# RARE EARTH METALS INC.

## Consolidated Financial Statements
## March 31, 2010

**DeVISSER GRAY** *LLP*
CHARTERED ACCOUNTANTS

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**AUDITORS' REPORT**

To the Shareholders of Rare Earth Metals Inc.

We have audited the consolidated balance sheet of Rare Earth Metals Inc. as at March 31, 2010 and the consolidated statements of operation, comprehensive loss and deficit and cash flows for the period from inception on June 16, 2009 to March 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2010 and the results of its operations and its cash flows for the period from inception on June 16, 2009 to March 31, 2010 in accordance with Canadian generally accepted accounting principles.

De Visser Gray LLP

**CHARTERED ACCOUNTANTS**

Vancouver, British Columbia
July 20, 2010

**RARE EARTH METALS INC.**
**Consolidated Balance Sheet**

| | | March 31, 2010 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash | $ | 496,496 |
| Short-term investments (Note 5) | | 9,836,024 |
| G.S.T. and other receivables | | 102,206 |
| Prepaid expenses | | 14,098 |
| Refundable security deposits (Note 11) | | 9,800 |
| **Total current assets** | | 10,458,624 |
| Mineral interests (Note 6) | | 1,573,758 |
| Property and equipment (Note 7) | | 97,467 |
| **Total assets** | $ | 12,129,849 |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities (Note 9) | $ | 672,443 |
| **Total liabilities** | $ | 672,443 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (Note 8(a)) | | 8,831,039 |
| Warrants (Note 8(b)) | | 4,423,960 |
| Contributed surplus (Note 8(c)) | | 383,419 |
| Deficit | | (2,181,012) |
| **Total shareholders' equity** | | 11,457,406 |
| **Total liabilities and shareholders' equity** | $ | 12,129,849 |

*See Accompanying Notes to Consolidated Financial Statements*

Approved on behalf of the Board of Directors: "Michael Stares" "Stephen Stares"

Director Director

**RARE EARTH METALS INC.**
**Consolidated Statement of Operations, Comprehensive Loss and Deficit**

| | | June 16, 2009 to March 31, 2010 |
|---|---|---|
| **Exploration costs (note 6)** | $ | 1,283,749 |
| | | |
| **Administrative expenses** | | |
| Amortization of equipment | | 4,028 |
| Consulting fees (note 9) | | 28,214 |
| Investor relations | | 83,562 |
| Listing, filing and transfer agent | | 34,069 |
| Office and miscellaneous | | 52,905 |
| Professional fees | | 182,315 |
| Rent | | 13,479 |
| Compensation costs (note 8(d)) | | 383,419 |
| Telephone | | 3,814 |
| Travel and transportation | | 39,227 |
| Wages & benefits | | 57,770 |
| **Total administrative expenses** | | 882,802 |
| | | |
| **Operating loss** | | (2,166,551) |
| | | |
| **Other income (loss)** | | |
| Interest and sundry income | | 16,771 |
| Change in fair market value of investments | | (18,293) |
| Write-off of property & equipment | | (12,939) |
| | | |
| **Loss and comprehensive loss for the period** | | (2,181,012) |
| **Deficit**, beginning of period | | - |
| **Deficit**, **end of period** | | (2,181,012) |
| | | |
| **Loss per share** - basic and diluted | $ | 0.04 |
| | | |
| **Weighted average number of common shares outstanding** – basic and diluted | | 49,354,225 |

*See Accompanying Notes to Consolidated Financial Statements*

**RARE EARTH METALS INC.**
**Consolidated Statement of Cash Flows**

| | June 16, 2009 to March 31, 2010 |
|---|---|
| **Cash flows from (used in) operating activities** | |
| Loss for the period | $ (2,181,012) |
| Adjustment for items not involving cash: | |
| - amortization | 4,028 |
| - stock based compensation | 383,419 |
| - change in fair market value of investments | 18,293 |
| - write-off of property and equipment | 12,939 |
| | (1,762,333) |
| Change in non-cash working capital items: | |
| - G.S.T. and other receivables | (102,206) |
| - prepaid expenses | (14,098) |
| - refundable security deposits | (9,800) |
| - accounts payable and accrued liabilities | 672,443 |
| | (1,215,994) |
| **Cash flows from financing activities** | |
| Shares issued for cash | 5,821,900 |
| Share issue costs | (518,398) |
| | 5,303,502 |
| **Cash flows used in investing activities** | |
| Mineral property acquisition costs | (526,158) |
| Acquisition of property and equipment | (101,495) |
| Purchase of short-term investments | (3,793,888) |
| Net redemption of short-term investments | 654,129 |
| | (3,767,412) |
| Cash received in reverse takeover transaction | 176,400 |
| **Increase in cash and cash equivalents** | **496,496** |
| **Cash and cash equivalents**, beginning of period | - |
| **Cash and cash equivalents**, **end of period** | $ **496,496** |
| Interest received in cash | $ 9,989 |

**Supplemental disclosure of cash flow information (see also note 12)**

*See Accompanying Notes to Financial Statements*

## 1. Nature and Continuance of Operations

Rare Earth Metals Inc. ("Rare Earth" or "the Company", formerly East Energy Corp., "East Energy") is 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.

### Reverse takeover

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. However, because REM was incorporated in 2009, no such comparative figures exist. REM is now a wholly owned subsidiary of the Company. Refer also to note 4.

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 $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. The statements contain no adjustments which would likely become necessary should the Company become unable to continue as a going concern.

## 2. 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.

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.

## 2. Significant Accounting Policies (continued)

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% |
| 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.

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.

## 2. Significant Accounting Policies (continued)

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 March 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 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

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.

**2. Significant Accounting Policies** (continued)

k) Financial Instruments and Financial Risk

The Company's financial instruments, at March 31, 2010, consist of cash and short-term deposits, accounts payable and accrued liabilities. Cash and short-term deposits have been classified as hold 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 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.

## 3. 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 9 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.

### 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.

## 3. Changes in Accounting Policies (continued)

### 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 year 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.

## 4. Business Combination

As described in Note 1, these 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.

The cost of the acquisition was allocated to the net identifiable asset 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 |

## 5. Short-term Investments

As at March 31, 2010 the Company had $9,836,024 in short-term investments consisting of cashable guaranteed investment certificates in major Canadian Banks, money market funds and bonds maturing from September 9, 2010 to November 22, 2011. The yields on these investments are 0.59% to 1.25% per year. These investments are fully liquid and available at the request of the Company.

## 6. Mineral Interests

| Mineral Interests | Hinton Coal | Clay-Howells | Lackner | Red Wine Complex | Total |
|---|---|---|---|---|---|
| Balance, March 31, 2009 | $ 1,020,000 | $ - | $ - | $ - | $ 1,020,000 |
| Acquisition costs | - | 414,926 | 58,986 | 79,846 | 553,758 |
| Balance, March 31, 2010 | $ 1,020,000 | $ 414,926 | $ 58,986 | $ 79,846 | $ 1,573,758 |

| Exploration Expenditures | Clay-Howells | Lackner | Red Wine Complex | Other | Total |
|---|---|---|---|---|---|
| Prospecting | 39,286 | 4,915 | 14,167 | 533 | 58,901 |
| Geology | 61,558 | 11,160 | 20,349 | 722 | 93,789 |
| Geophysical | 107,637 | 28,335 | - | - | 135,972 |
| Diamond drilling | 975,988 | - | 296 | - | 976,284 |
| Other | 17,410 | - | 1,393 | - | 18,803 |
| Total Exploration Expenditures | 1,201,879 | 44,410 | 36,205 | 1,255 | 1,283,749 |

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.

See subsequent events note 5.

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 period, 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.

## 6. Mineral Interests (continued)

Lackner Property

The Lackner property consists of 105 unpatented claim units and is located 25 kilometres southeast of Chapleau, Ontario. During the period, the Company entered into an option agreement on September 9, 2009 to acquire up to a 90% interest in the project 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 seven anniversaries as follows:

(i) On signing: $50,000 cash payment (paid).
(ii) First anniversary: $25,000 cash payment, $25,000 worth of stock of the Company and must also spend a minimum of $100,000 in exploration expenditures on the property.
(iii) Second anniversary: $25,000 cash payment and $25,000 worth of stock of the Company.
(iv) Third anniversary: $25,000 cash payment and $25,000 worth of stock of the Company.
(v) Fourth anniversary: $25,000 cash payment, $25,000 worth of stock of the Company and must have incurred an aggregate of $750,000 in exploration expenditures. At this point, a 50% interest in the project would be earned.
(vi) Fifth anniversary: $125,000 cash payment, $125,000 worth of stock of the Company and must have incurred a further $500,000 in exploration expenditures.
(vii) Sixth anniversary: $125,000 cash payment, $125,000 worth of stock of the Company and must have incurred a further $500,000 in exploration expenditures. At this point, a 70% interest in the project would be earned.
(viii) Seventh anniversary: $2.25 million cash payment and $2.25 million worth of stock of the Company. At this point, a 90% interest in the project would be earned.

Note: The ten day weighted average trading price of the Company's common shares immediately prior to the anniversary date of the agreement shall be used to determine the number of shares to be issued to the optionors.

During the period, the Company issued 50,000 shares with a value of $2,500 as a finders' fee in connection with the above transaction.

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.

## 6. Mineral Interests (continued)

Pursuant to an option agreement dated September 29, 2009 as amended November 3, 2009 between the Company and Roland Quinlan, Marilyn Quinlan, Andrew Quinlan and Eddie Quinlan (the "Mann Optionors"), the Company may acquire a 100% interest in the Mann # 1 and Two Tom Lake properties (the "Optioned Properties"). Pursuant to the agreement, in order to exercise the option and earn a 100% interest in the Optioned Properties, the Company must make the following payments and share issuances to the Mann Optionors: (a) within 60 days of the date of the agreement, pay $25,000 (paid) and issue 60,000 shares (issued); (b) pay $35,000 and issue 135,000 shares on the first anniversary of the date of the agreement; (c) pay $45,000 and issue 145,000 shares on the second anniversary of the date of the agreement; and (d) pay $70,000 and issue 175,000 shares on the third anniversary of the date of the agreement

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 fifth anniversary of the agreement, 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.

See subsequent events note 15.

## 7. Property and Equipment

| | March 31, 2010 | | |
|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value |
| Computer equipment | $ 4,668 | $ 199 | $ 4,469 |
| Computer software | 4,066 | 1,030 | 3,036 |
| Office equipment and furniture | 10,447 | 261 | 10,186 |
| General equipment | 40,000 | 1,000 | 39,000 |
| Field equipment | 38,399 | 1,440 | 36,959 |
| Signs | 3,915 | 98 | 3,817 |
| | $ 101,495 | $ 4,028 | $ 97,467 |

Property and equipment was written-off in the amount of $12,939.

## 8. Share Capital

(a) Common Stock
Authorized: unlimited common shares without par value
Issued:

| | Shares | | Amount |
|---|---|---|---|
| Balance, March 31, 2008 | 33,892,582 | $ | 13,539,328 |
| Finder's fee issued for mineral property | 50,000 | | 20,000 |
| Cancellation of Escrow | (150,448) | | - |
| 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 |

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

(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.

**8. Share Capital** (continued)

(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.

With respect to the above seed share and private placement share issuances, 5.7 million shares are subject to an escrow agreement. Under the agreement, 20% of the shares in escrow will be released on the issuance of the Final Exchange Bulletin (the "Initial Release") and an additional 15% will be released on each of the dates that are 6 months, 12 months, 18 months, 24 months, 30 months, and 36 months following the date of the Initial release. A further 13,930,000 shares are subject to a two year hold period with 20% to be released upon closing of the reverse takeover (released) and a further 20% released every six months thereafter. All shares issued in REM prior to the reverse takeover transaction were exchanged for shares of the Company on a one-for-one basis subject to the abovementioned restrictions.

(b) Share Purchase Warrants

A summary of the status of share purchase warrants granted by the Company is as follows:

| | 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 |

## 8. Share Capital (continued)

The changes in share purchase warrants for the period ended March 31, 2010 is 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 |

For all types of warrants issued during the 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 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.

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

| Expiry Dates | Number of Warrants | Weighted Average Exercise Price |
|---|---|---|
| December 16, 2011 | 9,952,000 | 0.35 |
| December 16, 2011 | 2,000,000 | 0.25 |
| Outstanding at March 31, 2010 | 11,952,000 | $ 0.33 |

(c) Contributed Surplus

A summary of contributed surplus is as follows:

| | |
|---|---|
| Balance at March 31, 2009 | $ 1,463,103 |
| Stock-based compensation | 129,691 |
| Balance at September 30, 2009 | 1,592,794 |
| Adjustment on reverse takeover transaction | (1,592,794) |
| Stock-based compensation | 383,419 |
| Balance at March 31, 2010 | $ 383,419 |

**8. Share Capital** (continued)

(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 is 4,620,616. The Company expenses stock options over their vesting period, with stock options typically vesting in various increments and having a maximum term of five years.

| | Number | Weighted Average Exercise Price |
|---|---|---|
| Options outstanding at March 31, 2008 | 3,500,000 | 0.63 |
| Granted | - | - |
| Exercised | - | - |
| Expired / cancelled / forfeited | (835,000) | 0.72 |
| Options outstanding at March 31, 2009 | 2,665,000 | $ 0.60 |
| Expired / cancelled / forfeited | (2,350,000) | 0.59 |
| Granted | 3,015,000 | 0.55 |
| Options outstanding at March 31, 2010 | 3,330,000 | $ 0.56 |

The weighted-average fair value of options granted during the period ended March 31, 2010 was $0.56. Each option entitles the holder to purchase one common share.

| Options Outstanding | | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding | Weighted Average Remaining Contractual Life (yr) | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| $ 0.55 - $0.81 | 3,330,000 | 2.3 | $ 0.56 | 1,063,683 | $0.59 |

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

| | **2010** |
|---|---|
| Risk-free interest rate | **1.36% - 2.70%** |
| Dividend yield | **0%** |
| Volatility | **98% - 137%** |
| Approximate expected lives | **2 - 5 years** |

Subsequent to year ended March 31, 2010, 100,000 stock options were cancelled.

## 9. Related Party Transactions

The Company paid or accrued the following amounts to related parties during the period ended March 31, 2010:

| Payee | Description of Relationship | Nature of Transaction | 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 and reimbursement of exploration expenditures | 68,957 |
| Gordon J. Fretwell Law Corporation | Company controlled by Gordon Fretwell, Director and Officer | Legal fees charged/accrued during the period | 84,476 |
| Eastrock Exploration Inc. | Company controlled by Wayne Reid, Director and Officer | Payments for geological consulting services and reimbursement of exploration expenditures | 110,811 |
| Minco Gold Corporation | Company related by a common director | Payments for rent and shared office expenses | 8,464 |

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 $15,667 to Gordon J. Fretwell Law Corporation, $12,745 to Eastrock Exploration Inc., $7,853 to Stares Contracting Corp. The repayment terms are similar to the repayment terms of non-related party trade payables.

## 10. 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 $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 negligible.

*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 March 31, 2010.

## 10. **Financial Instrument Risks** (continued)

*Foreign Exchange Risk*

The Company has virtually no foreign exchange risk as all its activities are carried out in Canada and all its financial assets and liabilities are denominated in Canadian dollars.

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

*Price Risk*

The Company is not exposed to price risk.

*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

## 10. Financial Instrument Risks (continued)

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 | |
| Financial assets: | | | | | |
| Cash | 1 | $ | 496,496 | $ | - |
| Short-term investments | 1 | | 9,836,024 | | - |
| Other receivables | | | - | | 66,041 |
| Refundable security deposits | | | - | | 9,800 |
| | | $ | 10,332,520 | $ | 75,841 |
| Financial liabilities: | | | | | |
| Accounts payable and accrued liabilities | | $ | - | $ | 672,443 |
| | | $ | - | $ | 672,443 |

## 11. Refundable Security Deposits

Refundable security deposits of $9,800 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.

## 12. Supplemental Cash Flow Information

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

| | March 31, 2010 $ |
|---|---|
| **Operating activity** | |
| Other working capital from RTO | (4,129) |
| **Non-cash financing activities** | |
| Common shares issued for property and finders agreements | 30,100 |
| Common shares issued from RTO | 7,687,981 |
| **Non-cash investing activities** | |
| Common shares issued for property and finders agreements | (30,100) |
| Acquisition of mineral property from RTO | (1,020,000) |
| Purchase of property and equipment from RTO | (13,852) |
| Acquisition of short-term investments from RTO | (6,650,000) |

## 13. Commitments

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

During 2010, the Company entered into lease agreements for the use of two automobiles for 36 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:

| | | |
|---|---|---|
| 2010 | $ | 4,650 |
| 2011 | | 19,077 |
| 2012 | | 19,077 |
| 2013 | | 14,664 |
| 2014 | | 1,190 |
| | $ | 58,658 |

## 14. Income Taxes

A reconciliation of income taxes at statutory rates is as follows:

| | 2010 |
|---|---|
| | $ |
| Net loss for the year before tax recovery | (2,181,012) |
| Expected income tax recovery | (708,829) |
| Net adjustment for deductible and non-deductible | 525,143 |
| Valuation allowance | 183,686 |
| Total income tax | - |

The significant components of the Company's future income tax liabilities are as follows:

| | 2010 |
|---|---|
| | $ |
| Future income tax liabilities: | |
| Mineral property and equipment amounts in excess of tax pools | 614,546 |
| Non-capital loss carryforwards | 734,500 |
| Net future tax liabilities | 1,349,046 |
| Valuation allowance | (1,349,046) |
| | - |

Subject to certain restrictions, the Company has mineral property expenditures at March 31, 2010 of approximately $1,096,079 available to reduce taxable income in future years. The Company also has non-capital losses available for deduction against future year's taxable income amounting to $2,938,000. The Company has not recognized any future benefit for these tax losses and resource deductions, as it is not considered likely that they will be utilized. If unused, these tax losses will expire as follows:

| | | |
|---|---|---|
| 2010 | $ | 45,000 |
| 2014 | | 25,000 |
| 2015 | | 34,000 |
| 2026 | | 262,000 |
| 2027 | | 506,000 |
| 2028 | | 721,000 |
| 2029 | | 779,000 |
| 2030 | | 566,000 |
| | $ | 2,938,000 |

## 15. Subsequent Events

Subsequent to March 31, 2010, the following transactions occurred:

**a.** In June 2010, the company announced it has signed a binding Letter Agreement with Mid Atlantic Capital Associates SL (Mid Atlantic) for the optioning of the Company's Hinton Coal project, located in western Alberta.

Terms of the Letter Agreement allow for Mid Atlantic or its assigns to purchase a 100% interest in the Project from Rare Earth Metals for payments totaling $3,000,000 over two years, including $1,000,000 on the Closing Date and two additional payments of $1,000,000 on the first and second anniversary. Rare Earth Metals will retain a 3% Net Profits Interest Royalty on any future production from the coal resource. The Option will terminate in the event the Closing Date and initial payment is not completed by July 30, 2010.

**b.** The Company issued 40,000 and 15,000 common shares at $0.36 and $0.20 per share, respectively, for mineral property agreements.

**c.** The Company granted 450,000 stock options at $0.35 per share for five years.

**d.** In April 2010, the Company signed an agreement to purchase a 100% interest in the Ten Mile Lake property consisting of one claim licence located in the Letitia Lake area of west central Labrador.

In order for the Company to earn a 100% interest it must pay a $1,500 cash payment and issue 5,000 common shares on signing, pay a $7,500 cash payment and issue 10,000 common shares on the first anniversary and pay a $10,000 cash payment and issue 15,000 common shares on the second anniversary. The vender will retain a 2% NSR of which 1% can be purchased for $750,000.

In April 2010, the Company signed an agreement to purchase a 51% interest in the Ten Mile Lake property consisting of five claim licences located in the Letitia Lake area of west central Labrador.

In order for the Company to earn a 51% interest it must pay a $5,000 cash payment and issue 10,000 common shares on signing, pay a $8,000 cash payment and issue 20,000 common shares on the first anniversary and pay a $20,000 cash payment and issue 60,000 common shares on the second anniversary.