decrease in working capital is attributable to significant exploration expenditures on the Clay Howells and Red Wine properties. As at March 31, 2011, the Company had Mineral interests of $2,335,583 compared to $1,573,758 as at March 31, 2010. The increase in Mineral interests is attributable to completing property option agreements in the Red Wine complex in Newfoundland where cash payments were made and shares were issued and the addition of the Coldwell Complex property. Total assets as at March 31, 2011 were $10,498,223 compared to

$12,129,849 as at March 31, 2010. The decrease in total assets is attributable to operating and exploration expenditures. Current liabilities as at March 31, 2011 were $509,344 compared to $672,443 as at March 31, 2010. The decrease is attributable to a decrease in exploration activities and settlements of liabilities prior to year end.

## Results of Operations

The net loss and comprehensive loss for the year ended March 31, 2011 was $5,633,550 ($0.07 per common share) as compared to a net loss and comprehensive loss of $2,181,012 ($0.04 per common share) for the same period in the previous year. The significant change is due to the company performing exploration programs on the Clay Howells and Red Wine properties subsequent to the reverse takeover transaction December 16, 2009.

## Cash Flows

The cash used in operating activities was $4,731,856 for the year ended March 31, 2011 compared to cash used by operating activities of $1,215,994 for the year ended March 31. 2010. This change is primarily due to an increase in exploration expenditures in the current period. Cash provided by financing activities was $2,369,190 for the year ended March 31, 2011 as compared to cash provided by financing activities of $5,303,502 for the year ended March 31, 2010; the company completed a $5 million private placement in 2009 prior to the reverse takeover transaction. During the year ended March 31, 2011, the company completed a private placement raising $1.69 million, net of costs. Cash from investing activities was $2,033,637, for the year ended March 31, 2011 as compared to cash used in investing activities of $3,767,412 for the same period in 2009. The change arose due to the redemption of short-term investments to finance exploration and operating expenditures.

### *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 March 31, 2011, 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.

As of March 31, 2011, 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.

## Outstanding Share Data

At the date of this management's discussion and analysis, there are 81,903,082 common shares outstanding, 5,840,000 stock options outstanding and 11,549,724 share purchase warrants outstanding. During the year ended March 31, 2011 the Company announced that it had granted to certain directors, officers, employees and consultants 3,525,000 stock options with an exercise price of $0.35 and $0.38 for a period between two years and five years from the date of grant and subject to the vesting requirements of the Company's stock option plan.

## Off-Balance Sheet Arrangements

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

## Contractual Obligations

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

Prior to this reporting period, the Company entered into investor relations consulting agreements, effective January 15, 2010, with both First Canadian Capital Corporation ("First Canadian") and Linx Inc. ("Linx"). The First Canadian and Linx agreements each provide for a monthly consulting fee of $3,500 plus GST and the issuance of 100,000 incentive stock options exercisable for two years at $0.55 per share and which are subject to the Company's incentive stock option plan (the "Plan") including vesting provisions (and are included in the above outstanding share data figures). The investor relations agreements, which are subject to the approval of the TSX Venture Exchange, are for an initial term of 12 months with a three month performance review period after which time either party may terminate on 30 days notice.

In May 2010, the agreement with Linx was terminated, accordingly, 100,000 incentive stock options were forfeited during the period ended June 30, 2010.

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 years ended March 31, 2011 and March 31, 2010:

| Payee | Description of Relationship | Nature of Transaction | March 31, 2011 Amount $ | March 31, 2010 Amount $ |
|---|---|---|---|---|
| Stares Contracting Corp. | Company controlled by Michael Stares, Director and Officer and Stephen Stares, Director | Payments for equipment rentals, supply of labour, reimbursement of exploration expenditures and premises rental | 156,158 | 68,957 |
| Gordon J. Fretwell Law Corporation | Company controlled by Gordon Fretwell, Secretary | Legal fees charged/accrued during the period | 56,506 | 84,476 |
| Eastrock Exploration Inc. | Company controlled by Wayne Reid, Director | Payments for geological consulting services and reimbursement of exploration expenditures | 120,695 | 110,811 |
| Felix Geo-Consultants | Company controlled by Reg Felix, VP Exploration | Payments for geological consulting services and reimbursement of exploration expenditures | 166,023 | - |

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 $10,845 (2010: $15,667) to Gordon J. Fretwell Law Corporation, $5,820 (2010:$12,745) to Eastrock Exploration Inc., $8,947 (2010: $7,853) to Stares Contracting Corp., and nil (2010: nil) to Felix Geo-Consultants. The repayment terms are similar to the repayment terms of non-related party trade payables.

## Critical Accounting Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. The Company's significant accounting policies are described in Note 3 to the consolidated financial statements. Each policy involves a number of estimates and assumptions made by management. The Company bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances. On an on-going basis, the management evaluates its estimates. Different accounting policies, or changes in estimates or assumptions, could potentially have a material impact, positive or negative, on the Company's financial position and results of operations. It is reasonably possible that circumstances may arise which cause actual results to differ from management estimates. The Company believes its most critical policies and estimates are those related to allowance for uncollectible accounts receivable, useful lives for amortization of long-lived assets, impairment assessments on long-lived assets, accrued liabilities and provision for income taxes.

## Changes in Accounting Policies and Initial Adoption

There were no changes in the Company's accounting policies during the current period.

On April 1, 2008, the Company adopted the following new and amended Canadian Institute of Chartered Accountants ("CICA") accounting standards:

(i) Section 1400, General Standards of Financial Statement Presentation, describes the requirements for management to assess an entity's ability to continue as a going concern and to disclose any material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern. The Company's disclosure reflects such assessment and discussion (see Note 1).

(ii) Accounting Changes – Section 1506

Section 1506, Accounting Changes, prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. This Section allows for voluntary changes in accounting policies only if they result in the consolidated financial statements providing reliable and more relevant information. In addition, this Section requires entities to disclose the fact that they did not apply a primary source of GAAP that had been issued but not yet effective. The adoption of this Section has had an impact on the financial position or results of operations for the year ended December 31, 2008 as the change in accounting policy, described in note 2 had to meet the standard of providing reliable and more relevant information of the Company's financial position and performance.

(iii) Section 1535, Capital Disclosures, establishes standards for disclosing information about a Company's capital and how it is managed to enable users of financial statements to evaluate the Company's objectives, policies and processes for managing capital. Quantitative data about what the Company regards as capital is discussed further in note 11 to the consolidated financial statements.

(iv) Section 3862, Financial Instruments – Disclosures, describes the required disclosures related to the significance of financial instruments on the Company's financial position and performance and the nature and extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks. Section 3863, Financial Instruments – Presentation, describes the standards for presentation for financial instruments and non-financial derivatives and carries forward, unchanged, the presentation requirements of Section 3861 Financial Instruments – Disclosure and Presentation.

## Recent Accounting Pronouncements

(i) Convergence with International Financial Reporting Standards - Please see separate discussion below.

(ii) Goodwill and Intangibles – Section 3064

The CICA issued the new Handbook Section 3064, "Goodwill and Intangible Assets", which will replace Section 3062, "Goodwill and Intangible Assets". The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new standard applies to the Company's annual and interim audited financial statements beginning April 1, 2009. The Company does not expect the adoption of these changes to have an impact on its consolidated financial statements.

(iii) Sections 1582, Business Combinations, 1601, Consolidations and 1602, Non-controlling Interests

In January 2009, the CICA issued these new sections to replace Section 1581, "Business Combinations" and Section 1600, "Consolidated Financial Statements." Section 1582 will apply to a transaction in which the acquirer obtains control of one or more businesses (as defined in the Section). Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. A bargain purchase will result in the recognition of a gain. Acquisition costs will be expensed. Any non-controlling interest will be recognized as a separate component of shareholders' equity and net income will be allocated between the controlling and non-controlling interests. These new standards will apply to fiscal years beginning on or after January 1, 2011. The Company does not believe that these new Sections will have an impact on its audited financial statements unless the Company enters into a business acquisition subsequent to January 1, 2011.

(iv) EIC-173 Credit Risk and the Fair Value of Financial Assets and Liabilities

In January 2009 the Emerging Issues Committee ("EIC") issued EIC-173. In this EIC the Committee reached a consensus that in determining the fair value of financial assets and financial liabilities an entity should take into account the credit risk of the entity and the counterparty. The EIC is effective for periods ending after the issuance date, the Company is evaluating the effect of the EIC and will adopt it prospectively.

## Financial and Other Instruments

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

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

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

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

## International Financial Reporting Standards (IFRS)

In February 2008, the CICA announced that Canadian GAAP for publicly traded accountable enterprises will be replaced by International Financial Reporting Standards ("IFRS") for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The standard also requires that the comparative figures for the fiscal year prior to the transition to IFRS be based on IFRS. The transition date of April 1, 2011 will require restatement for comparative purposes of amounts reported by the Company for the year ended March 31, 2011 on the Company's consolidated financial statements, beginning with interim consolidated financial statements for the first quarter of fiscal 2012.

The Company has implemented a four stage conversion process into IFRS. Phase 1 – preliminary plan and scoping, Phase 2 – detailed assessment, conversion planning and development, Phase 3 – Implementation and parallel reporting and Phase 4 – ongoing monitoring and IFRS updates. As of March 31, 2011, the Company is in Phase 1 which includes putting together an initial project plan with the Audit Committee oversight, education, scoping relevant IFRS and identification of policy differences between IFRS and Canadian GAAP.

Phase 1 has identified some areas where there is the most potential for a significant impact. These areas do not represent a complete list of expected changes and may be subject to change as the Company professes through the second phase. These areas are:

- IFRS 1 – First Time Adoption of International Financial Standards requires that an entity apply all standards effective at the end of its first reporting period retrospectively, and provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions in certain areas. The Company is currently analyzing the various exemptions available and will elect those determined to be most appropriate. The IFRS 1 exemptions that are most significant to the Company are noted against each specific area that we have identified to date.

- Stock based compensation – is largely consistent with Canadian GAAP and requires estimates of the fair value of stock options to be made at the date of the grant and recognition of the related expense in income as the options vest. For stock options that vest in installments, IFRS 2 requires the Company to determine the fair value of each installment as a separate share option grant. Currently, the Company records forfeitures as they occur, however, under IFRS, the Company is required to make an estimate of the forfeiture rates for the use in determination of the total share based compensation expense. The Company is assessing the impact of this difference on its financial statements. The use of Black-Scholes model is an acceptable method to estimate the fair value of options at the date of grant, and is consistent with the Company's current practice.

- Financial Statement Disclosure – there are generally more extensive presentation and disclosure requirements under IFRS compared to Canadian GAAP.

- Extractive Activities Project - the IASB currently has an Extractive Activities project underway to develop accounting standards for extractive activities. A working draft of the discussion paper has been released with the official discussion paper scheduled for release in the first quarter of 2010. Any changes to IFRS as a result of the project will not be effective until after the Company implements IFRS in 2011. Therefore, the Company's accounting policies specific to mining and related activities may be impacted once final IFRS are released on this topic, subsequent to IFRS adoption. The Company will monitor any developments in this project.

The second phase will involve a detailed impact assessment and gap analysis, drafting IFRS policies, planning and tracking a conversion approach and application of IFRS 1 "First Time Adoption of International Financial Reporting Standards". The Company has entered this phase during the first quarter of 2011. The third phase will be implementation where we will finalize our IFRS policies while revising accounting and business process, create financial statement templates, consider tax implications, revise internal controls over financial reporting and calculate an opening balance sheet for April 1, 2010. The fourth phase will be post implementation when we will be fully IFRS compliant reporting and will involved ongoing education and training planning with continuous monitoring of changes in IFRS.

Other areas that have had an impact on the Company relating to IFRS include:

- Information systems – the Company is evaluating the potential impact of IFRS on its information systems and business processes and does not anticipate any changes or material impacts with our current systems being capable of collecting financial information necessary for IFRS compliance.

- Internal controls over financial reporting – as part of the assessment of IFRS in phase two of the Company's project, internal controls over financial reporting and disclosure controls and procedures will be considered. For example, any changes in accounting policies could result in additional controls or procedures being required to address the reporting of the Company's first time adoption and on-going reporting requirements. The certifying officers plan to complete the design, and initially evaluate the effectiveness of any key controls implemented as a result of IFRS in the fourth quarter of 2010, to prepare for IFRS in 2011.

- Financial reporting expertise – given the current size of the Company the IFRS project team is comprised only of senior management with the Controller being the lead on the project reporting to the President and Audit Committee. The Controller has attended various external IFRS training sessions that covered overall general IFRS standards as well as mining industry specific training. The Audit Committee will receive regular updates on the status of the project.

## Additional Information

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