MANAGEMENT'S DISCUSSION AND ANALYSIS
For the six months ended September 30, 2010

November 26, 2010

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 six months ended September 30, 2010. The discussion should be read in conjunction with the audited annual consolidated financial statements of the Company for the year ended March 31, 2010, 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". 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, 2010 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/or the Acting President and the Acting 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 Acting 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 Acting 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

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.

Since acquisition, but prior to this reporting period, the Company had completed a detailed airborne magnetic survey and analysis of old drill core, which had positively enhanced the target as a discrete 1.2 km long magnetic high with significant Rare Earth Element, Niobium and Iron values. Limited analysis from historic drill core had been reported in previous releases (see Rare Earth Metals press release dated Dec. 17, 2009) and included intersections in historic Hole 23 of 4.71% TREO (Total Rare Earth Oxides) over 4.6 meters and 0.94% Nb_2O_5 over 12.2 meters. The carbonatite hosted massive magnetite zone bears a close resemblance to the Bayan Obo magnetite/REE Mine, located in China.

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.

During the reporting period, the Company completed core logging and analysis on the drill core. 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.

During the reporting period, 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.

Between June and September, 2010, 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 has identified a number of additional REE targets that will require further testing. A drill program is proposed to better define the main Clay-Howells zone and to test the new target areas.

Lackner Property

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

Red Wine Complex

The 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 70% of the belt. Its present land position totals 1359 claim units comprising 340 sq km. A total of ten land packages were staked and optioned. These properties include: Mann #1 (37 claim units), Two Tom Lake (34 claim units), Red Wine #2 (167 claim units acquired by staking), Playfair Option (313 claim units), Cornerstone (155 claim units), Quinlan et al (61 claim units) and Hicks (4 claim units) Descriptions of the terms of these agreements are outlined in the year end MD&A dated March 31, 2010. Three additional agreements were complete during the latest quarter and include:

Partridge River Option – The Company can earn a 75% interest in the Belmont Resources Inc. **(TSX.V -"BEA"**) and International Montoro Resources Inc. (**TSX.V –"IMT")** Partridge River property for payments of $50,000 and the issuance of 250,000 common shares of RA to BEA/IMT and incurring $250,000 in exploration expenditures over three years. (including payments of $10,000 (paid) and 50,000 shares (issued) on acceptance of the agreement by the TSX Venture Exchange and expenditures of $50,000 in the first year). Once vested after three years, the property would then be operated as a joint venture. If either party opts to reduce to a 10% interest, its interest would revert to a 2% NSR. Half the NSR (1%) can be purchased by the remaining party for $1,000,000.

Hick's Partridge River Option – The Company can earn a 100% interest for payments of $38,000 and the issuance of 55,500 shares over three years (including $2,000 (paid) and 7,500 shares (issued) on signing). Once vested, the vendor will be entitled to a 2% NSR. Half the NSR (1%) can be purchased by the Company for $1,000,000.

Zimtu Option – The Company has the right to earn a 100% interest in the Zimtu Property by making the following payments and issuing the following common shares to the Optionors: (i) $50,000 (paid) on signing and 1,000,000 common shares on TSX.V approval (issued); (ii) $50,000 and 500,000 common shares on the first anniversary; and (iii) $50,000 and 500,000 common shares on the second anniversary. During the term of the agreement Rare Earth Metals will ensure that the claims are maintained in good standing. The Optionors will retain a 2% Net Smelter Royalty ("NSR") on the Zimtu Property; 50% of which (ie. 1% NSR) can be purchased by the Company for $1,000,000.

Work carried out between June and September, 2010 included camp setup at the end of the Orma Lake road, airborne geophysics, prospecting, channel sampling and diamond drilling. Rare Metal mineralization is found throughout the claim groups and appears to occur as three distinct styles. The first type is highly anomalous in REE/Nb/Be and is found throughout the upper part of the upper volcanic sequence. It is characterized by variable aegerine, biotite and syenite bodies within a banded paragneiss unit. The deposits found to date include Mann #1, Two Tom, Mann #2, Michelin # 1 and Ten Mile Lake. They are generally lenticular bodies up to 100 meters wide and appear to be structurally controlled within the rhyolites. The second style of mineralization is characterized by highly anomalous Zr/REE values which is hosted by Eudyolite bearing syenite units within the lower intrusive sequence of the Red Wine Group. A third style of REE mineralization has been identified and it has a high Heavy REO to Total REO ratio. The mineralization at Dory Pond and Playfair South are examples of this. Results to date have been very encouraging.

Mann #1

This central claim group covers the Mann #1 Zone which is the most advanced showing on the property.The zone was discovered in 1956 by geochemistry and radiometrics and has been traced by trenching and drilling over a 1.6 km strike length and has a width of up to 100 meters. It was last worked in 1961 when Rio Tinto completed trenching and limited drilling. The company completed a series of channel samples on the zone and completed six diamond drill holes. Results include channel samples up to:1.35% TREO (10% HREO/TREO), 0.52% Nb2O5, and 0.31% BeO over 30.0 meters. The drill holes all encountered REE mineralization up to 100 meters wide with a middle zone of higher grade material in the 25 meter to 35 meter range The best drill hole assayed 1.71% TREO, 0.24% Nb2O5 and 0.20% BeO over 27.0 meters The zone remains open in all directions.

Two Tom Lake

The Two Tom showing is located 18 km east of the main showing at the Mann #1 Zone. The Two Tom Lake NW trending mineralized zone has been traced to date in large boulder fields and intermittent outcrops for a strike length of 1.3 kilometers Results from recent prospecting ranged from 0.05% to 6.31% TREO, 0.02% to 8.71% Nb2O5, and 0.002% up to 2.00% BeO. Best trench results of 5 trenches completed ranged up to 1.7% TREO, 0.34%Nb2O5, and 0.27% BeO over 17.8 meters. Previously reported results from prospect samples on the adjacent Cornerstone option claims to the east ranged from 0.21% to 8.00% TREO, 0.05% to 1.66% Nb2O5, and 0.006% up to 0.55% BeO. The west to east trend of the mineralized samples has been traced for 3 kilometers and is believed to reflect in part the regional glacial dispersion. A total of 11 holes were drilled across the zone however results were pending at the end of this reporting period.

A number of other Rare earth showings were found and remain to be evaluated. Addittional work includes compiling all the drill results and prospect sample results once received, prioritize the various targets and send out a suite of samples from the various zones for mineralogical and metallurgical work. Addittional drilling is planned for spring/summer, 2011.

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.

<u>Mineral Interests and Exploration Costs</u>

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 period, the changes in the Company's acquisition cost balance are as follows:

Mineral Interests	Hinton Coal $	Clay-Howells $	Lackner $	Red Wine Complex $	Gen ex $	Total $
Balance, March 31, 2010	1,020,000	414,926	58,986	79,846	-	1,573,758
Acquisition costs	-	6,411	-	170,669	224	177,304
Write-downs	-	-	(58,986)	-	-	(58,986)
Balance, September 30, 2010	1,020,000	421,337	-	250,515	224	1,692,076

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

In the period ended September 30, 2010, the Company recorded the following exploration expenditures:

Exploration expenditures for the period April 1, 2010 to September 30, 2010					
Exploration Expenditures	Clay-Howells $	Lackner $	Red Wine Complex $	Other $	Total $
Prospecting	167,664	23,886	642,956	4,581	839,087
Geology	46,765	4,787	130,837	14,830	197,219
Geophysical	25,038	400	85,179	-	110,617
Trenching	-	-	223,492	238	223,730
Diamond drilling	160,742	-	739,206	-	899,948
Other	4,170	-	500	18,052	22,722
Exploration Expenditures	404,379	29,073	1,822,170	37,701	2,293,323

Summary of Quarterly Results

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

	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 ($)
Exploration costs	**1,703,452**	**589,871**	**1,048,612**	**167,423**	**109,256**
Expenses	**599,016**	**545,753**	**694,367**	**132,148**	**56,287**
Operating loss	**(2,302,468)**	**(1,135,624)**	**(1,742,979)**	**(299,571)**	**(165,543)**
Interest income	**14,929**	**12,437**	**7,921**	**8,850**	**-**
Other items	**6,585**	**(42,400)**	**(31,232)**	**-**	**-**
Net income (loss)	**(2,280,954)**	**(1,165,587)**	**(1,766,290)**	**(290,721)**	**(165,543)**
Net (loss) per share – basic and diluted	**$(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.

The reverse takeover transaction closed on December 16, 2009. The private company formerly known as Rare Earth Metals Inc. (now known as REM Metals Corp.) prepared interim financial statements for the periods prior to the closing of the Transaction. The information for the quarters ended September 30, 2010, June 30, 2010, March 31, 2010 and December 31, 2009 are those shown in the consolidated statement of operations and deficit for the periods ended September 30, 2010, June 30, 2010, March 31, 2010 and December 31, 2009.

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 September 30, 2010, the Company had cash on hand in the amount of $276,661 (March 31, 2010: $496,496). REM completed a $5 million private placement prior to the completion of the reverse takeover transaction. Working capital at September 30, 2010 was $6,951,666 (March 31, 2010 - $9,786,181). At September 30, 2010, the Company held $7,028,644 in short-term investments (March 31, 2010: $9,836,024). The yields at September 30, 2010 on these investments range from 1.00% to 6.24% per year.

Accounts payable and accrued liabilities at September 30, 2010 were $639,404 (March 31, 2010: $672,443).

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

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 September 30, 2010, 4,275,000 of the Company's issued and outstanding common shares are subject to an escrow agreement under which the shares will be released in stages every six months. Each future release will consist of 855,000 shares, with the next release date being December 14, 2010.

As of September 30, 2010, 8,358,000 of the Company's issued and outstanding common shares are subject to certain hold periods that expire in stages every six months. On each future expiry date the hold period will expire for 2,786,000 of the shares, with the next such date being December 14, 2010.

Outstanding Share Data

At the date of this management's discussion and analysis, there are 81,153,082 common shares outstanding, 3,730,000 stock options outstanding and 11,942,000 share purchase warrants outstanding. During the six month period ended September 30, 2010 the Company announced that it had granted to certain directors, officers, employees and consultants 600,000 stock options at an exercise price of $0.35 for a period of five years from the date of grant and subject to the vesting requirements of the Company's stock option plan.

Subsequent Events

a) On October 27, 2010, the Company announced that it's Board of Directors and shareholders have approved the adoption of a Shareholder Rights Plan Agreement (the "Rights Plan"). The Rights Plan was adopted to ensure the fair treatment of all Rare Earth Metals Inc. Shareholders in connection with any take-over bid for the outstanding common shares of Rare Earth Metals Inc.

b) On October 27 and November 1, 2010, the Company announced that, subject to regulatory approval, it will be conducting a non-brokered private placement of up to 4,347,826 units at a price of $0.46 per unit to raise proceeds of up to $2 million.

Each Unit will consist of one flow-through common share and one half of a share purchase warrant with each whole warrant entitling the holder to acquire one additional non-flow-through common share at a price of $0.60 per share for a period of one year from closing (the "Unit Warrants"). The Unit Warrants are subject to the right of the Company to accelerate their exercise period if, after the expiry of the applicable hold period, the common shares of the Company trade above $0.80 for a period of 10 consecutive trading-days.

The proceeds of the private placement will be used for on-going exploration expenditures.

On November 22, 2010, the Company announced that the TSX-Venture Exchange has accepted for filing documentation with respect to the closing of the first tranche of its non-brokered private placement previously announced on October 27, November 1 and November 10, 2010. The Company will issue 3,865,448 units ("Units") at a price of $0.46 per Unit.

There is a statutory hold period of 4 months plus 1 day, expiring March 11, 2011 on all shares and warrants issued pursuant to the first tranche of this private placement.

The Company also announced that it has submitted to the TSX-Venture Exchange for their approval documentation for closing the second and final tranche of its non-brokered flow-through financing. Subject to regulatory approval, the Company will issue an additional 150,000 Units at a price of $0.46, with each Unit consisting of one flow-though 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.

The Company will pay finder's fees of $132,704 in cash to certain finders.

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 six month periods ended September 30, 2010 and September 30, 2009:

Payee	Description of Relationship	Nature of Transaction	September 30, 2010 Amount $ (Note 2)	September 30, 2009 Amount $ (Note 2)
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	102,573	24,551
Gordon J. Fretwell Law Corporation	Company controlled by Gordon Fretwell, Secretary	Legal fees charged/accrued during the period	18,498	18,767
Eastrock Exploration Inc.	Company controlled by Wayne Reid, Director	Payments for geological consulting services and reimbursement of exploration expenditures	60,248	27,080
Felix Geo-Consultants	Company controlled by Reg Felix, VP Exploration	Payments for geological consulting services and reimbursement of exploration expenditures	83,815	-

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 nil (2009: nil) to Gordon J. Fretwell Law Corporation, $10,707 (2009: nil) to Eastrock Exploration Inc., $4,189 (2009: nil) to Stares Contracting Corp., and $8,475 (2009: 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 2010 be based on IFRS.

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 September 30, 2010, 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.

- 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 plans to be into this phase by the third quarter of 2010. 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.