

**MEDALLION RESOURCES LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS**  
**For the period ended December 31, 2010**  
**Containing information up to and including February 16, 2011**

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*The following Management Discussion and Analysis (the “MD&A”) is prepared at February 16, 2011 and is intended to help the reader understand the accompanying unaudited consolidated financial statements of Medallion Resources Ltd. (the “Company”). The information provided herein should be read in conjunction with the Company’s unaudited consolidated financial statements and notes for the period ended December 31, 2010.*

*Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal controls and to ensure that information used internally or disclosed externally, including the accompanying financial statements and this MD&A, is complete and reliable.*

**The Company is incorporated in British Columbia and is involved in the acquisition and exploration of mineral-resource properties located in North America. Management is in the process of evaluation, exploration and, if warranted, the potential future development of promising resource properties.**

Additional information relating to the Company is available on the SEDAR website: [www.sedar.com](http://www.sedar.com) under “Medallion Resources Ltd”.

All currency amounts are in Canadian dollars unless otherwise indicated.

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this MD&A, management evaluated the effectiveness of the Company’s disclosure controls and procedures as required by Canadian securities laws.

Based on that evaluation, management has 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 filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 – Certification of Disclosure in Issuers’ Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws, and that material information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

## **RESULTS OF OPERATIONS**

The Company’s operations consist generally of the acquisition, exploration and evaluation of mineral properties. This includes evaluating the merits of these properties using various techniques such as sampling, trenching, drilling, and geophysical and geochemical survey methods.

The Company has no commercial mining production at this time; therefore, the Company has no revenue from operations.

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*Mineral Properties*

|  | March 31,<br>2009 | Expenditures/<br>Write offs | March 31,<br>2010 | Expenditure<br>s/<br>Write offs | December 31,<br>2010 |
|--|-------------------|-----------------------------|-------------------|---------------------------------|----------------------|
| <u>Everett Property</u>                |                   |                             |                   |                                 |                      |
| Property-acquisition costs             | \$ 34,332         | \$ 10,000                   | \$ 44,332         | \$ -                            | \$ -                 |
| Claim staking                          | 12,817            | -                           | 12,817            | -                               | -                    |
| Exploration expenditures               | 423,576           | 23,024                      | 446,600           | -                               | -                    |
| Written-off exploration<br>Expenditure | (423,576)         | (80,173)                    | (503,749)         | -                               | -                    |
|  | 47,149            | (47,149)                    | -                 | -                               | -                    |
| <u>Eden Lake Property</u>              |                   |                             |                   |                                 |                      |
| Property-acquisition costs             | -                 | 50,000                      | 50,000            | 46,000                          | 96,000               |
| Claim staking                          | -                 | -                           | -                 | 9,046                           | 9,046                |
| Exploration expenditures               |                   |                             |                   |                                 |                      |
| Field expenses                         | -                 | -                           | -                 | 115,983                         | 115,983              |
| Geological                             | -                 | 33,695                      | 33,695            | 122,360                         | 156,055              |
| Geophysical                            | -                 | 108,460                     | 108,460           | -                               | 108,460              |
| Other                                  | -                 | 534                         | 534               | 84,404                          | 84,938               |
|  | -                 | 192,689                     | 192,689           | 377,793                         | 570,482              |
| <u>Red Wine Property</u>               |                   |                             |                   |                                 |                      |
| Property-acquisition costs             | -                 | -                           | -                 | 3,060                           | 3,060                |
| Exploration expenditures               |                   |                             |                   |                                 |                      |
| Field expenses                         | -                 | -                           | -                 | 39,886                          | 39,886               |
| Geological                             | -                 | -                           | -                 | 57,396                          | 57,396               |
| Geophysical                            | -                 | -                           | -                 | 56,276                          | 56,276               |
| Other                                  | -                 | -                           | -                 | 10,784                          | 10,784               |
|  | -                 | -                           | -                 | 167,402                         | 167,402              |
| Total Expenditures                     | \$ 47,149         | \$ 145,540                  | \$ 192,689        | \$ 545,195                      | \$ 737,884           |

*Rare-Earth-Element Properties*

On September 23, 2009, the Company announced that it changed its focus to the exploration for lithium, rare-earth elements (REE's) and related energy-technology metals. As of the end of December 31, 2009, Medallion is exclusively exploring for rare-earth elements.

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*Eden Lake Property*

On December 1, 2009, the Company signed a Letter of Intent and on February 23, 2010 executed a definitive option agreement with Rare Element Resources Ltd. (“RES”) whereby RES granted the Company an option to acquire a 65% interest in the Eden Lake rare-earth-element property in Manitoba, subject to a 3% net smelter return royalty in favour of a former property owner.

Under the terms of the agreement, the Company is required to pay \$1,450,000 (\$50,000 paid), issue 1,800,000 common shares (200,000 shares issued for a value of \$46,000), and conduct \$2,250,000 of property exploration expenditures (\$570,482 of expenditures incurred) over a period of five years. Upon completion of the cash and share payments and work commitments, the Company may exercise its option to acquire a 65% interest in the property. Upon acquiring a 65% interest in the property, the Company and RES will form a joint venture whereby each will participate in programs and budgets according to their respective working interests. The Company will be the operator of exploration on the property. The TSX Venture Exchange granted final approval of the option agreement on July 14, 2010.

During December 2009, the Company contracted with Aeroquest International Limited to perform an airborne electromagnetic geophysical survey of the Eden Lake property. The survey cost approximately \$113,000. The work was completed and results are being used to determine ongoing exploration activities. The Company also commissioned a NI43-101-compliant Technical Report on the Eden Lake property. The report collected and analyzed all previous data on the Eden Lake property and provided an exploration plan and budget to advance the property. The report was completed and filed August 5, 2010 on the SEDAR site under the Company’s name.

On September 15, 2010, RES and the Company agreed to amend the definitive option agreement so that a \$50,000 payment, which was due to RES following approval of the option agreement by the TSX Venture Exchange on July 14, 2010, would instead be due on July 14, 2011. The September 15, 2010 amendment also added six Manitoba crown mineral claims, staked by the Company during June and July 2010, to the Eden Lake property. The Eden Lake property now comprises 14 crown mineral claims, covering an area of 3,200 hectares.

The 2010 field work is complete. The work consisted of refining past available information and collecting new mapping and sampling data to investigate the potential of the four rare earth elements (“REE”) mineralization styles present on the Eden Lake property. For 2010, the focus was on the potential for a large-tonnage surface deposit of the REE-bearing fenite-altered rocks. A large number of channel samples were collected to evaluate this potential. Results indicate that the fenite target is not likely of sufficiently high REE grade to warrant further exploration. For 2011, exploration will refocus on the large-tonnage potential of the Eden Lake carbonatite mineralization, one of the other four distinct styles of REE mineralization that occurs on the property.

*Red Wine Property*

On April 10, 2010, the Company signed a Letter of Intent with a private vendor, Polaris Capital Ltd. (the “Vendor”) to acquire an option to acquire a 100% interest in the Red Wine REE exploration project, which consists of four Labrador mineral licenses covering an area of 3,325 hectares. On June 10, 2010, the Letter of Intent was amended to include two additional mineral licenses, which brought the total area of the project to 4,225 hectares.

Under the terms of the amended Letter of Intent, the Company was required to pay the Vendor’s license-staking costs of \$2,160 which has been paid and to complete, by October 31, 2010, a summer 2010 exploration program, costing approximately \$125,000 to include mapping, sampling, an airborne geophysical survey and an NI43-101-compliant Technical Report on the Property. As a condition of funding the summer 2010 exploration program, the Vendor subscribed to a \$55,000 private placement of the common shares of the Company.

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Upon the completion of the 2010 exploration program and the delivery of the resulting data, or by December 31, 2010, whichever is latest, the Company may elect to proceed with the option to acquire a 100% interest in the Property. To maintain the option, the Company must pay an aggregate of \$525,000 in cash, issue an aggregate of 1,900,000 common shares, and conduct \$400,000 in exploration work over a period of five years. As of February 16, 2011, the data on the 2010 exploration program had not been delivered.

The property is subject to a 3% net smelter return royalty, half of which the Company can purchase at any time by making a payment of \$1,500,000 to the Vendor.

The Red Wine 2010 exploration program began with the an airborne geophysical survey in early July 2010. The preliminary data from this survey supports and expands previous estimates of the area of rare-earth mineralization on the Red Wine property. Strong magnetic and radiometric anomalies correspond to a large area on Company's 22-square-kilometre "A" block that is known to cover the eudialyte-bearing south Red Wine intrusion. Eudialyte is recognized as a mineral rich in the more valuable heavy rare-earth elements. Positive geophysical responses also point to new, potentially mineralized targets on the Company's "B", "C" and "D" blocks to the east and north of the "A" block. A field reconnaissance of the geophysical targets and all available historical geological information was completed by mid September of 2010. Assays of 34 reconnaissance samples were encouraging and a second sampling expedition was undertaken in mid October. Twenty-nine channel samples and 14 additional grab samples were collected before weather terminated the program. All samples were assayed and laboratory mineralogical studies were concluded on several eudialyte specimens. Raw data from the various activities has been received and a final report summarizing all results is expected by the end of February, 2011. The Company will then determine its future exploration plans for the Red Wine property.

**SELECTED ANNUAL INFORMATION**

|                                  | <b>Year ended<br/>March 31,<br/>2010</b> | <b>Year ended<br/>March 31,<br/>2009</b> | <b>Year ended<br/>March 31,<br/>2008</b> |
|----------------------------------|--|--|--|
|                                  | <b>\$</b>                                | <b>\$</b>                                | <b>\$</b>                                |
| Total Revenues (interest income) | 141                                      | 2,807                                    | 4,517                                    |
| Net Income (Loss)                | (582,060)                                | (1,773,320)                              | (123,451)                                |
| Net Income (Loss) Per Share      | (0.03)                                   | (0.15)                                   | (0.01)                                   |
| Total Assets                     | 491,417                                  | 223,233                                  | 1,273,797                                |
| Long-Term Debt                   | Nil                                      | Nil                                      | Nil                                      |
| Dividends                        | Nil                                      | Nil                                      | Nil                                      |

**SUMMARY OF QUARTERLY RESULTS**

The following table sets forth selected quarterly financial information for each of the last eight quarters (information is unaudited).

| <b>Quarter Ending</b> | <b>Revenue<br/>\$</b> | <b>Expenses<br/>\$</b> | <b>Net Loss<br/>(Income)<br/>\$</b> | <b>Loss (Earnings)<br/>Per Share<br/>\$</b> |
|-----------------------|-----------------------|------------------------|-------------------------------------|---|
| December 31, 2010     | 75,219                | 185,915                | 110,696                             | 0.00  |
| September 30, 2010    | -                     | 358,286                | 358,286                             | 0.01  |
| June 30, 2010         | 40                    | 111,405                | 111,365                             | 0.00  |

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|                    |         |           |           |      |
|--------------------|---------|-----------|-----------|------|
| March 31, 2010     | 72      | 146,507   | 497,336   | 0.01 |
| December 31, 2009  | 147,104 | 340,992   | (193,888) | 0.01 |
| September 30, 2009 | -       | 100,300   | 100,300   | 0.00 |
| June 30, 2009      | 4,854   | 82,793    | 178,312   | 0.01 |
| March 31, 2009     | 30      | 1,104,648 | 987,932   | 0.07 |
| December 31, 2008  | 172     | 561,106   | 560,934   | 0.05 |
| September 30, 2008 | 546     | 170,834   | 170,288   | 0.02 |

**Results of operations for the three months ended December 31, 2010 compared to the three months ended December 31, 2009.**

The Company's loss for the three months ended December 31, 2010 was \$110,696 (loss per share - \$0.00) compared to \$193,888 (loss per share - \$0.01) in the comparative period in 2009. The decreased loss is primarily as a result of lower Exploration Expenditures on Written off Properties of \$3,742 (2009 - \$188,396) offset by higher Consulting Fees of \$58,229 (2009 - \$16,750), Investor Relations expenses of \$40,070 (2009 - \$5,192), Management Fees of \$31,800 (2009 - \$19,190), and Transfer Agent and Filing Fees of \$24,680 (2009 - \$4,350) during the three months ended December 31, 2010, compared to the 2009 period. Increased exploration and financing activity in the Company resulted in higher expenses this period compared to the same period in 2009.

In the period ended December 31, 2010, the Company continued with its 2010 exploration work on its rare earth properties resulting in \$139,858 of exploration expenditures in the third quarter of fiscal 2011 (see "Mineral Properties" section).

The loss per share was \$0.00 in the three months ended December 31, 2010 as compared to a loss per share of \$0.01 for the comparable period in 2009.

**LIQUIDITY AND CAPITAL RESOURCES**

As at December 31, 2010, the Company's working capital was \$3,623,364 (March 31, 2010 - \$131,217) due to issuance of shares during the 9 months ended December 31, 2010.

Cash and cash equivalents is made up of \$383,049 in cash available in the bank accounts of the Company and \$3,250,000 in short term investments for a total of \$3,633,049 at December 31, 2010. This is an increase of \$3,402,380 from \$230,669 as at March 31, 2010. The increase is due to the issuance of shares during the period. Short term investments consist of a variable rate Guaranteed Investment Certificate issued by the Bank of Montreal that matures on November 21, 2011.

For further details relating to the issuance of shares in the period, please refer to Note 6 of the Interim Financial Statements for the period ended December 31, 2010.

During the nine months ended December 31, 2010, the Company incurred \$545,195 in acquisition, due diligence, and exploration expenditures on the Eden Lake and Red Wine properties.

Contributed surplus totaled \$570,535 as at December 31, 2010 (March 31, 2010 - \$544,581). The increase is due to stock-based compensation of \$210,925 offset by a decrease of \$184,971 of fair value recognized on the exercise of stock options.

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The Company has relied primarily upon the sale of equity securities for cash required for exploration and development purposes, for acquisitions, and to fund the administration of the Company. Since the Company does not expect to generate any revenues in the near future, it will continue to rely primarily upon sales of its equity to raise capital. There can be no assurance that additional equity financing will be available to the Company in the required amount when needed or at all. Mining exploration is a capital-intensive business with lengthy periods elapsing from initial exploration to any prospect of revenues. The nature of the exploration business increases risks of insufficient capital resources above that of many other businesses.

The Company expects its current working capital will be sufficient to fund its planned activities for at least the next 12 months, however, if significant new acquisitions are made, additional funding may be required.

#### **COMMITMENTS**

On June 1, 2010, the Company entered into a sub-lease agreement for its office premises with a company owned by a director for a term of one year and one month commencing on June 1, 2010 and expiring on June 30, 2011. The monthly rent of \$1,818 commenced July 1, 2010 and is due at the beginning of each month. At the option of the Company, the sub-lease agreement may be extended for an additional year under the same terms and conditions.

The following is a summary of the future lease commitments as at December 31, 2010 for the fiscal years ended March 31:

|             |          |
|-------------|----------|
| Fiscal 2011 | \$ 5,454 |
| Fiscal 2012 | 5,454    |

#### **OFF BALANCE SHEET ARRANGEMENTS**

The Company has not entered into any off-balance sheet transactions.

#### **TRANSACTIONS WITH RELATED PARTIES**

The Company has certain transactions with related parties. For further details relating to transactions with related parties, please refer to Note 7 of the Interim Financial Statements for the period ended December 31, 2010.

#### **CRITICAL ACCOUNTING ESTIMATES**

##### **Mineral Properties**

The Company capitalizes the acquisition costs of mineral properties and related exploration and development costs. The amounts shown for mineral properties represent costs incurred to date, less write-downs, and do not necessarily reflect present or future values. These costs will be amortized over the estimated productive lives of the properties upon commencement of commercial production using the unit-of-production method. Costs relating to mineral properties that are sold or abandoned are written off when such events occur or are written down to a nominal amount when management decides not to commit any further exploration or development of the property. Interests acquired under option agreements, whereby option payments are made at the sole discretion of the Company, are recorded in the accounts at such time as the payments are made. The proceeds from options granted are applied to the cost of the related property and any excess is included in earnings for the period. Although the Company has taken steps to verify title to mineral properties in which it has or is acquiring an interest, according to the usual industry standards for the stage of exploration of such properties, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected title defects.

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**Impairment of Long-lived Assets**

The Company follows the recommendations of Canadian Institute of Chartered Accountants Handbook Section 3063, "Impairment of Long-Lived Assets". Section 3063 establishes standards for recognizing, measuring and disclosing impairment of long-lived assets held for use. The Company conducts its impairment test on long-lived assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is recognized when the carrying amount of an asset to be held and used exceeds the undiscounted future net cash flows expected from its use and disposal. If there is an impairment, the impairment amount is measured as the amount by which the carrying amount of the asset exceeds its fair value, calculated using discounted cash flows when quoted market prices are not available.

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**Stock-based Compensation**

The Company accounts for stock-based compensation expense using the fair value based method with respect to all stock-based payments to directors, employees and non-employees, including awards that are direct awards of stock and call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments. Under this method, the fair value of each option grant is estimated on the date of grant and amortized over the vesting period, with a corresponding increase to contributed surplus under shareholders' equity. The Company estimates the fair value of each grant using the Black-Scholes option pricing model. When stock options are exercised, the corresponding fair value is transferred from contributed surplus to share capital.

**DISCLOSURE OF OUTSTANDING SHARE DATA**

Authorized share capital consists of an unlimited number of common shares without par value. As at December 31, 2010, the Company had 43,705,181 issued and outstanding common shares and 44,499,435 shares were issued and outstanding as at February 16, 2011.

For further details relating to the issuance of shares, please refer Note 6 of the Interim Financial Statements for the period ended December 31, 2010.

As at February 16, 2011, the Company has 4,070,000 stock options outstanding as follows:

|                    | Number of Options<br>Outstanding | Exercise Price |
|--------------------|----------------------------------|----------------|
| September 18, 2011 | 100,000                          | \$ 0.15        |
| August 15, 2012    | 250,000                          | \$ 0.15        |
| January 7, 2014    | 290,000                          | \$ 0.15        |
| January 20, 2014   | 130,000                          | \$ 0.15        |
| November 6, 2014   | 440,000                          | \$ 0.15        |
| November 30, 2014  | 60,000                           | \$ 0.17        |
| February 10, 2015  | 70,000                           | \$ 0.175       |
| February 23, 2015  | 70,000                           | \$ 0.20        |
| September 13, 2015 | 1,185,000                        | \$ 0.265       |
| January 27, 2016   | 1,390,000                        | \$ 0.50        |
| January 27, 2016   | 85,000                           | \$ 0.40        |
|                    | 4,070,000                        | \$ 0.31        |

No stock options have been exercised since December 31, 2010.

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As of December 31, 2010 the Company has 10,046,048 warrants outstanding with a weighted exercise price of \$0.33.

For further details relating to outstanding warrants, please refer to Note 6 of the Interim Financial Statements for the period ended December 31, 2010.

Subsequent to December 31, 2010, 787,754 warrants were exercised at prices ranging from \$0.125 to \$0.30 per share for proceeds of \$215,614. As at February 16, 2011 there were 9,258,294 warrants outstanding.

| Expiry Date                  | Number of warrants<br>outstanding | Exercise Price |
|------------------------------|-----------------------------------|----------------|
| November 3, 2011             | 645,000                           | \$ 0.20        |
| December 30, 2011            | 96,975                            | \$ 0.225       |
| January 20, 2012             | 1,237,142                         | \$ 0.30        |
| July 5, 2012                 | 238,626                           | \$ 0.15        |
| July 12, 2012                | 34,650                            | \$ 0.125       |
| October 25, 2012             | 391,667                           | \$ 0.40        |
| November 12, 2012            | 336,170                           | \$ 0.40        |
| July 12, 2013                | 1,691,000                         | \$ 0.25        |
| October 25, 2013             | 1,958,336                         | \$ 0.40        |
| November 12, 2013            | 2,635,228                         | \$ 0.40        |
| Balance at February 16, 2011 | 9,264,794                         | \$ 0.33        |

Total number of finders' options outstanding as at December 31, 2010 was 29,000 and as at February 16, 2011 was 22,500, with 6,500 finders' options having been exercised subsequent to December 31, 2010 for proceeds of \$650. These finders' options are exercisable at a price of \$0.10 to acquire finders' units consisting of one common share and one share purchase warrant exercisable at a price of \$0.20 until November 3, 2011.

There are no shares subject to escrow or pooling agreements.

**CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**

The CICA has issued new standards which may affect the financial disclosures and results of operations of the Company. The Company will adopt the requirements on the date specified in each respective section and is considering the impact this will have on the consolidated financial statements.

**a) Business Combinations, Consolidated Financial Statements and Non-controlling Interests**

In January 2009, the CICA issued Sections 1582, 1601 and 1602 to replace Section 1581, "Business Combinations" and Section 1600, "Consolidated Financial Statements", and establish a new section for accounting for a non-controlling interest in a subsidiary. Section 1582 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Section 1601 and 1602 apply to interim and annual consolidated financial statements for years beginning on or after January 1, 2011. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the consolidated financial statements.

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**b) Comprehensive Revaluation of Assets and Liabilities**

In August 2009, the CICA amended Section 1625, “Comprehensive Revaluation of Assets and Liabilities”. This section has been amended as a result of issuing Section 1582, “Business Combinations”, Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-controlling Interests” in January 2009. The amendment applies prospectively to comprehensive revaluations of assets and liabilities occurring in fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. If the Company adopts this section for a fiscal year beginning before January 1, 2011, it also adopts Section 1582. The adoption of this standard is not expected to have a material impact on the Company’s results of operations or its financial position.

**c) International Financial Reporting Standards (“IFRS”)**

On February 13, 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed the mandatory changeover date to International Financial Reporting Standards (“IFRS”) for Canadian profit-oriented publicly accountable entities (“PAE’s”) such as the Company.

The AcSB requires that IFRS compliant financial statements be prepared for annual and interim financial statements commencing on or after January 1, 2011. For PAE’s with a March 31 year-end, the first unaudited interim financial statements under IFRS will be the quarter ending June 30, 2011, with comparative financial information for the quarter ended June 30, 2010. The first audited annual financial statements will be for the year ending March 31, 2012, with comparative financial information for the year ended March 31, 2011. This also means that all the opening balance sheet adjustments relating to the adoption of IFRS must be reflected in the April 1, 2010 opening balance sheet which will be issued as part of the comparative financial information in the June 30, 2011 unaudited interim financial statements.

In 2010, the Company’s management assessed the impact of adoption to IFRS and concluded that the adoption date will be April 1, 2011 and the transition date will be April 1, 2010. The Company’s first financial statements prepared under IFRS will be the interim financial statements for the three months ended June 30, 2011 with comparatives for the three months ended June 30, 2010 along with the balance sheet as of the transition date and will include full disclosure of all new IFRS policies.

During fiscal 2010, the Company’s management examined the impact of the changes in accounting policies per IFRS.

The Company reviewed its existing accounting system along with its internal and disclosure control process. The Company determined that it would rely on certain exemptions allowed under IFRS 1 “First-time Adoption of International Financial Reporting Standards” as of the transition date on April 1, 2010.

Under IFRS 1 the IFRS standards are applied retrospectively at the transitional balance sheet date with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied. The Company intends to apply the following exemptions to its opening balance sheet dated April 1, 2010.

a) IFRS 3 – Business Combinations

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 Business Combination retrospectively to business combinations that occurred before the date of transition to IFRS. The Company will take advantage of this election and will apply IFRS 3 to business combinations that occurred on or after April 1, 2010. There is no adjustment required to the March 31, 2010 financial statements on the transition date.

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b) IFRS 2 – Share-based payment transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 Share-based Payment to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company will apply IFRS 2 to awards that vested prior to April 1, 2010 resulting in no adjustments to the March 31, 2010 financial statements on the transition date.

c) IAS 27 – Consolidated and Separate Financial Statements

In accordance with IFRS 1, if a company elects to apply IFRS 3 Business Combinations retrospectively, IAS 27 Consolidated and Separate Financial Statements must also be applied retrospectively. As the Company elected to apply IFRS 3 prospectively, the Company has also elected to apply IAS 27 prospectively. Therefore, there will be no change to the March 31, 2010 financial statements on the transition date.

d) IAS 27 – Consolidated and Separate Financial Statements

In accordance with IFRS 1, if a company elects to apply IFRS 3 Business Combinations retrospectively, IAS 27 Consolidated and Separate Financial Statements must also be applied retrospectively. As the Company elected to apply IFRS 3 prospectively, the Company has also elected to apply IAS 27 prospectively. Therefore, there will be no change to the March 31, 2010 financial statements on the transition date.

Given the IFRS 1 exemptions noted above, the Company has identified the following adjustments to the March 31, 2010 financial statements on the transition date:

a) “Contributed surplus” versus “Equity settled employee benefit reserve”

IFRS requires “contributed surplus” to be broken down into different categories by naming various reserves. The Company examined its “contributed surplus” account and concluded that an amount of \$544,581 relates to “Equity settled employee benefit reserve”, for the stock options granted to officers and employees. As a result, on the transition date, there will be a reclassification in the equity section between “Contributed Surplus” and “Equity settled employee benefit reserve” for \$544,581.

**INTERNAL CONTROLS AND PROCEDURES OVER FINANCIAL REPORTING**

There was no change in the Company’s internal control over financial reporting during the nine months ended December 31, 2010 that materially affected, or was reasonably likely to materially affect, the Company’s internal control over financial reporting.

**RISKS AND UNCERTAINTIES**

The Company is a mineral exploration and development company and is exposed to a number of risks and uncertainties that are common to other companies in the same business; some of these risks have been discussed elsewhere in this document. The reader should also refer to the discussion of risks contained in the Company’s Management Discussion & Analysis for the period ended March 31, 2010.

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## **OUTLOOK**

The Company and its REE exploration business are in the midst of a year of growth. Since September 2009, the Company has acquired the key Eden Lake Rare-Earth and the Red Wine Heavy-Rare-Earth Projects. Since March 31, 2009, the Company has raised \$6,037,991 of gross proceeds through private placements and the exercise of options and warrants.

In the coming year, rare-earth uses, rare-earth supply and demand issues and China's rare-earth production monopoly should continue to dominate the rare-earth financial-market-sector news. The rare-earth financial-market sector should be able to benefit as governments, rare-earth users, investment advisors and the media publicize the rare-earth information.

- The US, EU and UK governments have warned that insufficient rare-earth supplies could stagnate industry and compromise national defence.
- In early 2011, China announced further restrictions resulting in an overall 71% reduction of its rare-earth exports.
- US government reports predict that it will take ten to 15 years for non-China sources to reach a level where they can supply the needs of the western world.
- Financial-market analysis of the rare-earth sector is maturing and now focuses on companies exploring properties containing high-demand and high-value rare earths, such as neodymium and the heavy-rare-earth elements.
- The entry of additional major investors, such as Frank Guistra's Endeavour Financial Corporation and Resources Capital Funds' Molycorp Minerals IPO, are increasing investor awareness of the rare-earth sector.
- The rare-earth-exploration sector continues to ignore two critical rare-earth market needs, which are:
  - near-term rare-earth production, and
  - long-term, low-production-cost rare-earth supplies.

The dynamics of the rare-earth story could lead the way in the upcoming growth of the resource-based financial markets. With the Company's strategy of acquiring and exploring for near-term REE-production projects and low-production-cost, large tonnage heavy REE deposits with a clear metallurgical path and cost-effective infrastructure, it is positioned to take advantage of this growth.

The Company's properties and acquisition targets have potential. To realize this potential, the Company will follow through with the necessary acquisition and exploration work, employing the talents of recognized experts in rare-earth exploration.

The Company is currently investigating new acquisitions. If new acquisitions are made, additional funding may be required.

## **FORWARD LOOKING STATEMENTS**

Except for statements of historical fact, certain information contained herein constitutes forward-looking statements. Forward looking statements are usually identified by our use of certain terminology, including "will", "believes", "may", "expects", "should", "seeks", "anticipates" or "intends" or by discussions of strategy or intentions. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results or achievements to be materially different from any future results or achievements expressed or implied by such forward-looking statements. Forward-looking statements are statements that are not historical facts, and include but are not limited to, estimates and their underlying assumptions; statements regarding plans, objectives and expectations with respect to the effectiveness of the Company's business plan; future operations, the impact of regulatory initiatives on the

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Company's operations; general industry and macroeconomic growth rates; expectations related to possible joint and/or strategic ventures and statements regarding future performance.

Forward-looking statements used in this discussion are subject to various risks and uncertainties, most of which are difficult to predict and generally beyond the control of the Company. If risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those expected, estimated or projected. Forward looking statements in this document are not a prediction of future events or circumstances, and those future events or circumstances may not occur. Given these uncertainties, users of the information included herein, including investors and prospective investors are cautioned not to place undue reliance on such forward-looking statements.

**DISCLAIMER**

The information provided in this document is not intended to be a comprehensive review of all matters concerning the Company. The users of this information, including but not limited to investors and prospective investors, should read it in conjunction with all other disclosure documents provided including but not limited to all documents file on SEDAR ([www.SEDAR.com](http://www.SEDAR.com)). No securities commission or regulatory authority has reviewed the accuracy or adequacy of the information presented herein.

BY ORDER OF THE BOARD

*"William H Bird"*

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WILLIAM H. BIRD