

American Rare Earths & Materials, Corp.  
Form 10-Q  
May 14, 2012

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2012

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 0-15260

**American Rare Earths and Materials, Corp.**

(Exact name of Registrant as specified in its charter)

Nevada	98-0669413
(State or other	(Internal
jurisdiction of	Revenue
incorporation or	Service
organization)	Employer
	Identification
	No.)

200 Queens Quay  
East, Unit #1,  
Toronto, Ontario,  
Canada, M5A 4K9  
(Address of Principal  
Executive Offices)

416-362-2121  
Registrant's telephone  
number, including  
area code

Indicate by check whether the Registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a small reporting company. See the definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

Check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date, 35,920,690 shares of common stock, par value \$0.001 per share as of May 9, 2012.



American Rare Earths and Materials, Corp. and Subsidiaries

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**PART 1 - FINANCIAL INFORMATION****Item 1 – Condensed Consolidated Financial Statements****AMERICAN RARE EARTHS AND MATERIALS, CORP. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

	March 31, 2012	June 30, 2011
<b>- ASSETS -</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (includes restricted cash of \$81,050 and \$79,842 as of March 31, 2012 and June 30, 2011, respectively (Note 12))	\$207,963	\$256,461
Accounts receivable - net of allowance for doubtful accounts of \$25,307 and \$24,799 as of March 31, 2012 and June 30, 2011, respectively	546,922	492,240
Inventories, net	387,927	536,716
Prepaid expenses and other current assets	126,353	104,272
<b>TOTAL CURRENT ASSETS</b>	<b>1,269,165</b>	<b>1,389,689</b>
<b>FIXED ASSETS, NET</b>	<b>28,916</b>	<b>41,923</b>
<b>TOTAL ASSETS</b>	<b>\$1,298,081</b>	<b>\$1,431,612</b>
<b>- LIABILITIES AND SHAREHOLDERS' DEFICIT-</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$314,426	\$515,714
Accounts payable - related party	461,703	461,703
Royalty payable	1,859,155	1,564,748
Accrued expenses	535,116	353,862
Accrued expenses – related parties	2,331,353	2,137,853
Deferred revenue	630	160
Loans and advances – related party	158,738	158,738
Loan payable – related party	263,488	-
Dividends payable	60,000	60,000
Due to Zeroloft Corp. (Note 5)	277,881	277,881
<b>TOTAL CURRENT LIABILITIES</b>	<b>6,262,490</b>	<b>5,530,659</b>

**CONTINGENCIES** (Note 12)

SHAREHOLDERS' DEFICIT:

Preferred stock, \$0.10 par value, authorized undesignated 2,447,000 shares, no shares issued and outstanding	-	-
Series A Convertible Preferred stock, \$0.001 par value, authorized 2,200,000 shares, 2,113,556 shares issued and outstanding as of March 31, 2012 and June 30, 2011	2,114	2,114
Series B Convertible Preferred stock, \$0.10 par value, authorized 353,000 shares, 352,945 shares issued and outstanding as of March 31, 2012 and June 30, 2011	35,295	35,295
Common stock, \$0.001 par value; 300,000,000 shares authorized, 33,896,152 and 25,782,299 issued and outstanding at March 31, 2012 and June 30, 2011, respectively	33,896	25,782
Additional paid-in capital	34,184,145	33,524,331
Accumulated deficit	(39,219,859)	(37,686,569)
TOTAL SHAREHOLDERS' DEFICIT	(4,964,409 )	(4,099,047 )
 TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	 \$1,298,081	 \$1,431,612

See notes to condensed consolidated financial statements.

**AMERICAN RARE EARTHS AND MATERIALS, CORP. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****FOR THE NINE AND THREE MONTHS ENDED MARCH 31, 2012 AND 2011****(Unaudited)**

	Nine months Ended March 31,		Three months Ended March 31,	
	2012	2011	2012	2011
REVENUES	\$ 1,918,065	\$ 3,428,047	\$ 775,822	\$ 1,685,146
COSTS OF SALES	1,510,803	2,211,880	655,019	1,314,027
GROSS PROFIT	407,262	1,216,167	120,803	371,119
GENERAL AND ADMINISTRATIVE EXPENSES	1,747,888	7,150,660	519,079	4,450,630
LOSS FROM OPERATIONS	(1,340,626 )	(5,934,493 )	(398,276 )	(4,079,511 )
OTHER INCOME (EXPENSE)				
Interest income	-	297	-	1
Interest expense	(12,664 )	(4,329 )	(8,416 )	-
	(12,664 )	(4,032 )	(8,416 )	1
LOSS BEFORE PROVISION FOR INCOME TAXES	(1,353,290 )	(5,938,525 )	(406,692 )	(4,079,510 )
Provision for income taxes	-	-	-	-
NET LOSS	(1,353,290 )	(5,938,525 )	(406,692 )	(4,079,510 )
Dividends on Series B Preferred Convertible stock	(180,000 )	(180,000 )	(60,000 )	(60,000 )
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	\$(1,533,290 )	\$(6,118,525 )	\$(466,692 )	\$(4,139,510 )
Basic and diluted net loss per share available to common stockholders	\$(0.05 )	\$(0.26 )	\$(0.01 )	\$(0.17 )
Basic and diluted weighted average shares outstanding	30,571,300	23,426,346	33,292,397	24,728,085

See notes to condensed consolidated financial statements.





**AMERICAN RARE EARTHS AND MATERIALS, CORP. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIT****FOR THE NINE MONTHS ENDED MARCH 31, 2012****(Unaudited)**

	Series A Convertible Preferred Stock	Series B Convertible Preferred Stock	Number of Shares in Common Stock	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Total Shareholders' Deficit
Balance, June 30, 2011	\$ 2,114	\$ 35,295	25,782,299	\$ 25,782	\$ 33,524,331	\$(37,686,569)	\$(4,099,047 )
Issuance of common stock for services	-	-	5,865,703	5,866	482,062	-	487,928
Dividends on Series B Convertible Preferred Stock, paid in common stock	-	-	2,248,150	2,248	177,752	(180,000 )	-
Net loss	-	-	-	-	-	(1,353,290 )	(1,353,290 )
Balance, March 31, 2012	\$ 2,114	\$ 35,295	33,896,152	\$ 33,896	\$ 34,184,145	\$(39,219,859)	\$(4,964,409 )

See notes to condensed consolidated financial statements.

**AMERICAN RARE EARTHS AND MATERIALS, CORP. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE NINE MONTHS ENDED MARCH 31, 2012 AND 2011****(Unaudited)**

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(1,353,290)	\$(5,938,525)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Compensatory common stock and warrants	487,928	721,504
Depreciation	13,007	14,642
Amortization of intangible asset	-	392,086
Impairment of intangible asset	-	3,140,943
Foreign exchange loss	15,788	-
Accrued interest	-	(216 )
Changes in:		
Accounts receivable	(54,682 )	25,619
Inventories	148,789	396,643
Prepaid expenses and other current assets	(22,081 )	574,673
Accounts payable, accrued expenses and royalty payable	480,538	591,631
Deferred revenue	470	103,575
Due to Zeroloft Corp.	-	(129,208 )
Net cash provided by (used in) operating activities	(283,533 )	(106,633 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from (purchase of) short-term investments	-	251,875
Net cash provided by (used in) investing activities	-	251,875
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of loan payable - shareholder	-	(350,000 )
Loan payable – related party	335,755	-
Repayment of loan payable – related party	(100,720 )	-
Exercise of warrants	-	110
Net cash provided by (used in) financing activities	235,035	(349,890 )
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(48,498 )</b>	<b>(204,648 )</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>256,461</b>	<b>513,035</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$207,963</b>	<b>\$308,387</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Interest paid	\$-	\$141,953

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Income taxes paid	\$-	\$-
Issuance of shares of common stock for dividends	\$180,000	\$180,000
Repayment of amount due to Zeroloft Corp. through application of receivable from Zeroloft Corp. for certain reimbursable costs	\$-	\$442,912

See notes to condensed consolidated financial statements.

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**AMERICAN RARE EARTHS AND MATERIALS, CORP. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 1 NATURE OF BUSINESS AND OPERATIONS**

American Rare Earths and Materials, Corp. and subsidiaries (the “Company” and or “AREM”) is a developer of applications of high tech materials used in the sports industry including advanced Scandium Alloy golf products, bio-fiber fishing equipment and Zeroloft Aerogel insulation for sports apparel and footwear. New materials applications developed by AREM are incorporated by manufacturers and original equipment manufacturers (“OEM”) into their product lines including AREM’s own line of Scandium Sc TM golf and Carrot Stix TM fishing equipment.

AREM has developed proprietary Scandium Alloys, bio-fiber composites and Zeroloft insulation manufacturing paths and product engineering for various sports, apparel and footwear applications. AREM secured international recognition by winning several top honors at shows, and recording wins for professional athletes using equipment manufactured by AREM or incorporating AREM materials.

In September of 2002, BRL Holdings, Inc. (“BRL”) acquired Element 21 Technologies, Inc. (“Technologies”) under an Amended and Restated Agreement (the “Agreement”) wherein BRL issued 106,181 shares of its common stock to shareholders of Technologies and assumed Technologies’ obligations under option agreements allowing for the purchase of 16,080 additional shares of common stock. Technologies was a development stage company formed to design, develop and market AREM alloy golf clubs. This acquisition was accounted for as a reverse acquisition using the purchase method of accounting, as the shareholders of Technologies assumed control immediately following the acquisition.

In October 2003, BRL Holdings, Inc. changed its name to Element 21 Golf Company (“Element 21”).

Upon the closing of the Technologies acquisition, as discussed above, Element 21 reported as a development stage enterprise effective September 17, 2002. During fiscal year 2005, Element 21 commenced active operations and began reporting revenues during the last quarter of the year.

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The first products manufactured using the Company's proprietary golf technology have been produced and the Company commenced distribution to wholesalers and retail markets during the last quarter of its fiscal year ended June 30, 2006.

In May 2007, the Board of Directors adopted resolutions approving an amendment and a majority of shareholders also approved amending the AREM's Certificate of Incorporation to increase the number of authorized shares of capital stock to 300,000,000 shares of common stock and 5,000,000 shares of preferred stock.

In June 2007, the Company expanded into recreational fishing equipment. On June 21, 2007, the Company entered into a non-exclusive, world-wide patent license with Advanced Light Alloys Corporation, a Barbados Corporation ("Advanced") pursuant to which AREM received a license from Advanced to make, use, and sell fishing equipment utilizing certain of Advanced's technologies. The Carrot Stix line of fishing rods is sold in major box stores (such as Bass Pro, Gander Mountain, Cabela's and Academy) and smaller retailers across North America and internationally.

On April 25, 2008, AREM effected a 1 for 20 reverse stock split. All share and per share amounts in this report have been retroactively restated to reflect the 1 for 20 reverse split.

On January 14, 2010, the Company signed an exclusive Trademark License and Product Distribution Agreement ("License Agreement") with Zeroloft Corp. pursuant to which the Company received an exclusive license for the applications of the Zeroloft Aspen Aerogels patented technology in the sports apparel and footwear market.

On July 12, 2010, Element 21 Golf Company effected a re-domestication merger from the State of Delaware to the State of Nevada and changed its name to American Rare Earths and Materials, Corp.

The Company is subject to a number of risks similar to those of other companies in the early stages of operations. Principal among these risks are dependencies on key individuals, competition from other current or substitute products and larger companies, the successful marketing of its products and the need to obtain adequate additional financing necessary to fund future operations.

**AMERICAN RARE EARTHS AND MATERIALS, CORP. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 2 BASIS OF PREPARATION**

Pursuant to the rules and regulations of the Securities and Exchange Commission for Form 10-Q, the condensed consolidated financial statements, footnote disclosures and other information normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The condensed consolidated financial statements contained in this report are unaudited but, in the opinion of management, reflect all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the condensed consolidated financial statements. All significant inter-company accounts and transactions have been eliminated on consolidation. The results of operations for any interim period are not necessarily indicative of results for the full year. The condensed consolidated balance sheet at June 30, 2011 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

For further information, refer to the consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended June 30, 2011.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management reviews these estimates and assumptions on an ongoing basis using currently available information. Actual results could differ from those estimates.

Inventories, which consist primarily of goods held for resale, are stated at the lower of cost (weighted-average method) or market and are comprised as follows:

	March 31, 2012	June 30, 2011
Finished goods	\$ 1,061,189	\$ 1,207,345
Components	220,870	221,101

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	1,282,059	1,428,446
Less: Provision for obsolescence	(894,132 )	(891,730 )
	\$387,927	\$536,716

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**AMERICAN RARE EARTHS AND MATERIALS, CORP. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****NOTE 3 GOING CONCERN**

These condensed consolidated financial statements have been presented on the basis that the Company is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company began generating revenues in fiscal 2005. Even with the generation of revenues from the sale of golf and fishing products, the Company expects to incur expenses in excess of revenues for an indefinite period.

Key financial information follows:

	As at and for the nine months ended March 31, 2012	As at and for the year ended June 30, 2011
Negative working capital	\$(4,993,325 )	\$(4,140,970 )
Net loss	\$(1,353,290 )	\$(6,207,600 )
Accumulated deficit	\$(39,219,859)	\$(37,686,569)

As shown in the accompanying condensed consolidated financial statements, during the nine months ended March 31, 2012, the Company incurred a net loss of \$1,353,290 and used cash in operations during this period of \$283,533.

These factors, among others (Note 12), raise substantial doubt about the Company's ability to continue as a going concern. The unaudited condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company's continuation as a going concern is dependent upon its ability to generate sufficient cash flow and meet its obligations on a timely basis and ultimately attain profitability. Since acquiring the proprietary technology golf development business, the Company has depended on financings and consulting services from consultants engaged by



the Company some of whom have agreed to accept full or partial compensation for services with share-based compensation rather than cash.

Absent these continuing advances, services and financings, the Company could not continue with the development and marketing of its golf, fishing and Zeroloft products. Managements' plans for the Company include more aggressive marketing, obtaining additional capital to fund operations and other strategies designed to optimize stockholder value. However, no assurance can be given that management will be successful in fulfilling all components of its plan. The failure to achieve these plans will have a material adverse effect on the Company's consolidated financial position, results of operations and ability to continue as a going concern.

#### **NOTE 4 RECENT ACCOUNTING PRONOUNCEMENTS AFFECTING THE COMPANY**

There have been no recent accounting pronouncements or changes in accounting pronouncement that impacted the third quarter of fiscal 2012, or which are expected to impact future periods, which were not adopted and disclosed in prior periods.

**AMERICAN RARE EARTHS AND MATERIALS, CORP. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 5 RELATED PARTY ADVANCES AND LOANS PAYABLE**

As of March 31, 2012 and June 30, 2011, \$219,627 of trade payables was due to a Series A Convertible Preferred shareholder, ASA Commerce.

On November 23, 2009, the Board of Directors resolved to permit \$250,000 of debt due to the President to be converted into shares of common stock of the Company at \$0.45 per share. The Board of Directors further resolved that the remaining debt outstanding at November 23, 2009 of \$1,436,415 due to the President may be converted into shares of common stock of the Company at \$0.45 per share upon the Company's common stock reaching a price of \$1.50 per share. At March 31, 2012, \$2,077,806 (which was at June 30, 2011, \$1,942,806) was owed by the Company to the President.

At March 31, 2012, \$97,500 (which was at June 30, 2011, \$39,000) was due to the Chief Financial Officer in accrued compensation owing.

Amounts due to the President and Chief Financial Officer are payable on demand, non-interest bearing and unsecured. In absence of an earlier demand, amounts due are payable on June 30, 2016.

At March 31, 2012, \$263,488 (\$262,726 Canadian dollars ("CAD")) (which was at June 30, 2011, \$0) loan payable, including interest, is due to a director of the Company. The original loan was repayable in \$350,000 CAD, unsecured, due on demand and bears interest of 10%. The Company incurred interest expense of \$12,664 (which as at March 31, 2011, \$0) related to the loan payable. On March 22, 2012, the Company repaid \$100,720 (\$100,000 CAD). Subsequent to March 31, 2012, the Company paid an additional \$175,000 CAD and the Company and the director agreed that the remaining balance of \$75,000 CAD plus accrued interest was due and payable on or before July 1, 2012.

The Company entered into an unsecured promissory note of \$825,000 with a stockholder on May 27, 2008 with a stated interest rate of 10% and a repayment date of November 1, 2008. On October 12, 2010, the Company repaid the remaining outstanding principal balance of \$150,000. On January 20, 2011, all outstanding interest payable totaling \$141,953 related to the promissory note was fully paid in cash.

Dmitriy Sindalovsky has been contracted as an engineering consultant to the Company, specifically in support of the Company's scandium applications. Under the terms of his contract, during the nine months ended March 31, 2012 the Company issued 2,150,000 (2011 – 710,000) shares valued at \$237,750 (2011 - \$171,225). During the three months ended March 31, 2012 the Company issued 350,000 (2011 – 250,000) shares valued at \$14,000 (2011 – \$72,500). The value of these services are included in selling, general and administrative expenses in the condensed consolidated statement of operations for all periods presented.

Included in accrued expenses – related party at March 31, 2012, June 30, 2011 and 2010 are fees and unreimbursed expenses due to Dmitriy Sindalovsky of \$556,861. Amounts due to the consultant are payable on demand, non-interest bearing and unsecured. In absence of an earlier demand, amounts due are payable on June 30, 2016.

As disclosed in Note 12, in a legal claim commenced by Paritet Holdings Ltd. et al, on April 10, 2012, against two subsidiaries of the Company and other defendants, it has been alleged, among other things, that Dmitriy Sindalovsky controls ZT Holdings Limited and as a result has a controlling interest in Zeroloft Corp. AREM entered into a Trademark License and Product Distribution Agreement and Management Agreement (“Agreements”) with Zeroloft Corp. on January 14, 2010.

As a result of the Agreements, included in revenues on the condensed consolidated statement of operations for the nine months ended March 31, 2012 is the recovery of out of pocket expenses paid on behalf of Zeroloft Corp. and Zeroloft sales of \$102,658 (2011 - \$1,589,676). Cost of sales includes \$16,814 of expenditures related to Zeroloft activities (2011 - \$508,967) and general and administrative expenses includes \$85,844 of expenditures related to Zeroloft activities (2011 - \$1,056,028) and amortization of intangible asset of \$0 (2011 - \$392,086) and impairment of intangible asset of \$0 (2011 - \$3,140,943).

In addition, included in revenues on the condensed consolidated statement of operations for the three months ended March 31, 2012 is the recovery of out of pocket expenses paid on behalf of Zeroloft Corp. and Zeroloft sales of \$0 (2011 - \$719,078). Cost of sales includes \$0 of expenditures related to Zeroloft activities (2011 - \$285,435) and general and administrative expenses includes \$0 of expenditures related to Zeroloft activities (2011 - \$413,496) and amortization of intangible asset of \$0 (2011 - \$0) and impairment of intangible asset of \$0 (2011 - \$3,140,943).

**AMERICAN RARE EARTHS AND MATERIALS, CORP. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 5 RELATED PARTY ADVANCES AND LOANS PAYABLE (continued)**

As a result of the legal claim described in Note 12 and for further clarification of the alleged related party transactions as at June 30, 2011 and June 30, 2010, included in revenues on the consolidated statement of operations for the year ended June 30, 2011 is the recovery of out of pocket expenses paid on behalf of Zeroloft Corp. of \$1,592,616 (2010 - \$554,143) and Zeroloft sales of \$264,385 (2010 - \$135,663). Cost of sales includes \$585,047 of expenditures related to Zeroloft activities (2010 - \$135,027), and general and administrative expenses includes \$1,245,734 of expenditures related to Zeroloft activities (2010 - \$419,116) and amortization of intangible asset of \$392,085 (2010 - \$355,859) and impairment of intangible asset of \$3,140,944 (2010 - \$0).

On May 19, 2010, the Company issued and Zeroloft Corp. agreed to accept 306,122 shares of common stock to pay \$150,000 on the amount due to Zeroloft Corp. On September 1, 2010, the balance due to Zeroloft Corp. was decreased by \$442,912 by offsetting accrued receivable due to the Company by Zeroloft Corp. During the six months ended December 31, 2010, the Company and Zeroloft Corp. agreed to apply \$129,207 of stock-based compensation paid on behalf of Zeroloft Corp. against the amount due to Zeroloft Corp. At March 31, 2012, \$277,881 (June 30, 2011 - \$277,881, June 30 - 2010 - \$850,000) is due to Zeroloft Corp.

**NOTE 6 ROYALTY PAYABLE**

During the nine month period ended March 31, 2012, the Company incurred a royalty expense of \$294,408 (which was at March 31, 2011, \$305,014) for the sale of fishing equipment which is included in cost of sales. The royalty is calculated as 20% of the net selling price of fishing products sold by the Company and any sub licensee. The royalty is payable to Advanced. During the nine months ended March 31, 2012, the Company paid \$0 (March 31, 2011 - \$0) to Advanced. Royalty payable at March 31, 2012 is \$1,859,155 (which was at June 30, 2011, \$1,564,748).

**NOTE 7 LOSS PER SHARE**

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Basic loss per share is computed by dividing net loss by the weighted average number of common shares outstanding for the periods. Diluted loss per share reflects, in addition to the weighted average number of common shares, the potential dilution of stock options and warrants outstanding, exercised and/or converted into common stock, unless the effect of such equivalent shares was anti-dilutive.

For the nine months ended March 31, 2012 and 2011, the effect of stock options and other potentially dilutive shares was excluded from the calculation of diluted loss per common share, as their inclusion would have been anti-dilutive. Therefore, diluted loss per share is equal to basic loss per share. Such securities, shown below, presented on a common share equivalent basis and outstanding as at March 31, 2012 and 2011 have been excluded from the three month diluted loss per share computations:

	March 31, 2012	March 31, 2011
Warrants	840,985	2,690,985
Convertible Preferred stock	6,414,488	2,380,326
Due to Related Party	3,747,590	3,747,590
Stock Options	425,000	425,000

**AMERICAN RARE EARTHS AND MATERIALS, CORP. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 8 SHAREHOLDERS' EQUITY**

During the nine months ended March 31, 2012, the Company issued 5,865,703 shares of its common stock to consultants for services rendered by them for an aggregate fair value of \$487,928 based on the quoted market price of the shares at time of issuance.

On July 1, 2011, the Company issued 368,158 shares of its common stock valued at \$60,000 to the holders of the Series B Convertible Preferred Stock for accrued dividends through June 30, 2011.

On October 3, 2011, the Company issued 655,492 shares of its common stock valued at \$60,000 to the holders of the Series B Convertible Preferred Stock for accrued dividends through September 30, 2011.

At January 3, 2012, the Company issued 1,224,500 shares of its common stock valued at \$60,000 to the holders of the Series B Convertible Preferred Stock for accrued dividends through December 31, 2011.

On October 1, 2011, 250,000 warrants with an exercise price of \$1.00 expired.

On January 1, 2012, 600,000 warrants with an exercise price of \$0.12 expired.

On January 20, 2012, 350,000 warrants with an exercise price of \$0.45, 350,000 warrants with an exercise price of \$0.75, 200,000 warrants with an exercise price of \$1.00 and 100,000 warrants with an exercise price of \$1.50 expired.

**AMERICAN RARE EARTHS AND MATERIALS, CORP. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 9 STOCK OPTION PLANS**

As of March 31, 2012, there are three stock option plans in effect; the 1992 Directors' Stock Option Plan ("Directors' Plan"), 1992 Stock Option Plan ("Option Plan"), the 2006 Equity Incentive Plan ("Incentive Plan") and 2011 Equity Compensation Plan ("Compensation Plan").

**Directors' Plan**

The Directors' Plan allows for the grant of options to purchase up to 12,500 shares of the Company's common stock at an exercise price no less than the stock market price at the date of grant. Options granted under this plan vest immediately and expire 10 years from the date of grant. The Board sets vesting and expiration dates. No stock options have been granted under this plan since 2002. There were no stock options to purchase shares of common stock outstanding under the Directors' Plan.

**Option Plan**

The Option Plan allows for the grant of options to employees to purchase up to 10% of the issued and outstanding shares of the Company, not to exceed 50,000 shares, at an exercise price equal to the stock's market price at the date of grant. The Board sets vesting and expiration dates. There were no stock options outstanding under the Option Plan at March 31, 2012. No stock options have been granted under this plan since 2002.

**Incentive Plan**

The Incentive Plan allows for the grant of options to employees, officers, directors, consultants, advisors of the Company and to any other person who is determined by the Board of Directors to have made (or is expected to make) contributions to the Company. The number of common stock that may be issued under the Incentive Plan is 1,000,000 shares. No participant of the Incentive Plan may be awarded more than 500,000 shares of common stock in any one fiscal year. The exercise price cannot be less than 100% of the fair market value of the common stock on the date of the grant and may not have a life greater than ten years from the date of grant. In the case of a shareholder representing more than 10% of the voting power of all classes of shares of the Company, the exercise price cannot be less than 110% of the fair market value of the common stock on the date of the grant and may not have a life greater than five years from the date of grant. At March 31, 2012, options to purchase 425,000 shares of common stock were

outstanding under the Incentive Plan.

### Compensation Plan

The Compensation Plan provides a flexible framework that will permit the Board of Directors of the Company to develop and implement a variety of stock-based compensation programs based on the need to engage and retain officers, employees, director and consultant, the changing needs of the Company, its competitive market, and regulatory climate. The number of common stock awards that may be issued under the Compensation Plan is 9,000,000 shares of common stock in a calendar year. An award means a restricted stock award, a restricted stock unit award, a performance award, a dividend equivalent award, a deferred stock award, a stock payment award, an option award or warrant award. The exercise price of an award cannot be less than 100% of the fair market value of the common stock on the date of the grant and may not have a life greater than ten years from the date of grant. No stock options have been granted under this plan.

The following is a summary of the common stock options granted, forfeited or expired and exercised:

	Number of Options	Weighted Average Exercise Price Per Share
Outstanding – July 1, 2010	425,080	\$ 0.50
Granted	-	-
Forfeited or expired	(80 )	25.00
Exercised	-	-
Outstanding - June 30, 2011 and March 31, 2012	425,000	\$ 0.50

The following table summarizes information on stock options outstanding and exercisable as of March 31, 2012:

<u>Exercise Price</u>	<u>Number Outstanding at March 31, 2012</u>	<u>Average Remaining Life (Years)</u>	<u>Aggregate Aggregate Intrinsic Value</u>
\$0.50	425,000	0.13	-



**AMERICAN RARE EARTHS AND MATERIALS, CORP. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 10 RISK MANAGEMENT**

Credit risk

The Company is subject to risk of non-payment of its trade accounts receivable. For the nine months ended March 31, 2012, three customers (which was as of March 31, 2011, four customers) represent approximately 73% of revenues (which was as of March 31, 2011, 73%), and three customers represent approximately 82% (which was as of March 31, 2011, 78%) of the total outstanding accounts receivable as of March 31, 2012. Management continually monitors its credit terms with customers to reduce credit risk exposure.

**NOTE 11 FAIR VALUE MEASUREMENTS**

The Company adopted FASB ASC 820 for all financial assets and liabilities measured at fair value on a recurring basis. The Company adopted FASB ASC 820 effective July 1, 2009 for all non-financial assets and liabilities. FASB ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. The statement establishes market or observable inputs as the preferred sources of values, followed by assumptions based on hypothetical transactions in the absence of market inputs. The statement requires fair value measurements be classified and disclosed in one of the following categories:

Level 1 – Quoted prices in active markets for identical assets and liabilities.

Level 2 – Quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 – Significant inputs to the valuation model are unobservable.

Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement.

The carrying amounts on the accompanying condensed consolidated balance sheet for cash and cash equivalents, accounts receivable, accounts payable, accounts payable – related parties, royalty payable, accrued expenses, accrued expenses – related parties and current debt are carried at cost, which approximates market value.

**AMERICAN RARE EARTHS AND MATERIALS, CORP. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 12 CONTINGENCIES**

**Legal Matters**

The Company is involved in litigation claims arising in the ordinary course of business. Legal fees and other costs associated with such actions are expensed as incurred. In addition, the Company assesses, in conjunction with its legal counsel, the need to record a liability for litigation and contingencies. The Company reserves for costs relating to these matters when a loss is probable and the amount can be reasonably estimated. The Company believes that the ultimate disposition of these matters will not have a material effect on its financial position, results of operations or cash flows. However, the amount of future reserves required associated with these claims, if any, cannot be determined with certainty.

On April 10 2012, a claim was commenced by Paritet Holding Ltd. and Contour Finance Limited (“Plaintiffs”) against Nataliya Hearn, the CEO of the Company, and two wholly subsidiaries of the Company, Element 21 Golf Canada Inc. and Element 21 Sports Inc. (“AREM Defendants”) and against ZT Holding Limited, DIY Group Ltd. Dmitriy Sindalovsky and Ilya Opreko (“Other Defendants”). The claim is brought in the Ontario Superior Court of Justice Court File No CV-12-450806, Province of Ontario, Canada. The Plaintiffs allege that two of the Other Defendants, Sindalovsky and Opreko, induced them through misrepresentations to invest approximately \$4 million in an aerogel clothing insulation business known as "ZeroLoft". They further alleged that money that was supposed to go to increasing ZeroLoft's production capacity in South Korea but the funds were misappropriated and sent to other corporations controlled by Sindalovsky or to one of the AREM Defendants (see Note 5). There are no allegations of misrepresentation against the AREM Defendants. While monetary relief is claimed against the Other Defendants, the Plaintiffs are seeking from the AREM Defendants the following:

- a) An accounting of the AREM Defendant's assets, effects and property and all of the dealings and transaction between AREM Defendants and Other Defendants;
- b) An interlocutory and permanent injunction restraining the AREM Defendants from disposing of any of their assets;
- c) A declaration that the Plaintiffs are entitled to trace any monies obtained from the Plaintiffs in, to and through any financial institution, accounts or deposit facilities in the name of the AREM Defendants and in, to or through any

assets purchased by the AREM Defendants with the Plaintiffs money and to recover the same; and

- d) A declaration that to the extent that the AREM Defendants hold any funds, or assets purchased from funds, which have been misappropriated from the Plaintiffs, they do so as constructive trustees.

The Plaintiffs also seek a declaration that they maintain proprietary interests in the any proceeds of funds fraudulently obtained from them by any of the defendants or the proceeds derived from such funds, including any assets purchased with the proceeds. The action is in its very preliminary stages and, as a result, we are unable to estimate a potential loss or range of loss, if any, at this time.

In December 2011, McGuire Tax & Finance Inc. (“McGuire”), filed suit against the Company in the Superior Court of the State of New Hampshire Hillsborough County Southern District. The Plaintiff is seeking cash of \$150,961 inclusive of fees and services charges based upon alleged breach of contract. The action is in its very preliminary stages. As a result, we are unable to estimate a potential loss or range of loss, if any, at this time.

In December 2011, Ellenoff Grossman & Schole LLP, former attorney of the Company, (“Ellenoff”) filed suit against the Company in the Supreme Court of the State of New York, County of New York. Ellenoff is seeking cash of \$94,419, plus cost and interest based upon alleged breach of contract. While the Company believes that it has meritorious defenses, the ultimate resolution of the matter could result in a loss of up to \$17,000 in excess of the amount accrued in the condensed consolidated financial statements.

In March 2011, John Grippo, the former CFO of the Company, and John Grippo Inc. (“Grippo”) filed suit against the Company in the Superior Court in the County of Westchester, New York. Grippo is seeking in excess of \$75,000 in damages and prejudgment interest related to allegations involving breach of contract. The Company believes the claim is without merit and is vigorously defending the lawsuit and has filed a counterclaim in excess of \$375,000 plus costs. On March 13, 2011, Grippo obtained a temporary restraining order over our bank accounts held at JP Morgan Chase and Bank of America. As such, included in cash and cash equivalents is restricted cash of \$81,050 and \$79,842 at March 31, 2012 and June 30, 2011, respectively.

In June 2011, Rick Smith Enterprises, Inc. (“Smith”) filed a complaint against the Company in the Circuit Court of the Ninth Judicial Circuit of the State of Florida in and for Orange County Civil Division. Smith is seeking cash of \$175,000 and shares of common stock of the Company valued at \$175,000 plus costs and interest for allegations involving breach of contract. Smith is also seeking additional cash of \$100,000 and shares of common stock of the Company valued at \$100,000 for alleged continuing and anticipatory breach of contract. The action is in its very preliminary stages. As a result, we are unable to estimate a potential loss or range of loss, if any, at this time.

**AMERICAN RARE EARTHS AND MATERIALS, CORP. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 13 SUBSEQUENT EVENTS**

From April 1, 2012 to May 9, 2012, the Company issued 561,112 shares of its common stock to consultants for an aggregate value of \$17,500 based on the quoted market price of the shares at time of issuance.

On April 2, 2012, the Company issued 1,463,426 shares of its common stock to holders of Series B Convertible Preferred Stock for accrued dividends of \$60,000 through March 31, 2012.

Such issuances of securities of the Company were made pursuant to the exemptions from registration contained in Rule 4(2) of the Securities Act of 1933, as amended (the "Securities Act").

Subsequent to March 31, 2012, the Company paid \$175,000 CAD on the loan payable to a director and the Company and the director agreed that the remaining balance of \$75,000 CAD plus accrued interest was due and payable on or before July 1, 2012.

**ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**CAUTIONARY NOTE ON FORWARD LOOKING STATEMENTS**

In addition to historical information, this Quarterly Report on Form 10-Q contains forward looking statements regarding our business and performance that are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in such forward looking statements. In some cases, you can identify forward looking statements by terminology such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “projects,” “potential,” “proposed,” “intended,” or “continue” or the negative of these terms or other comparable terminology. Readers are cautioned not to place undue reliance on these forward looking statements, which reflect management’s opinions only as of the date thereof. In evaluating such forward looking statements, readers should carefully review the discussion of risks and uncertainties in this Quarterly Report on Form 10-Q and in our most recent Annual Report on Form 10-K as well as in other filings with the Securities and Exchange Commission regarding, without limitation, statements about our business plans, statements about the potential for the development, and public acceptance of new products, estimates of future financial performance, predictions of national or international economic, political or market conditions, statements regarding other factors that could affect our future operations or financial condition, and other statements that are not matters of historical fact. Our ability to achieve our goals depends on many known and unknown risks and uncertainties, including changes in general economic and business conditions. Although we believe that the expectations reflected in the forward looking statements are reasonable, we cannot guarantee future results, growth rates, and levels of activity, performance or achievements. Except as expressly required by the federal securities laws, there is no undertaking to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason.

The discussion of risks and uncertainties may be found under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” set forth in this Quarterly Report on Form 10-Q and in our most recent Annual Report on Form 10-K as well as in other filings with the SEC, is not necessarily a complete or exhaustive list of all risks facing the Company at any particular point in time. These forward looking statements speak only as of the date of this Form 10-Q and we disclaim any obligation to revise or update any forward looking statement that may be made from time to time by us or on our behalf.

**Overview**

Since 2002, our Company has been commercializing Rare Earths and advanced materials. This led to a vertical integration that began with the extraction of pure Scandium and other Rare Earths applications in the form of extruded, rolled or forged products and components. Today, that expertise has positioned us to become a leader in

commercializing Rare Earths and advanced materials and quickly delivering revolutionary new products to consumer and industrial markets. Our objective is to become North America's best, most reliable source for Rare Earths and provide solutions to their applications. We are developing opportunities to distribute Rare Earths like Scandium, Neodymium, Europium and Lithium that will help major industries launch major industrial brands such as hybrid cars, flat screen televisions, LED light bulbs and wind turbines. We will also have significant exposure to large market categories such as transportation, shipbuilding, power transmission, automotive and aerospace.

The first products manufactured using the Company's proprietary golf technology have been produced and the Company commenced distribution to wholesalers and retail markets during the last quarter of its fiscal year ended June 30, 2006. In June, 2007 the Company expanded its sales into recreational fishing equipment.

In January 2010, the Company entered into a Trademark License, Product Distribution Agreement and Management Agreement with Zeroloft Corp. Within the field of sportswear apparel, footwear and related sports specialty items, the Company obtained: (i) an exclusive license to the Zeroloft Aspen Aerogels trademarks; and (ii) a limited, worldwide, exclusive right to distribute the products bearing the Zeroloft Aspen Aerogels Trademark for production and sales of items in such field. The License Agreement has a term of five years, which term is automatically renewable for one year terms.

Our business, financial condition, cash flows and results from operations are subject to seasonality resulting from factors such as weather and spending patterns. Due to seasonality of our business, one quarter's results are not indicative of the full fiscal year's expected financial results. A majority of our revenue is earned in the third and fourth quarters of the year and revenues generally decline in the first and second quarters.

On January 9, 2012, the Company incorporated a wholly owned subsidiary, Rare Eagle Corp. ("Rare Eagle"), under the laws of the State of Nevada. Rare Eagle was incorporated for the purpose of transferring certain assets, liabilities and operations of the Company, which have yet been determined, for the purpose of improving accountability of operations. Rare Eagle Corp. currently does not have assets, liabilities or operations.

### **Going Concern Status**

Our financial statements have been prepared on a going concern basis which contemplates the realization of assets and the liquidation of liabilities in the ordinary course of business. The Company has incurred substantial losses from operations and it has negative operating cash flow which raises substantial doubt about its ability to continue as a going concern. The Company sustained a net loss of \$1,353,290 for the nine months ended March 31, 2012 and an accumulated deficit of \$39,219,859 as of March 31, 2012.

We intend to continue our investment in the development of our Rare Earths business and other business lines, but we do not have sufficient realized revenues in order to finance these activities internally. As such, we intend to seek capital in order to fund our working capital and capital expenditure needs. We can provide no assurance that we will be able to obtain sufficient additional funds to develop and sustain our businesses and alleviate doubt about our ability to continue as a going concern. We cannot be certain that additional funds, even if available, will be on acceptable terms. To the extent the Company raises additional funds by issuing equity securities, our stockholders may experience significant dilution. Any debt financing, if available, may involve restrictive covenants that impact our ability to conduct business. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### **Results of Operations**

#### **Three Months Ended March 31, 2012 and 2011**

For the three months ended March 31, 2012, the Company had revenue of \$775,822 which includes non-cash barter revenue of \$399 and reimbursement of out-of-pocket costs incurred on behalf Zeroloft Corp. of \$0 which is a decrease of 54% over the prior year's revenues for the comparable period of \$1,685,146 which includes non-cash barter revenue of \$4,849 and reimbursement of out-of-pocket costs incurred on behalf Zeroloft Corp. of \$719,078. This decrease is primarily the result of a decrease in the reimbursement of out-of-pocket costs incurred on behalf of Zeroloft and sales of Zeroloft products of \$719,078 in the current period. Fishing sales for the three month period ended March 31, 2012 decreased by \$189,077 when compared to the three month period ended March 31, 2011.

For the three months ended March 31, 2012, the Company incurred costs of sales of \$655,019 which is a decrease of 50% over the prior year's costs of sales of \$1,314,027. This decrease is primarily the result of decrease in the reimbursement of out-of-pocket costs in revenue.



For the three months ended March 31, 2012, the Company incurred general and administrative expenses of \$519,079, which is a decrease of 88% of general and administrative expenses for the comparable period in the prior year of \$4,450,630. Included in general and administrative expense is a non-cash charge of \$65,000 representing the value of compensatory common stock and warrants for services provided by consultants, representing a decrease in these non-cash charges over the prior year period of \$334,339. The decrease in general and administrative expenses is primarily the result of a decrease in professional fees paid for investor relations, a decrease in amortization and impairment expense of an intangible asset and a decrease in expenses paid on behalf of and recovered from Zeroloft Corp.

For the three month period ended March 31, 2012, the Company recognized interest income of \$0, and incurred interest expense of \$8,416, as compared to interest income of \$1, and interest expense of \$0, for the comparable prior year period. Interest expense relates to accrued interest on loan payable to a director.

Accordingly, for the three months period ended March 31, 2012, the Company had a net loss of \$406,692, as compared with the three month period ended March 31, 2011 in which the Company had a net loss of \$4,079,510, or a decrease of 90%, as a result of the decrease in general and administrative expenses noted above.

#### **Nine months Ended March 31, 2012 and 2011**

For the nine months ended March 31, 2012, the Company had revenue of \$1,918,065 which includes non-cash barter revenue of \$1,139 and reimbursement of out-of-pocket costs incurred on behalf Zeroloft Corp. of \$102,658 which is a decrease of 44% over the prior year's revenues for the comparable period of \$3,428,047 which includes non-cash barter revenue of \$6,946 and reimbursement of out-of-pocket costs incurred on behalf Zeroloft Corp. of \$1,589,676. This decrease is primarily the result of a decrease in the reimbursement of out-of-pocket costs incurred on behalf of Zeroloft and sales of Zeroloft products of \$1,487,018 in the current period. Fishing sales for the nine month period ended March 31, 2012 decreased by \$7,520 when compared to the nine month period ended March 31, 2011.

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For the nine months ended March 31, 2012, the Company incurred costs of sales of \$1,510,803 which is a decrease of 32% over the prior year's costs of sales of \$2,211,880. This decrease is primarily the result of decrease in the reimbursement of out-of-pocket costs in revenue.

For the nine months ended March 31, 2012 the Company incurred general and administrative expenses of \$1,747,888, which is a decrease of 76% of general and administrative expenses for the comparable period in the prior year of \$7,150,660. Included in general and administrative expense is a non-cash charge of \$487,928 representing the value of compensatory common stock and warrants for services provided by consultants, representing an increase in these non-cash charges over the prior year period of \$721,504. The decrease in general and administrative expenses is primarily the result of a decrease in professional fees paid for investor relations, a decrease in amortization expense of an intangible asset and a decrease in expenses paid on behalf of and recovered from Zeroloft Corp.

For the nine month period ended March 31, 2012, the Company recognized interest income of \$0, and incurred interest expense of \$12,664, as compared to interest income of \$297, and interest expense of \$4,329, for the comparable prior year period. Interest expense relates to accrued interest on loan payable to a director.

Accordingly, for the nine months period ended March 31, 2012, the Company had a net loss of \$1,353,290, as compared with the nine month period ended March 31, 2011 in which the Company had a net loss of \$5,938,525, or a decrease of 77%, as a result of the decrease in general and administrative expenses noted above.

Our net accounts receivable balances were \$546,922, \$492,240 and \$764,301 at March 31, 2012, June 30, 2011 and March 31, 2011, respectively. The decrease in accounts receivable compared to March 31, 2011 is primarily due to decrease in fishing sales during the three months ended March 31, 2012. The Company is subject to risk of non-payment of its trade accounts receivable. For the nine months ended March 31, 2012, three customers (which was as of March 31, 2011, four customers) represent approximately 73% of revenues (which was as of March 31, 2011, 73%), and three customers represent approximately 82% (which was as of March 31, 2011, 78%) of the total outstanding accounts receivable as of March 31, 2012. Management continually monitors its credit terms with customers to reduce credit risk exposure.

Our net inventory balances were \$387,927, \$536,716 and \$522,315 at March 31, 2012, June 30, 2011 and March 31, 2011, respectively. The decrease in our inventory balance is primarily a result of decreased purchases of fishing rods during the three months ended March 31, 2012. We concentrate our new purchases of inventory on where we anticipate our future sales; golf shafts and our bestselling SKUs.

Our royalty payable and accrued expenses were in total \$4,725,624 and \$4,056,463 at March 31, 2012 and June 30, 2011, respectively. The increase in the balances is primarily due to unpaid royalties to Advanced Light Alloys and unpaid compensation to senior management. The royalty is calculated as 20% of the net selling price of fishing products sold by the Company and any sub licensee.

### **Financial Condition, Liquidity and Capital Resources**

The Company has negative working capital as of March 31, 2012 of \$4,993,325. The Company retains consultants to perform development and public company reporting activities in exchange for stock of the Company. At June 30, 2011, we had a working capital deficiency of \$4,140,970. Our working capital deficiency is largely due to unpaid royalties and unpaid management compensation. Our continuation as a going concern will require that we raise significant additional capital. Included in accrued expenses is \$2,175,306 owed by the Company to the President and Chief Financial Officer (which was at June 30, 2011, \$1,942,806). There is no assurance that consultants will continue to accept stock compensation for services. If consultants discontinue accepting stock compensation we may not be able to continue to retain the services of such consultants.

During the nine months ended March 31, 2012, the Company received cash from financing activities of \$335,755 (\$350,000 Canadian dollars) which are proceeds of a loan from a director of the Company. At March 31, 2012, \$263,488 remained outstanding, including interest. The loan repayable is \$350,000 Canadian dollars, unsecured, due on demand and bears interest of 10%. The Company incurred interest expense of \$12,664 related to the loan. Subsequent to March 31, 2012, the Company paid an additional \$175,000 CAD and the Company and the director agreed that the remaining balance of \$75,000 CAD plus accrued interest was due and payable on or before July 1, 2012.

Absent continued stock payment for services to our consultants and continued advances by stockholders of the Company, the Company cannot manufacture its golf shaft or fishing product lines or market its products based on its technologies or continue as a going concern.

Although the Company has previously been able to raise capital as needed, such capital may not continue to be available at all, or if available, that the terms of such financing will not be dilutive to existing stockholders or otherwise on terms not favorable to the Company or existing stockholders. Further, the current global financial situation may offer additional challenges to raising the required capital. If the Company is unable to secure additional capital, as circumstances require, it may not be able to continue operations.

If adequate funds are not available or not available on acceptable terms, we may be unable to continue operations; develop, enhance and market products, retain qualified personnel; take advantage of future operations; or respond to competitive pressures, any of which could have a material adverse effect on our business; operating results; financial condition and/or liquidity.



### **Recent Accounting Pronouncements**

See Note 4 “Recent Accounting Pronouncements Affecting the Company” to the Notes to Condensed Consolidated Financial Statements in Item 1 for a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on results of operations and financial condition, which is incorporated herein.

### **Dividend Policy**

The Company has not declared or paid any cash dividends on its common stock since its inception and does not anticipate the declaration or payment of cash dividends in the foreseeable future. The Company intends to retain earnings, if any, to finance the development and expansion of its business. The Company is prohibited from paying dividends on common stock as long as there are any unpaid accrued dividends due to the Series B Convertible Preferred stock stockholders. Therefore, there can be no assurance that dividends of any kind will ever be paid. Pursuant to the Amended and Restated Certificate of the Powers, Designations, Preferences and Rights of the Series B Convertible Preferred stock of the Company, we are required to pay dividends on our Series B Stock. We paid dividends on our Series B Stock this quarter and we expect to continue to pay such dividends in the form of the Company’s common stock.

### **Effect of Inflation**

Management believes that inflation has not had a material effect on its operations for the periods presented.

### **Climate Change**

Management believes that neither climate change, nor governmental regulations related to climate change, have had, or are expected to have, any material effect on our operations.

### **Critical Accounting Policies**

The preparation of our consolidated financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires the use of estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, and provide a basis for making judgments about the carrying value of assets and liabilities that are not readily available through open market quotes. Estimates and assumptions are reviewed periodically, and actual results may differ from those estimates under different assumptions or conditions. We must use our judgment related to uncertainties in order to make these estimates and assumptions.

For a description of our critical accounting policies and estimates as well as certain sensitivity disclosures related to those estimates, see our Annual Report on Form 10-K for the year ended June 30, 2011. Our critical accounting policies and estimates have not changed materially during the nine months ended March 31, 2012.

### **Off Balance Sheet Arrangements**

None

### **ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

## **ITEM 4 CONTROLS AND PROCEDURES:**

### *Evaluation of Disclosure Controls and Procedures*

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, (together, the “Certifying Officers”), we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based on the foregoing, our Certifying Officers concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our Certifying Officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

### *Changes in Internal Control over Financial Reporting*

There have not been any changes in the Company’s internal control over financial reporting identified in connection with the evaluation of the Company’s last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

## **PART II - OTHER INFORMATION**

### **ITEM 1 LEGAL PROCEEDINGS**

On April 10 2012, a claim was commenced by Paritet Holding Ltd. and Contour Finance Limited (“Plaintiffs”) against Nataliya Hearn, the CEO of the Company, and two wholly subsidiaries of the Company, Element 21 Golf Canada Inc. and Element 21 Sports Inc. (“AREM Defendants”) and against ZT Holding Limited, DIY Group Ltd. Dmitriy

Sindalovsky and Ilya Oprenko (“Other Defendants”). The claim is brought in the Ontario Superior Court of Justice Court File No CV-12-450806, Province of Ontario, Canada. The Plaintiffs allege that two of the Other Defendants, Sindalovsky and Oprenko, induced them through misrepresentations to invest approximately \$4 million in an aerogel clothing insulation business known as "Zeroloft". They further alleged that money that was supposed to go to increasing Zeroloft's production capacity in South Korea but the funds were misappropriated and sent to other corporations controlled by Sindalovsky or to one of the AREM Defendants. There are no allegations of misrepresentation against the AREM Defendants. While monetary relief is claimed against the Other Defendants, the Plaintiffs are seeking from the AREM Defendants the following:

- a) An accounting of the AREM Defendant’s assets, effects and property and all of the dealings and transaction between AREM Defendants and Other Defendants;
- b) An interlocutory and permanent injunction restraining the AREM Defendants from disposing of any of their assets; A declaration that the Plaintiffs are entitled to trace any monies obtained from the Plaintiffs in, to and through any
- c) financial institution, accounts or deposit facilities in the name of the AREM Defendants and in, to or through any assets purchased by the AREM Defendants with the Plaintiffs money and to recover the same; and
- d) A declaration that to the extent that the AREM Defendants hold any funds, or assets purchased from funds, which have been misappropriated from the Plaintiffs, they do so as constructive trustees.

The Plaintiffs also seek a declaration that they maintain proprietary interests in the any proceeds of funds fraudulently obtained from them by any of the defendants or the proceeds derived from such funds, including any assets purchased with the proceeds. The action is in its very preliminary stages and, as a result, we are unable to estimate a potential loss or range of loss, if any, at this time.

In December 2011, McGuire Tax & Finance Inc. (“McGuire”), filed suit against the Company in the Superior Court of the State of New Hampshire Hillsborough County Southern District. The Plaintiff is seeking cash of \$150,961 inclusive of fees and services charges based upon alleged breach of contract. The action is in its very preliminary stages. As a result, we are unable to estimate a potential loss or range of loss, if any, at this time.



In December 2011, Ellenoff Grossman & Schole LLP, former attorney of the Company, (“Ellenoff”) filed suit against the Company in the Supreme Court of the State of New York, County of New York. Ellenoff is seeking cash of \$94,419, plus cost and interest based upon alleged breach of contract. While the Company believes that it has meritorious defenses, the ultimate resolution of the matter could result in a loss of up to \$17,000 in excess of the amount accrued in the condensed consolidated financial statements.

In March 2011, John Grippo, the former CFO of the Company, and John Grippo Inc. (“Grippo”) filed suit against the Company in the Superior Court in the County of Westchester, New York. Grippo is seeking in excess of \$75,000 in damages and prejudgment interest related to allegations involving breach of contract. The Company believes the claim is without merit and is vigorously defending the lawsuit and has filed a counterclaim in excess of \$375,000 plus costs. On March 13, 2011, Grippo obtained a temporary restraining order over our bank accounts held at JP Morgan Chase and Bank of America. As such, included in cash and cash equivalents is restricted cash of \$81,050 and \$78,198 at March 31, 2012 and June 30, 2011, respectively.

In June 2011, Rick Smith Enterprises, Inc. (“Smith”) filed a complaint against the Company in the Circuit Court of the Ninth Judicial Circuit of the State of Florida in and for Orange County Civil Division. Smith is seeking cash of \$175,000 and shares of common stock of the Company valued at \$175,000 plus costs and interest for allegations involving breach of contract. Smith is also seeking additional cash of \$100,000 and shares of common stock of the Company valued at \$100,000 for alleged continuing and anticipatory breach of contract. The action is in its very preliminary stages. As a result, we are unable to estimate a potential loss or range of loss, if any, at this time.

## **ITEM 1A RISK FACTORS**

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended June 30, 2011, except the following:

*The market price of our common stock may limit its eligibility for clearing house deposit.*

We are advised that if market price for shares of our common stock is less than \$0.10 per share, Depository Trust Company and other securities clearing firms may decline to accept our shares for deposit and refuse to clear trades in our securities. This would materially and adversely affect the marketability and liquidity of our shares and, accordingly may materially and adversely affect the value of an investment in our common stock.

**Item 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

During the three months ended March 31, 2012, the Company issued 350,000 shares of its common stock to consultants for services rendered and to be rendered by them and for an aggregate value of \$14,000. The shares were issued in reliance on exemptions from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended (the "Act").

At January 3, 2012, the Company issued 1,224,500 shares of its common stock valued at \$60,000 to the holders of the Series B Convertible Preferred stock for accrued dividends through December 31, 2011. The shares were issued in reliance upon the exemption from registration pursuant to Section 3(a)(9) of the Act.

**Item 3 DEFAULT UPON SENIOR SECURITIES**

None

**ITEM 4 Mine safety disclosures**

Not applicable

**ITEM 5 OTHER INFORMATION**

From April 1, 2012 to May 9, 2012, the Company issued 561,112 shares of its common stock to consultants for an aggregate value of \$17,500 based on the quoted market price of the shares at time of issuance.

On April 2, 2012, the Company issued 1,463,426 shares of its common stock to holders of Series B Convertible Preferred Stock for accrued dividends of \$60,000 through March 31, 2012.

Such issuances of securities of the Company were made pursuant to the exemptions from registration contained in Rule 4(2) of the Securities Act of 1933, as amended (the "Securities Act").



**Item 6**            **EXHIBITS**

Exhibit No.    Exhibit Description

- 3(i)(1)        Amended Certificate of Incorporation of the Company, incorporated herein by reference to the Company's Registration Statement on Form S-1, as amended, File No. 33-43976 filed on November 14, 1991.
  
- 3(i)(2)        Certificate of Amendment to Amended Certificate of Incorporation of the Company, incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K dated May 12, 2006.
  
- 3(i)(3)        Certificate of the Powers, Designations, Preferences and Rights of the Series A Convertible Preferred Stock, \$0.10 par value per share, incorporated herein by reference to Exhibit 4.1 to the Company's Form 8-K dated February 24, 2006.
  
- 3(i)(4)        Certificate of the Powers, Designations, Preferences and Rights of the Series B Convertible Preferred Stock, \$0.10 par value per share, incorporated herein by reference to Exhibit 3(i) to the Company's Form 8-K dated August 3, 2006.
  
- 3(i)(5)        Certificate of the Powers, Designations, Preferences and Rights of the Series B Convertible Preferred Stock, \$0.10 par value per share, incorporated herein by reference to Exhibit 3(i) to the Company's Form 8-K dated June 18, 2007.
  
- 3(i)(6)        Amended and Restated Certificate of the Powers, Designations, Preferences and Rights of the Series B Convertible Preferred Stock, \$0.10 par value per share, dated July 10, 2009, incorporated herein by reference to Exhibit 4.12 to the Company's Form 8-K filed on August 3, 2009.
  
- 3(ii)(1)       Amended and Restated Bylaws of the Company, incorporated herein by reference to the Company's Registration Statement on Form S-1, as amended, File No. 33-43976 filed on November 14, 1991.
  
- 3(ii)(2)       Certificate of Amendment to the Certificate of Incorporation of the Company to effectuate a 1 for 20 reverse stock split of the Company's issued and outstanding shares of common stock, incorporated herein by reference to the Company's Form 8-K dated April 24, 2008.
  
- 3(iii)        Audit Committee Charter, incorporated by reference to Exhibit 3(iii) to the Company's Form 10-K, filed on September 24, 2010.
  
- 4.1            Form of Element 21 Golf Company 10% Convertible Promissory Note, incorporated herein by reference to Exhibit 4.2 to the Company's Form 8-K dated February 24, 2006.
  
- 4.2            Element 21 Golf Company 10% Convertible Promissory Note issued to Oleg Muzyrya, incorporated herein by reference to Exhibit 4.3 to the Company's Form 8-K dated February 24, 2006.
  
- 4.3            Common Stock Purchase Warrant, incorporated herein by reference to Exhibit 4.4 to the Company's Form 8-K dated February 24, 2006.

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- 4.4 Form of Element 21 Golf Company 10% Convertible Promissory Note, incorporated herein by reference to Exhibit 4.1 to the Company's Form 8-K dated May 23, 2006.
- 4.5 Common Stock Purchase Warrant, incorporated herein by reference to Exhibit 4.2 to the Company's Form 8-K dated May 23, 2006.
- 4.6 Form of Warrant for Purchase of 3,750,000 Shares of Common Stock dated July 31, 2006, incorporated herein by reference to Exhibit 4.1 to the Company's Form 8-K dated August 3, 2006.
- 4.7 Form of Warrant for Purchase of 5,073,530 Shares of Common Stock dated July 31, 2006, incorporated herein by reference to Exhibit 4.2 to the Company's Form 8-K dated August 3, 2006.

- 4.8 Form of Warrant for Purchase of 3,750,000 Shares of Common Stock dated July 31, 2006, incorporated herein by reference to Exhibit 4.1 to the Company's Form 8-K dated December 1, 2006.
- 4.9 Form of Warrant for Purchase of 5,073,530 Shares of Common Stock dated July 31, 2006, incorporated herein by reference to Exhibit 4.2 to the Company's Form 8-K dated December 1, 2006.
- 4.10 Common Stock Purchase Warrant, incorporated herein by reference to Exhibit 4.1 to the Company's Form 8-K dated June 18, 2006.
- 4.11 Form of Warrant for Purchase of 5,882,400 Shares of Common Stock dated June 15, 2007, incorporated herein by reference to Exhibit 4.2 to the Company's Form 8-K dated June 18, 2007.
  
- 10.1 Series A Convertible Preferred Stock Exchange Agreement and Acknowledgement dated as of February 22, 2006, incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated February 24, 2006.
- 10.2 Element 21 Golf Company 2006 Equity Incentive Plan, incorporated herein by reference to Annex C to the Company's Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 filed on April 7, 2006.
- 10.3 Form of Subscription Agreement for Shares of Series B Convertible Preferred Stock dated as of July 31, 2006, incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated August 3, 2006.
- 10.4 Form of Subscription Agreement for Shares of Series B Convertible Preferred Stock dated as of November 30, 2006, incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated August 3, 2006.
- 10.5 Form of Subscription Agreement for Shares of Series B Convertible Preferred Stock dated as of June 15, 2007, incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K dated June 18, 2007.
- 10.6 Form of Subscription Agreement for Shares of Common Stock dated as of June, 2007, incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated June 18, 2007
- 10.7 License Agreement with Advanced Light Alloys Corporation dated as of June 21, 2007 incorporated by reference to exhibit 10.1 to the Company's Form 10K dated June 21, 2007.
- 10.8 Consulting Agreement with Nataliya Hearn dated as of January 4, 2006 incorporated by reference to exhibit 10.4 to the Company's Form 10K dated October 13, 2006.
- 10.9 Consulting Agreement with John Grippo dated as of November 10, 2005 incorporated by reference to exhibit 10.5 to the Company's Form 10K dated October 13, 2006.
- 10.10 Extension and Modification of Promissory Note, incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on April 22, 2009.
- 10.11 Investment Banking Agreement with Legend Securities, Inc., incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on December 15, 2009.

- 10.12 Trademark License and Product Distribution Agreement, incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on January 20, 2010.

- 10.13 Management Agreement with Zeroloft Corp., incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on January 20, 2009
- 10.14 Consulting Agreement with Gaynell Douglas dated May 1, 2010, incorporated by reference to Exhibit 10.14 to the Company's Form 10-K/A, filed on October 15, 2010.
- 10.15 Consulting Agreement with Yell Services, dated October 1, 2009, incorporated by reference to Exhibit 10.15 to the Company's Form 10-K/A, filed on October 15, 2010.
- 10.16 Consulting Agreement with Altaf Kassam, dated October 1, 2009, incorporated by reference to Exhibit 10.16 to the Company's Form 10-K/A, filed on October 15, 2010.
- 10.17 Consulting Agreement with Tolkun Salieva, dated October 1, 2009, incorporated by reference to Exhibit 10.17 to the Company's Form 10-K/A, filed on October 15, 2010.
- 10.18 Consulting Agreement with Charles E. Fitzgerald, dated May 1, 2010, incorporated by reference to Exhibit 10.18 to the Company's Form 10-K/A, filed on October 15, 2010.
- 10.19 Employment Agreement with Nataliya Hearn, Ph.D., dated January 1, 2009, incorporated by reference to Exhibit 10.19 to the Company's Form 10-K/A, filed on October 15, 2010.
- 10.20 Consulting Agreement with Dorset Solutions, Inc., dated November 19, 2009, incorporated by reference to Exhibit 10.20 to the Company's Form 10-K/A, filed on October 15, 2010.
- 10.21 Consulting Agreement with Dorset Solutions, Inc., dated January 1, 2010, incorporated by reference to Exhibit 10.20 to the Company's Form 10-K/A, filed on October 15, 2010.
- 10.22 Consulting Agreement with Yell Services, dated October 1, 2010, incorporated by reference to Exhibit 10.22 to the Company's Form 10-Q, filed on February 11, 2011.
- 10.23 Consulting Agreement with Altaf Kassam, dated October 1, 2010, incorporated by reference to Exhibit 10.23 to the Company's Form 10-Q, filed on February 11, 2011.
- 10.24 Consulting Agreement with Tolkun Salieva, dated October 1, 2010, incorporated by reference to Exhibit 10.24 to the Company's Form 10-Q, filed on February 11, 2011.
- 10.25 Consulting Agreement with Jeff Manore, dated October 20, 2010, incorporated by reference to Exhibit 10.25 to the Company's Form 10-Q, filed on February 11, 2011.
- 10.26 Consulting Agreement with Henry Waszczuk, dated October 21, 2010, incorporated by reference to Exhibit 10.26 to the Company's Form 10-Q, filed on February 11, 2011.
- 10.27 Consulting Services Agreement with Philip Clark, dated January 1, 2011
- 10.28 Promissory Note with Zapfe Holdings Inc., dated October 4, 2011 ++
- 10.29 Promissory Note with Zapfe Holdings Inc., dated December 20, 2011 ++



- 14.1 Code of Conduct and Ethics, incorporated by reference to Exhibit 14.1 to the Company's Form 10-K, filed on September 24, 2010.
- 31.1 Rule 13a-14(a)/15a-14(a) Certifications of Chief Executive Officer.++
- 31.2 Rule 13a-14(a)/15a-14(a) Certifications of Chief Financial Officer.++
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.++
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.++

++filed herewith

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

American Rare Earths and Materials, Corp.

May 14, 2012 By: /s/ Nataliya Hearn  
Nataliya Hearn, Ph.D.  
Chairman, Chief Executive Officer and President

May 14, 2012 By: /s/ Philip Clark  
Philip Clark, CA, CPA, CFA  
  
Chief Financial Officer