(A Development Stage Enterprise)

Condensed Consolidated Interim Financial Statements

For the six months ended September 30, 2012

(Stated in Canadian Dollars)

Responsibility for Financial Statements

The accompanying financial statements for Rare Earth Metals Inc. have been prepared by management in accordance with International Financial Reporting Standards ("IFRS) consistently applied. Only changes in accounting policies have been disclosed in these unaudited condensed consolidated interim financial statements. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly presented. In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company disclosed that its auditors have not reviewed the unaudited condensed consolidated interim financial statements for the period ended September 30, 2012.

RARE EARTH METALS INC.
(A Development Stage Enterprise)

September 30, 2012

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RARE EARTH METALS INC.
(A Development Stage Enterprise)

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Prepared by Management - Unaudited)
(Stated in Canadian Dollars)

As at	**September 30, 2012 $**	March 31, 2012 $
ASSETS		
Current		
Cash	**1,085,239**	71,860
Short-term investments (Note 3)	**3,000,000**	2,169,517
Interest and other receivables	**56,592**	264,235
Prepaid expenses and deposits	**7,531**	28,722
	4,149,362	2,534,334
Exploration and evaluation assets (Note 4)	**3,089,370**	2,980,656
Property and equipment (Note 5)	**-**	132,825
Total assets	**7,238,732**	5,647,815
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 7)	**100,986**	163,102
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	**14,267,194**	12,696,144
Reserves (Note 6)	**6,996,910**	5,941,673
Deficit	**(14,126,358)**	(13,153,104)
Total shareholders' equity	**7,137,746**	5,484,713
Total liabilities and shareholders' equity	**7,238,732**	5,647,815

These condensed consolidated interim financial statements are authorized for issue by the Board of Directors on November 26, 2012. They are signed on the Company's behalf by:

"Tracy A. Moore" Director

"Michael Stares" Director

The accompanying notes form an integral part of these condensed consolidated interim financial statements

RARE EARTH METALS INC.
(A Development Stage Enterprise)

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Prepared by Management - Unaudited)
(Stated in Canadian Dollars)

	Three Months Ended September 30, 2012 $	Three Months Ended September 30, 2011 $	Six Months Ended September 30, 2012 $	Six Months Ended September 30, 2011 $
Exploration costs (Notes 4, 7)	112,938	2,296,991	288,556	2,975,129
Expenses				
Depreciation	7,690	11,527	16,615	22,973
Consulting fees (Note 7)	30,220	10,463	39,695	27,750
Advertising and promotion	4,771	137,930	11,041	273,675
Listing, filing and transfer agent	35,604	20,194	51,938	41,457
Office and miscellaneous (Note 7)	15,668	21,684	31,927	45,860
Professional fees	51,440	16,462	66,065	37,411
Rent (Note 7)	17,072	11,666	29,868	23,333
Share-based payments	41,788	168,863	137,237	412,206
Travel and accommodations	6,383	13,998	9,337	37,448
Wages and benefits	220,985	97,566	307,861	189,353
Part XII.6 tax expense	-	3,430	-	3,430
	431,621	513,783	701,584	1,114,896
Loss before the following:	(544,559)	(2,810,774)	(990,140)	(4,090,025)
Interest and sundry income	8,869	58,905	286	89,068
Adjustment to fair market value for fair value through profit and loss investments	-	(28,412)	16,600	(38,562)
Write-down of exploration and evaluation assets (Note 4)	-	(41,478)	-	(41,478)
Recognized premium on flow through shares	-	84,461	-	248,041
Loss and comprehensive loss for the period	(535,690)	(2,737,298)	(973,254)	(3,832,956)
Loss per share - basic and diluted	(0.00)	(0.03)	(0.01)	(0.05)
Weighted Average Shares Outstanding - basic and diluted	97,014,559	82,176,763	91,491,097	81,814,703

The accompanying notes form an integral part of these condensed consolidated interim financial statements

RARE EARTH METALS INC.
(A Development Stage Enterprise)

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
(Prepared by Management - Unaudited)
For the six months ended September 30, 2012 and 2011
(Stated in Canadian Dollars)

	Share capital		Reserves			
	Number of shares	**Share capital**	**Warrants**	**Equity settled benefits**	**Deficit**	**Total**
	#	**$**	**$**	**$**	**$**	**$**
Balance at April 1, 2011	81,373,082	12,069,710	3,624,743	1,627,134	(7,580,749)	9,740,838
Shares issued on property acquisitions	1,165,000	270,950	-	-	-	270,950
Share-based payments	-	-	-	412,206	-	412,206
Loss for the period	-	-	-	-	(3,832,956)	(3,832,956)
Balance at September 30, 2011	**82,538,082**	**12,340,660**	**3,624,743**	**2,039,340**	**(11,413,705)**	**6,591,038**
Balance at April 1, 2012	85,862,141	12,696,144	148,061	5,793,612	(13,153,104)	5,484,713
Issued for cash:						
Private placements	54,000,000	2,700,000	-	-	-	2,700,000
Value of warrants issued to investors	-	(918,000)	918,000	-	-	-
Share issue costs	-	(258,950)	-	-	-	(258,950)
Shares issued on property acquisitions	800,000	48,000	-	-	-	48,000
Share-based payments	-	-	-	137,237	-	137,237
Loss for the period	-	-	-	-	(973,254)	(973,254)
Balance at September 30, 2012	**140,662,141**	**14,267,194**	**1,066,061**	**5,930,849**	**(14,126,358)**	**7,137,746**

The accompanying notes form an integral part of these condensed consolidated interim financial statements

RARE EARTH METALS INC.
(A Development Stage Enterprise)

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Prepared by Management - Unaudited)
(Stated in Canadian Dollars)

	Six Months Ended September 30, 2012 $	Six Months Ended September 30, 2011 $
CASH FLOWS FROM (USED IN):		
OPERATING ACTIVITIES		
Loss for the period	(973,254)	(3,832,956)
Depreciation	16,615	22,973
Share-based payments	137,237	412,206
Adjustment to fair value for fair value through profit and loss investments	(16,600)	38,562
Non-cash wages and benefits	116,211	-
Write-down of exploration and evaluation assets	-	41,478
Decrease (increase) in interest and other receivables	207,643	(23,956)
Decrease (increase) in prepaid expenses	21,191	(23,393)
Increase in refundable security deposits	-	(66,011)
Decrease in accounts payable and accrued liabilities	(62,116)	(64,631)
Recognized premium on flow-through shares	-	(248,041)
Cash flows used in operating activities	(553,073)	(3,743,769)
FINANCING ACTIVITIES		
Issuance of capital stock for cash	2,700,000	-
Cash commission (Note 7)	(258,950)	-
Cash flows from financing activities	2,441,050	-
INVESTING ACTIVITIES		
Acquisition of exploration and evaluation assets	(60,714)	(323,940)
Acquisition of property & equipment	-	(27,980)
Net redemption (purchase) of short-term investments	(813,884)	4,293,190
Cash flows from (used in) investing activities	(874,598)	3,941,270
Increase in cash	1,013,379	197,501
Cash, beginning of period	71,860	167,467
Cash, end of period	1,085,239	364,968

Supplemental information (see note 8)

The accompanying notes form an integral part of these condensed consolidated interim financial statements

1. Nature and Continuance of Operations

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

The accompanying financial statements have been prepared on the basis applicable to a going concern. The appropriateness of using the going concern basis is dependent upon, among other things, future profitable operations, and the ability of the Company to raise additional capital. Specifically, the recovery of the Company's investment in exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to develop its properties and establish future profitable production from the properties, or from the proceeds of their disposition. At September 30, 2012 the Company has working capital in the amount of $4,048,376 (March 31, 2012: $2,371,232) and has a deficit in the amount of $14,126,358 (March 31, 2012: $13,153,104). The Company has not earned any revenues to date and is considered to be in the development and exploration stage.

2. Significant Accounting Policies

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 – Interim Financial Reporting. The accounting policies followed in these condensed consolidated interim financial statements are the same as those applied in the Company's audited annual consolidated financial statements for the year ended March 31, 2012.

The policies applied in these financial statements are based on IFRS issued and outstanding as of November 26, 2012, the date the Audit Committee approved the statements. Any subsequent changes to IFRS after this date could result in changes to the financial statements for the period ended September 30, 2012.

The condensed consolidated interim financial statements do not contain all disclosures required under IFRS and should be read in conjunction with the Company's audited annual financial statements and the notes thereto for the year ended March 31, 2012.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosures of contingent assets and contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period.

Actual results could differ from those estimates. Significant accounts that require estimates as the basis for determining the stated amounts include exploration and evaluation assets, share-based payments, allocation of financing proceeds, and income taxes. Differences may be material.

3. Short-term Investments

As at September 30, 2012 the Company had $3,000,000 (March 31, 2012: $2,169,517) in short-term investments consisting of variable rate GIC's. The variable rate of interest in effect at the time of purchase was PRIME – 1.65%. PRIME at September 30, 2012 was 3.00%.

These investments are fully liquid and available at the request of the Company, and accordingly they have been classified as a current asset in these condensed consolidated interim financial statements.

4. Exploration and evaluation assets

The Company has capitalized the following acquisition costs of its mineral property interests during the year ended March 31, 2012 and six months ended September 30, 2012:

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	
Mineral Interests	Hinton Coal $	Clay-Howells $	Springer $	Coldwell Complex $	Red Wine Complex $	Manitouwadge Graphite $	Other $	Total $
Balance, March 31, 2011	1,020,000	424,043	-	122,002	758,494	-	11,044	2,335,583
Acquisition costs for the year	-	2,706	444,990	-	289,051	12,800	60,404	809,951
Write-downs	-	-	-	-	(164,878)	-	-	(164,878)
Balance, March 31, 2012	1,020,000	426,749	444,990	122,002	882,667	12,800	71,448	2,980,656
Acquisition costs for the period	-	-	88,000	-	-	20,714	-	108,714
Write-downs	-	-	-	-	-	-	-	-
Balance, September 30, 2012	1,020,000	426,749	532,990	122,002	882,667	33,514	71,448	3,089,370

During the six month period ended September 30, 2012, the Company incurred the following exploration expenditures that were expensed as incurred:

Exploration Expenditures	Clay-Howells $	Springer $	Coldwell Complex $	Red Wine Complex $	Manitouwadge Graphite $	Other $	Total $
Prospecting	-	-	2,113	-	6,588	14,659	23,360
Geology	1,585	84,250	-	14,899	40,371	1,527	142,632
Geophysical	-	-	1,463	-	12,037	-	13,500
Line cutting	-	-	-	-	18,900	-	18,900
Trenching	-	-	-	-	10,592	-	10,592
Diamond drilling	837	13,665	-	53,970	-	-	68,472
Other	-	-	-	-	1,500	9,600	11,100
Exploration Expenditures for the period	2,422	97,915	3,576	68,869	89,988	25,786	288,556

During the six month period ended September 30, 2011, the Company incurred the following exploration expenditures that were expensed as incurred:

Exploration Expenditures	Clay-Howells $	Springer $	Coldwell Complex $	Red Wine Complex $	Other $	Total $
Prospecting	1,028	6,457	16,087	359,631	1,236	384,439
Geology	55,775	44,612	5,643	92,591	943	199,564
Geophysical	3,600	52,530	72,126	2,275	-	130,531
Trenching	-	-	-	3,627	-	3,627
Diamond drilling	250,724	457,049	-	1,544,475	-	2,252,248
Other	-	-	-	-	4,720	4,720
Exploration Expenditures for the period	311,127	560,648	93,856	2,002,599	6,899	2,975,129

(a) Hinton Coal Property

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

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

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

(b) 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 fiscal 2010, the Company entered into an agreement to acquire a 100% interest in the Clay-Howells property. Pursuant to the agreement, the Company exercised the option by paying the optionor an aggregate of $350,000. The optionor retains a 2-per-cent net smelter returns royalty (“NSR”) and the Company has the right to purchase, at any time, one-half of the NSR in consideration for the payment of $1 million.

(c) Springer

(i) Lavergne prospect

On June 7, 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 80 km east of Sudbury, Ontario.

Terms of the initial agreement to option the mineral rights to the 320 acre patent (the “Patent”), covering the prospect, include staged payments of $217,000 over three years, including (a) $36,000 on signing (paid), (b) $36,000 on or before April 13, 2012 (paid), (c) $45,000 on or before April 13, 2013, and (d) $100,000 on or before April 13, 2014. The Company must also make the following payments commencing January 12, 2012: (a) $4,000 (paid), (b) $4,000 on or before May 16, 2012 (paid), (c) $5,000 on or before May 16, 2013, and (d) $11,111 on or before May 16, 2014. The owners will retain a 1% NSR and the Company will have the right to purchase one-half of this for $1,000,000.

A second agreement was also completed to purchase the surface rights to the eastern half of the Patent (153 acres) for a total of $150,000, in two payments which include (a) $50,000 on signing (paid), and (b) $100,000 on or before October 16, 2011 (paid).

(ii) Springer – Zimtu

A separate third agreement was negotiated with Zimtu Capital Corp. and two private prospectors (the "Optionors") to option a total of 40 unpatented claim units totaling 647 hectares adjacent to the above-described patent. Terms of the Zimtu option agreement include total payments of $200,000 and 2,000,000 shares over four years, including initial payments of $50,000 (paid) and 500,000 shares (issued).

On January 13, 2012, terms of the agreement were amended to: (a) a $50,000 initial cash payment (paid) and initial issuance of 500,000 shares (issued), (b) issuance of 500,000 shares prior to December 7, 2011 (issued), (c) issuance of 500,000 shares prior to June 7, 2012, and (d) issuance of 500,000 shares prior to June 7, 2013.

On June 8, 2012, the Company's directors approved an amendment to the June 7, 2011 property option agreement with Zimtu Capital Corp. and two private prospectors where the Company issued 800,000 shares pursuant to this option agreement on June 19, 2012, completing the option and acquiring the above claim units.

The Optionors will retain a 2% NSR on the 40 unpatented claim unit property with the Company having the right to purchase half of this for $1,000,000.

(iii) Springer-Field-Pedley

During fiscal 2012, the Company completed the staking of 153 claim units located in the Springer Township and the adjacent townships of Field to the north and Pedley to the east.

(d) <u>Coldwell Complex</u>

During fiscal 2011, the Company completed the staking of 740 claim units located in the Coldwell Alkaline Complex in Northern Ontario.

(e) <u>Red Wine Complex</u>

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

Mann #1, Two Tom Lake

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 (paid) and issue 135,000 shares (issued) on or before September 29, 2010; (c) pay $45,000 (paid) and issue 135,000 shares (issued) on or before September 29, 2011; and (d) pay $70,000 and issue 170,000 shares on or before September 29, 2012.

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

In order to complete the acquisition of the property and to eliminate the advance royalty payments, the Company (i) paid and issued to the vendors of the Mann One and Two Tom properties the aggregate of $86,800 (paid October 2012) and 100,000 common shares (issued October 2012) pursuant to an amended option agreement.

Red Wine Property - Zimtu

Pursuant to an option agreement dated August 31, 2010 between the Company, Zimtu Capital Corp., Gary Lewis, Aubrey Budgell and Neh Pinsent, the Company may acquire a 100% interest in 500 claim units located in the Red Wine/Letitia Lake area of west central Labrador, Canada and known as the Zimtu Property. The Company must make the following cash payments and share issuances to the optionors: (a) payment of $50,000 on signing (paid) and issuance of 1,000,000 shares (issued) on TSX-V approval of the formal agreement; (b) payment of $50,000 (paid) and issuance of 500,000 shares (issued) prior to September 30, 2011; (c) payment of $50,000 and issuance of 500,000 shares prior to September 30, 2012. The optionors will maintain a 2% NSR on the Property; one-half of which the Company has the right to purchase for $1,000,000 at any time.

In order to complete the acquisition of the property, the Company paid $100,000 (paid October 2012) to the vendors of the Red Wine Claims pursuant to an amended option agreement.

(f) Manitouwadge Graphite Property

During fiscal 2012, the Company completed the staking of this property which comprises128 claim units totaling 2,072 hectares located approximately 30 kilometres north of the town of Manitouwadge in northwestern Ontario. The property encompasses the Thomas Lake Road Graphite Occurrence.

(g) Other

Included in Other are the following: Lackner Property, Armstrong Dyno Property, James Bay Property and miscellaneous properties.

5. Property and Equipment

	September 30, 2012			March 31, 2012		
	Cost $	Accumulated Depreciation $	Net $	Cost $	Accumulated Depreciation $	Net $
Computer equipment	-	-	-	12,456	4,968	7,488
Computer software	-	-	-	9,182	9,182	-
Office equipment & furniture	-	-	-	12,142	4,237	7,905
General equipment	-	-	-	46,854	15,725	31,129
Field equipment	-	-	-	133,336	54,251	79,085
Signs	-	-	-	3,915	1,472	2,443
Vehicles	-	-	-	8,025	3,250	4,775
Total	-	-	-	225,910	93,085	132,825

During the period ended September 30, 2012, the property and equipment was transferred to the former CEO pursuant to a severance agreement between the Company and former CEO. The net book value of the property and equipment at the time of the transfer was $116,211 and was written off in the statement of loss and comprehensive loss during the period in wages and benefits.

6. Capital and Reserves

(a) Share Capital

Authorized: Unlimited common shares without par value.

(b) Share Purchase Warrants

Details of share purchase warrant transactions for the period are as follows:

	# of Warrants	Weighted Average Exercise Price $	Expiry
Outstanding at March 31, 2010	11,952,000	0.33	
Exercised during the period	(2,410,000)	0.27	
Issued during the period to investors	2,007,724	0.60	November 2012
Outstanding at March 31, 2011	11,549,724	0.39	
Expired during the period	(9,542,000)	0.35	
Issued during the period	1,412,030	0.22	December 2012
Outstanding at March 31, 2012	3,419,754	0.44	
Issued during the period	27,000,000	0.10	September 2014
Outstanding at September 30, 2012	30,419,754	0.14	

For all warrants issued during the year ended March 31, 2012, the fair values have been estimated using the Black-Scholes Option Pricing Model and the following assumptions: dividend yield of 0%, expected volatility of 85.25%, a risk-free interest rate of 0.95% and an expected life of 1 year. The value of the warrants reduced the proceeds attributed to share capital and are recognized under shareholders' equity as part of reserves.

For all warrants issued during the period ended September 30, 2012, the fair values have been estimated using the Black-Scholes Option Pricing Model and the following assumptions: dividend yield of 0%, expected volatility of 90.06%, a risk-free interest rate of 1.11% and an expected life of 2 years. The value of the warrants reduced the proceeds attributed to share capital and are recognized under shareholders' equity as part of reserves.

As at September 30, 2012, the following share purchase warrants were outstanding:

Number of common shares issuable	Exercise price $	Date of expiry
2,007,724	0.60	November 10, 2012
1,412,030	0.22	December 6, 2012
27,000,000	0.10	September 11, 2014
30,419,754		

On November 10, 2012, 2,007,724 warrants with an exercise price of $0.60 expired.

(c)Stock Options

The Company may grant options to the Company's directors, officers, employees and service providers under the Company's stock option plan. The maximum number of common shares reserved for issuance under the plan is 16,480,616. The Company recognizes stock-based compensation in connection with stock options granted over their respective vesting periods, with stock options typically vesting in various increments and having a maximum term of five years.

Stock option transactions for the six month period ended September 30, 2012 and the year ended March 31, 2012 are as follows:

	Number	Weighted Average Exercise Price $
Options outstanding at March 31, 2011	5,840,000	0.45
Granted	3,100,000	0.19
Expired	(200,000)	0.55
Options outstanding at March 31, 2012	8,740,000	0.35
Expired	(50,000)	0.35
Options outstanding at September 30, 2012	8,690,000	0.35

The weighted-average fair value of options granted during the year ended March 31, 2012 was $0.19. 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
$0.17 - $0.60	8,690,000	2.92	$ 0.35	8,082,231	$0.36

The following table summarizes information about the options outstanding at September 30, 2012 and March 31, 2012:

Expiry Dates	Exercise Price $	September 30, 2012 # of options	March 31, 2012 # of options
August 2012	0.35	-	50,000
February 2013	0.38	200,000	200,000
July 2013	0.37	100,000	100,000
January 2015	0.60	65,000	65,000
January 2015	0.55	2,150,000	2,150,000
April 2015	0.35	450,000	450,000
August 2015	0.35	100,000	100,000
January 2016	0.37	2,625,000	2,625,000
July 2016	0.37	75,000	75,000
September 2016	0.37	100,000	100,000
January 2017	0.17	2,825,000	2,825,000
		8,690,000	8,740,000

The Company applies the fair value method of accounting for share-based payments using an option pricing model.

Stock options granted to directors, officers and employees vested during the six month period ended September 30, 2012 as follows:

Grant Date	# of Option Vested	Exercise Price $	Expiry Date	Fair Value Of Option $	Dividend Yield	Volatility	Risk-free Interest Rate	Expected Life
January 14, 2011	127,171	0.37	January 14, 2016	0.30	0%	124%	2.60%	5 yrs
July 5, 2011	11,084	0.37	July 5, 2016	0.17	0%	118%	2.32%	5 yrs
September 1, 2011	18,980	0.37	September 1, 2016	0.24	0%	117%	1.58%	5 yrs
January 18, 2012	904,868	0.17	January 18, 2017	0.09	0%	87%	1.30%	5 yrs
	1,062,103							

The Company has calculated $127,083 recorded as compensation expense and credited under capital stock as reserves for the 1,062,103 options vesting to directors, officers and employees during the period.

Stock options granted to non-employees vested during the six month period ended September 30, 2012 as follows:

Grant Date	# of Option Vested	Exercise Price $	Expiry Date	Fair Value Of Option $	Dividend Yield	Volatility	Risk-free Interest Rate	Expected Life
July 27, 2011	16,355	0.37	July 27, 2013	0.03	0%	86%	1.02%	1.5 yrs
January 18, 2012	107,509	0.17	January 18, 2017	0.09	0%	87%	1.30%	5 yrs
	123,864							

The Company has calculated $10,154 recorded as compensation expense and credited under capital stock as reserves for the 123,864 options vesting to non-employees during the period.

Option pricing models require highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

On November 3, 2012, 775,000 options were cancelled ranging in exercise prices from $0.17 to $0.38.

(d) Shares subject to escrow or hold periods

As of September 30, 2012, 855,000 of the Company's issued and outstanding common shares are subject to an escrow agreement under which the shares will be released on December 14, 2012.

(e) Private placement

During the period ended September 30, 2012, the Company closed the first tranche of a non-brokered private placement for gross proceeds of $2.7 million by issuing 54,000,000 units at a price of $0.05 per unit. Each unit consists of one common share and one half of one common share purchase warrant. Each full common share purchase warrant entitles the holder to purchase one additional common share of the Company at an exercise price of $0.10 for a period of 24 months following the closing of the private placement. The Units are subject to a four month hold period. Pursuant to the private placement, cash commission of $258,950 was paid by the Company. (Note 7)

7. Related Party Transactions

The Company paid or accrued the following amounts to related parties during the six month periods ended September 30, 2012 and September 30, 2011:

Payee	Description of Relationship	Nature of Transaction	September 30, 2012 Amount $	September 30, 2011 Amount $
Stares Contracting Corp.	Company controlled by Michael Stares, Director and Officer and Stephen Stares, Director	Payments for equipment rentals, supply of labour and reimbursement of exploration expenditures, and premises rental	43,317	50,824
Gordon J. Fretwell Law Corporation	Company controlled by Gordon Fretwell, Secretary	Legal fees charged/accrued during the period	56,440	21,548
Felix Geo-Consultants	Company controlled by Reg Felix, VP Exploration	Payments for geological consulting services and reimbursement of exploration expenditures	75,000	80,100
Benton Resources Corp.	Company related by common directorships and a common officer	Payments for shared office costs and advertising and promotion	5,099	3,133
Canadian Horizon Capital Corporation	Company controlled by Tracy A. Moore, President and CEO	Cash commission in connection with private placement	258,950	-
CEC Rare Earth Corporation	Company related by common directorships	Fees for consulting services	17,045	-
Moore Consulting Services Inc.	50% of Company owned by Tracy A. Moore, President & CEO	Fees for services as President and CEO	5,000	-

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 $30,000 (2011 - $23,043) to Gordon J. Fretwell Law Corporation, $12,837 (2011 - $4,207) to Stares Contracting Corp., $7,458 (2011 - $7,458) to Felix Geo-Consultants and $1,489 to Benton Resources Corp. (2011 - $2,409). The payment terms are similar to the payment terms of non-related party trade payables.

During the six month period ended September 30, 2012, the Company accrued fees to one of its directors totaling $2,500 (2011 - $5,000) for services rendered as Chair of the Company's Audit Committee.

Key management personnel remuneration during the period included $324,663 (September 30, 2011 - $237,956) in salaries and benefits and $76,810 (September 30, 2011 - $259,030) in share-based payments. During the period, property and equipment with a net book value of $116,211 was transferred to the previous President & CEO pursuant to a severance agreement between the Company and former CEO. The amount was written off in the statement of loss and comprehensive loss in wages and benefits.

8. Supplemental Cash Flow Information

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

	September 30, 2012	September 30, 2011
	$	$
Non-cash financing activities		
Common shares issued pursuant to property agreements	48,000	270,950
Non-cash investing activities		
Common shares issued pursuant to property agreements	(48,000)	(270,950)

9. Commitments

The Company has commitments as described in Note 4 with respect to certain agreements on its mineral property interests; however, such future payments remain entirely at the Company's option and only if it intends to maintain its interest in a particular property.

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

During the fiscal year ended March 31, 2012, the Company terminated one of the lease agreements for the use of an automobile.

Subsequent to the reporting period, the Company terminated the remaining lease agreement for the use of an automobile.

The Company's minimum annual lease payments, for the use of office equipment, are payable as follows:

	$
2013	714
2014	1,190
	1,904

10. Events after the Reporting Period

a) On October 1, 2012, proceeds of $100,000 were received for the issuing of 2,000,000 units as part of the closing of the private placement.

b) On November 8, 2012, 14,825,000 stock options were granted with an exercise price of $0.10, subject to regulatory approval.