

American Rare Earths & Materials, Corp.
Form 10-Q
May 13, 2011

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, 2011
 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
(State or other jurisdiction of incorporation or organization)

98-0669413
(Internal Revenue Service 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

Check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date, 25,709,829 shares of common stock, par value \$0.001 per share as of May 13, 2011.

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American Rare Earths and Materials, Corp. and Subsidiaries
(Formerly known as Element 21 Golf Company)

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PART 1 - FINANCIAL INFORMATION

Item 1 – Condensed Consolidated Financial Statements

AMERICAN RARE EARTHS AND MATERIALS, CORP. AND SUBSIDIARIES

(FORMERLY KNOWN AS ELEMENT 21 GOLF COMPANY)

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31, 2011	June 30, 2010
- ASSETS -		
CURRENT ASSETS:		
Cash and cash equivalents (includes restricted cash of \$83,674, Note 13)	\$308,387	\$513,035
Short-term investments	-	251,659
Accounts receivable - net of allowance for doubtful accounts of \$28,663	764,301	789,920
Accrued receivable	-	554,143
Inventories, net	522,515	919,158
Prepaid expenses and other current assets	50,470	625,143
TOTAL CURRENT ASSETS	1,645,673	3,653,058
INTANGIBLE ASSET SUBJECT TO AMORTIZATION, NET	-	3,533,029
FIXED ASSETS, NET	46,258	60,900
TOTAL ASSETS	\$1,691,931	\$7,246,987
- LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT) -		
CURRENT LIABILITIES:		
Accounts payable	\$835,237	\$681,394
Royalty payable	1,444,790	1,139,776
Accrued expenses	1,128,715	688,996
Accrued expenses – related parties	1,516,492	-
Deferred revenue	125	7,781
Dividends payable	60,000	60,000
Loan payable – shareholder	-	350,000
Due to Zeroloft Corp.	277,880	850,000
TOTAL CURRENT LIABILITIES	5,263,239	3,777,947
LONG-TERM LIABILITIES:		
Accrued expenses	-	428,505
Accrued expenses – related parties	-	1,394,932
Accounts payable – related parties	242,076	242,076
Loans and advances – officer/shareholder	158,738	158,738
TOTAL LONG-TERM LIABILITIES	400,814	2,224,251
SHAREHOLDERS' EQUITY (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, 2011 and June 30, 2010	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, 2011 and June 30, 2010	35,295	35,295

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Common stock, \$0.001 par value; 300,000,000 shares authorized, 24,913,904 and 21,877,608 issued and outstanding at March 31, 2011 and June 30, 2010, respectively	24,914	21,878
Additional paid-in capital	33,323,049	32,424,471
Accumulated deficit	(37,357,494)	(31,238,969)
TOTAL SHAREHOLDERS' EQUITY (DEFICIT)	(3,972,122)	1,244,789
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)	\$1,691,931	\$7,246,987

See notes to condensed consolidated financial statements

AMERICAN RARE EARTHS AND MATERIALS, CORP. AND SUBSIDIARIES
(FORMERLY KNOWN AS ELEMENT 21 GOLF COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE NINE AND THREE MONTHS ENDED MARCH 31, 2011 AND 2010
(Unaudited)

	Nine months Ended March 31,		Three months Ended March 31,	
	2011	2010	2011	2010
REVENUES	\$3,428,047	\$2,661,631	\$1,685,146	\$1,001,178
COSTS OF SALES	2,211,880	1,822,254	1,314,027	954,874
GROSS PROFIT	1,216,167	839,377	371,119	46,304
GENERAL AND ADMINISTRATIVE EXPENSES (Note 5)	7,150,660	4,085,855	4,450,630	2,037,810
LOSS FROM OPERATIONS	(5,934,493)	(3,246,478)	(4,079,511)	(1,991,506)
OTHER INCOME (EXPENSE)				
Interest income	297	1,257	1	482
Interest expense	(4,329)	(118,845)	-	(12,041)
	(4,032)	(117,588)	1	(11,559)
LOSS BEFORE PROVISION FOR INCOME TAXES	(5,938,525)	(3,364,066)	(4,079,510)	(2,003,065)
Provision for income taxes	-	-	-	-
NET LOSS	(5,938,525)	(3,364,066)	(4,079,510)	(2,003,065)
Dividends on Series B Preferred Convertible stock	(180,000)	(1,037,678)	(60,000)	(60,000)
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	\$(6,118,525)	\$(4,401,744)	\$(4,139,510)	\$(2,063,065)
Basic and diluted net loss per share available to common stockholders	\$(0.26)	\$(0.33)	\$(0.17)	\$(0.13)
Basic and diluted weighted average shares outstanding	23,426,346	13,411,080	24,728,085	16,409,458

See notes to condensed consolidated financial statements

AMERICAN RARE EARTHS AND MATERIALS, CORP. AND SUBSIDIARIES
(FORMERLY KNOWN AS ELEMENT 21 GOLF COMPANY)
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)
FOR THE NINE MONTHS ENDED MARCH 31, 2011
(Unaudited)

	Series A Convertible Preferred Stock	Series B Convertible Preferred Stock	Number of Issued and Outstanding Common Stock	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Total Shareholders' Equity (Deficit)
Balance June 30, 2010	\$ 2,114	\$ 35,295	21,877,608	\$ 21,878	\$32,424,471	\$(31,238,969)	\$ 1,244,789
Issuance of common stock for services	-	-	2,247,948	2,248	564,646	-	566,894
Issuance of stock warrants for services	-	-	-	-	154,610	-	154,610
Exercise of warrants	-	-	110,000	110	-	-	110
Dividends on Series B Convertible Preferred Stock, paid in common stock	-	-	678,348	678	179,322	(180,000)	-
Net loss	-	-	-	-	-	(5,938,525)	(5,938,525)
Balance March 31, 2011	\$ 2,114	\$ 35,295	24,913,904	\$ 24,914	\$33,323,049	\$(37,357,494)	\$ (3,972,122)

See notes to condensed consolidated financial statements

AMERICAN RARE EARTHS AND MATERIALS, CORP. AND SUBSIDIARIES
(FORMERLY KNOWN AS ELEMENT 21 GOLF COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED MARCH 31, 2011 AND 2010
(Unaudited)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(5,938,525)	\$(3,364,066)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Compensatory common stock and warrants	721,504	2,901,334
Depreciation	14,642	24,086
Amortization of intangible asset	392,086	161,948
Impairment of intangible asset	3,140,943	-
Amortization of debt discount	-	70,454
Non-cash foreign exchange	-	2,743
Accrued interest	(216)	(1,192)
Changes in:		
Accounts receivable	25,619	(191,179)
Inventories	396,643	162,161
Prepaid expenses and other current assets	574,673	(713,467)
Accounts payable, accrued expenses and royalty payable	591,631	536,957
Deferred revenue	103,575	(24,000)
Due to Zeroloft Corp.	(129,208)	-
Net cash provided by (used in) operating activities	(106,633)	(434,221)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from (purchase of) short-term investments	251,875	(250,000)
Purchase of fixed assets	-	(35,544)
Net cash provided by (used in) investing activities	251,875	(285,544)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of loan payable - shareholder	(350,000)	(325,000)
Exercise of warrants	110	327,550
Net cash provided by (used in) financing activities	(349,890)	2,550
DECREASE IN CASH AND CASH EQUIVALENTS	(204,648)	(717,215)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	513,035	1,048,402
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$308,387	\$331,187
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$-	\$-
Income taxes paid	\$-	\$-
Due to Zeroloft Corp. issue for intangible asset	\$-	\$1,000,000
Issue of shares of common stock for intangible asset	\$-	\$2,888,888
Issue of shares of common stock for payment of amount due to Zeroloft Corp.	\$-	\$150,000
	\$442,912	\$-

Repayment of amount due to Zeroloft Corp. through application of receivable from Zeroloft Corp. for certain reimbursable costs		
Issue of shares of common stock on conversion of convertible note	\$-	\$300,000
Reclassification of warrants to equity	\$-	\$55,254
Issuance of shares of common stock for dividends	\$180,000	\$977,678
See notes to condensed consolidated financial statements		

AMERICAN RARE EARTHS AND MATERIALS, CORP. AND SUBSIDIARIES
(FORMERLY KNOWN AS ELEMENT 21 GOLF COMPANY)
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 ScTM golf and Carrot StixTM 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.

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, worldwide 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 StixTM line of fishing rods is sold in big box retail stores (such as Bass Pro, Gander Mountain, Cabelas and Academy) and smaller retailers across North America and internationally.

On April 25, 2008, the 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.

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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.

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, 2010 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, 2010. Interest payable of \$137,624 has been reclassified from accounts payable to accrued expenses in the comparative June 30, 2010 condensed consolidated balance sheet presented.

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, 2011	June 30, 2010
Finished goods	\$1,192,924	\$1,238,370
Components	221,321	222,983
Less: Provision for obsolescence	(891,730)	(542,195)
Total	\$522,515	\$919,158

Included in revenues on the condensed consolidated statement of operations for the nine months ended March 31, 2011 is the recovery of out of pocket expenses paid on behalf of Zeroloft Corp. and Zeroloft sales of \$1,589,676 (2010 - \$18,066) Cost of sales includes \$508,967 of expenditures related to Zeroloft activities (2010 - \$4,005) and general and administrative expenses includes \$1,056,028 of expenditures related to Zeroloft activities (2010 - \$358,990) and amortization of intangible asset of \$392,085 (2010 - \$161,948) and impairment of intangible asset of \$3,140,943 (2010 - \$0).

Included in revenues on the condensed consolidated statement of operations for the three months ended March 31, 2011 is the recovery of out of pocket expenses paid on behalf of Zeroloft Corp. and Zeroloft sales of \$719,078 (2010 - \$0). Cost of sales includes \$285,435 of expenditures related to Zeroloft activities (2010 - \$4,005) and general and administrative expenses includes \$413,496 of expenditures related to Zeroloft activities (2010 - \$298,894) and amortization of intangible asset of \$0 (2010 - \$161,948) and impairment of intangible asset of \$3,140,943 (2010 - \$0).

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, fishing and Zeroloft products now being produced and sold, 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, 2010	As at and for the year ended June 30, 2010
Negative working capital	\$(3,617,566)	\$(124,889)
Net loss	\$(5,938,525)	\$(4,477,564)
Accumulated deficit	\$(37,357,494)	\$(31,238,969)

As shown in the accompanying condensed consolidated financial statements, during the nine months ended March 31, 2011, the Company incurred a net loss of \$5,938,525 and used cash in operations during this period of \$106,633.

These factors, among others, 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

In April 2010, the FASB issued ASU No. 2010-13, "Compensation – Stock Compensation (Topic 718): "Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades" ("ASU 2010-13"). ASU 2010-13 provides guidance on the classification of a share-based payment award as either equity or a liability. A share-based payment that contains a condition that is not a market, performance, or service condition is required to be classified as a liability. ASU 2010-13 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010, July 1, 2011 for AREM. The adoption of ASU 2010-13 is not expected to have a material impact on the Company's condensed

consolidated financial statements.

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NOTE 5

INTANGIBLE ASSET SUBJECT TO AMORTIZATION, NET

Intangible asset represents a Trademark License and Product Distribution Agreement (“License Agreement”) entered into with Zeroloft Corp. (“Zeroloft”) on January 14, 2010. License Agreement acquisition costs were \$3,888,888 at March 31, 2011 and at June 30, 2010. These costs are presented on the condensed consolidated balance sheet net of impairment charge and accumulated amortization of \$3,888,888 and \$355,859 at March 31, 2011 and June 30, 2010, respectively. The Company amortized the License Agreement using the straight-line method over its estimated remaining useful life, which was estimated at 5 years. The Company recorded amortization expense of \$392,085 and \$161,948 related to intangible asset subject to amortization during the nine month periods ended March 31, 2011 and 2010, respectively.

The Company evaluates its long-lived assets for indicators of possible impairment. The intangible asset subject to amortization held and used by the Company is reviewed for impairment whenever events or changes in circumstances indicate that its net book value may not be recoverable. When such factors and circumstances exist, the Company compares the projected undiscounted future cash flows associated with the related asset or group of assets over their estimated useful lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets and is recorded in the period in which the determination was made. The most important factor in the calculation of the fair value of the intangible asset is the projected sales of Zeroloft products which are estimated by extrapolating the current growth trends of the product and applying judgment as to the appropriate future growth rate among other factors. We conducted an interim test for impairment which was triggered because the Company did not reach its sales forecasts for Zeroloft products during the second and third quarter of the fiscal year ended June 30, 2011 due to delays in production of Zeroloft products. An impairment charge of \$3,140,943 and \$0 was recorded and included in general and administrative expense in the statement of operations during the three and nine month periods ended March 31, 2011 and 2010, respectively.

NOTE 6

RELATED PARTY ADVANCES AND LOANS PAYABLE

As of March 31, 2011 and June 30, 2010, \$219,627 and \$120,627, respectively, of trade payables and accrued liabilities were due to a Series A Convertible Preferred stockholder, 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, 2011, \$1,897,806 (which was at June 30, 2010, \$1,795,746) was owed by the Company to the President of which \$400,814 (which was at June 30, 2010, \$400,814) is included in long-term liabilities on the balance sheet and \$1,496,992 is included in accrued expenses classified as current liabilities on the balance sheet (which was at June 30, 2010, \$1,394,932 is included in accrued expenses classified as long-term liabilities on the balance sheet). The President agreed not to demand, within 12 months of June 30, 2010, the repayment of \$1,795,746 in accrued compensation owing. Amounts due to the President are payable on demand, non-interest bearing and unsecured. At March 31, 2011 this waiver ceased to cover a 12 month period. Accordingly, the amounts were reclassified to their current presentation.

At March 31, 2011, \$19,500 (which was at June 30, 2010, \$0) was due to the Chief Financial Officer in accrued compensation owing.

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.

NOTE 7 ROYALTY PAYABLE

During the nine month period ended March 31, 2011, the Company incurred a royalty expense of \$305,014 (which was at March 31, 2010, \$389,997) 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, 2011, the Company paid \$0 (March 31, 2010 - \$50,000) to Advanced. Royalty payable at March 31, 2011 is \$1,444,790 (which was at June 30, 2010, \$1,139,776).

NOTE 8 LOSS PER SHARE

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, 2011 and 2010, 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, 2011 and 2010 have been excluded from the three month diluted loss per share computations:

	March 31, 2011	March 31, 2010
Warrants	2,690,985	2,653,000
Convertible Preferred stock	2,380,326	2,380,326
Due to Related Party	3,747,590	3,747,590
Stock Options	425,000	80

NOTE 9 SHAREHOLDERS' EQUITY

During the nine months ended March 31, 2011, the Company issued 2,247,948 shares of its common stock to consultants for services rendered by them for an aggregate fair value of \$566,894 based on the quoted market price of the shares at time of issuance.

At July 1, 2010, the Company issued 191,084 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, 2010.

On July 1, 2010, the Company issued 75,000 warrants to its CFO with an exercise price of \$0.25 and term of three years which vest immediately. The warrants were measured at their fair value on July 1, 2010 using the following Black-Scholes Model Assumptions: risk free interest (1.01%); expected volatility (172%); expected life (36 months) and no dividends. These warrants were valued at \$16,221 and expensed immediately.

On July 12, 2010, the Company reduced the par value of common stock per share from \$0.01 to \$0.001 upon a redomestication merger from the State of Delaware to the State of Nevada. The reduction in the par value from \$0.01 to \$0.001 has been adjusted on a retroactive basis; accordingly, all previous balances have been adjusted.

On October 1, 2010, the Company issued 249,742 shares of its common stock to holders of Series B Convertible Preferred Stock for accrued dividends of \$60,000 through September 30, 2010.

On October 1, 2010, the Company issued 75,000 warrants to the CFO with an exercise price of \$0.30 and a life of three years which vest immediately. The warrants were measured at their fair value on October 1, 2010 using the following Black-Scholes Model Assumptions: risk free interest (0.63%); expected volatility (185%); expected life (36 months) and no dividends. These warrants were valued at \$20,065 and expensed immediately.

On November 1, 2010, 110,000 warrants were exercised at \$0.001 per share of common stock.

On November 10, 2010, 25,000 warrants with an exercise price of \$3.40 expired.

On January 1, 2011, the Company issued 237,522 shares of its common stock to holders of Series B Convertible Preferred Stock for accrued dividends of \$60,000 through December 31, 2010.

On January 1, 2011, the Company issued 200,000 warrants to the CEO with an exercise price of \$0.12 and a life of one year which vest immediately. The warrants were measured at their fair value on January 1, 2011 using the following Black-Scholes Model Assumptions: risk free interest (0.29%); expected volatility (193%); expected life (12 months) and no dividends. These warrants were valued at \$50,824 and expensed immediately.

On January 3, 2011, the Company repriced warrants to purchase 225,000 shares of common stock, previously issued to the Chief Financial Officer. The exercise price of 75,000 warrants originally issued on February 17, 2010 was reduced from \$0.60 per share to \$0.29 per share. The exercise price of 75,000 warrants originally issued on April 1, 2010 was reduced from \$0.62 per share to \$0.29 per

NOTE 9 SHAREHOLDERS' EQUITY (continued)

share. The exercise price of 75,000 warrants originally issued on October 1, 2010 was reduced from \$0.30 per share to \$0.29 per share. All other terms for these warrants remained unchanged. The original term of these warrants were 3 years. As a result of this repricing, the original warrants were deemed cancelled at their fair value and the repriced warrants were deemed issued at their fair value. The warrants were measured at their fair value on January 3, 2011 using the following Black-Scholes Model Assumptions: risk free interest (0.65% to 0.93%); expected volatility (195% to 203%); expected life equal to remaining legal life of the respective warrants and no dividends. The incremental fair value of these repriced warrants was valued at \$2,500 and expensed immediately.

On January 5, 2011, 400,000 warrants with an exercise price of \$0.10 expired.

On February 17, 2011, 100,000 and 100,000 warrants with an exercise price of \$1.25 and \$1.50 expired.

On February 23, 2011, the Company issued 340,985 warrants to a consultant with an exercise price of \$0.10 and a life of two years which vest immediately. The warrants were measured at their fair value on February 23, 2011 using the following Black-Scholes Model Assumptions: risk free interest (0.74%); expected volatility (179%); expected life (24 months) and no dividends. These warrants were valued at \$65,000 and expensed immediately.

NOTE 10 STOCK OPTION PLANS

As of June 30, 2010, there are three stock option plans in effect; the 1992 Directors' Stock Option Plan ("Directors' Plan"), 1992 Stock Option Plan ("Option Plan") and the 2006 Equity Incentive Plan ("Incentive 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, 2011. 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, 2011, options to purchase 425,000 shares of common stock were outstanding under the Incentive Plan.

NOTE 10 STOCK OPTION PLANS (continued)

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, 2009	160	\$18.75
Granted	425,000	0.50
Forfeited or expired	(80)	12.50
Exercised	-	-
Outstanding - June 30, 2010	425,080	\$0.50
Granted	-	-
Forfeited or expired	(80)	25.00
Exercised	-	-
Outstanding and exercisable – March 31, 2011	425,000	\$0.50

The following table summarizes information on stock options outstanding and exercisable as of March 31, 2011:

Exercise Price	Number Outstanding at March 31, 2011	Average Remaining Life (Years)	Aggregate Aggregate Intrinsic Value
\$0.50	425,000	1.13	-

NOTE 11 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, 2011, four customers (which was as of 2010, four customers) represent approximately 73% of sales (which was as of 2010, 52%), and four customers represent approximately 78% (which was as of 2010, 52%) of the total outstanding accounts receivable as of March 31, 2011. Management continually monitors its credit terms with customers to reduce credit risk exposure.

NOTE 12 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 and long-term debt are carried at cost, which approximates market value. Short-term investments comprised a redeemable guaranteed investment certificate earning interest at 0.75% per annum and matured on August 12, 2010. The proceeds upon maturity from the redeemable guaranteed investment certificate were transferred to cash and cash equivalents.

NOTE 13 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.

In March 2010, John Grippo, the former CFO of the Company, and John Grippo Inc. (“Plaintiffs”) filed suit against the Company in the Superior Court in the County of Westchester, New York. The Plaintiffs are 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, 2010, the Plaintiffs 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 \$83,674 and \$79,842 at March 31, 2011 and June 30, 2010, respectively.

In June 2010, Rick Smith Enterprises, Inc. (“Plaintiff”), 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. The Plaintiff 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. The Plaintiff 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.

NOTE 14 SUBSEQUENT EVENTS

From April 1, 2011 to May 13, 2011, the Company issued 542,009 shares of its common stock to consultants for an aggregate value of \$130,150 based on the quoted market price of the shares at time of issuance.

On April 1, 2011, the Company issued 253,916 shares of its common stock to holders of Series B Convertible Preferred Stock for accrued dividends of \$60,000 through March 31, 2011.

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 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 Earth metals 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 Earth metals and advanced materials and quickly delivering revolutionary new products to consumer and industrial markets. Our objective is to become North America’s best and most reliable source for Rare Earth metals and to 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. We are currently working with major footwear and apparel manufacturers to incorporate Zeroloft into their lines of products. Russell Athletics, Hanesbrands and Camelbak have tested and incorporated Zeroloft into their product lines which we anticipate will be available to consumers in 2010 and 2011.

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 second and third quarters of the year and revenues generally decline in the first and fourth quarters. During the current fiscal year, a greater portion of our annual fishing sales has taken place in the third quarter when compared to the prior year because our production schedule was moved back and as a result shipments of fishing rods to our customers is taking place later this year. This primarily due to the introduction of three new lines of fishing rods comprising of the (1) Professional Grade (2) MicroGuide (3) Wild and capacity constraints of our supplier. We believe that our current fiscal year production of fishing rods has been pre-sold to our customers.

Results of Operations

Nine months Ended March 31, 2011 and 2010

For the nine months ended March 31, 2011, the Company reported revenues of \$3,428,047 as compared to \$2,661,631 for the comparable prior year period. Included in revenue are fishing sales of \$1,814,390, as compared to \$2,467,465 for the comparable prior year period. The decrease in fishing sales has been offset by the recovery of out of pocket expenses paid on behalf of Zeroloft Corp. and Zeroloft sales of \$1,589,676, as compared to \$18,066 for the comparable prior year period.

We incurred costs of sales of \$2,211,880 for the nine months ended March 31, 2011, as compared to \$1,822,254 for the comparable prior year period, and incurred general and administrative expenses of \$7,150,660, as compared to \$4,085,855 for the comparable prior year period. Cost of sales includes \$508,967 of expenditures related to Zeroloft activities, as compared to \$4,005 for the comparable prior year period and general and administrative expenses include includes \$1,056,028 of expenditures related to Zeroloft activities, as compared to \$358,990 for the comparable prior year period. Included in general and administrative expense for the nine months ended March 31, 2011 is a non-cash charge of \$721,504, as compared to a non-cash charge of \$2,901,334 for the comparable prior year period, representing the value of compensatory common stock and warrants for services provided by consultants and a non-cash charge for amortization of intangible asset of \$392,086, as compared to \$161,948 for the comparable prior period and impairment of intangible asset of \$3,140,943 for the nine month ended March 31, 2011, which was \$0 for the nine month ended March 31, 2010.

For the nine months ended March 31, 2011, we recognized interest income of \$297, and interest expense of \$4,329, as compared to interest income of \$1,257 and interest expense of \$118,845, respectively, for the comparable prior year period. Interest expense primarily relates to paid, accrued and accreted interest on the Loan Payable to shareholder.

For the nine months ended March 31, 2011, the Company had a net loss of \$5,938,525, as compared to a net loss of \$3,364,066 for the nine months ended March 31, 2010. The increase in net loss is primarily the result of impairment loss recognized on intangible asset related to our Licence Agreement with Zeroloft Corp. We conducted an interim test for impairment which was triggered because the Company did not reach its sales forecasts for Zeroloft products during the second and third quarter of the fiscal year ended June 30, 2011 due to delays in production of Zeroloft products. An impairment charge of \$3,140,943 and \$0 was recorded during the nine month periods ended March 31, 2011 and 2010, respectively.

Our net accounts receivable balances were \$764,301, \$789,920 and \$706,756 at March 31, 2011, June 30, 2010 and March 31, 2010, respectively. Our accounts receivable balances are comparable to previous periods because fishing sales for three month periods ended March 31, 2011 and 2010 were also comparable. As noted below, included in revenue are fishing sales of \$964,371 for the three months ended March 31, 2011, as compared to \$1,001,405 for the comparable prior year period. The Company is subject to risk of non-payment of its trade accounts receivable. For the

nine months ended March 31, 2011, four customers (which was as of 2010, four customers) represent approximately 73% of sales (which was as of 2010, 52%), and four customers represent approximately 78% (which was as of 2010, 52%) of the total outstanding accounts receivable as of March 31, 2011. Management continually monitors its credit terms with customers to reduce credit risk exposure.

Our net inventory balances were \$522,515, \$919,158 and \$1,114,730 at March 31, 2011, June 30, 2010 and March 31, 2010, respectively. The decrease in our inventory balance compared to March 31, 2010 is due to an increase in our provision for inventory obsolescence which was \$891,730 and \$458,666 at March 31, 2011 and March 31, 2010, respectively. At March 31, 2011, an additional provision for inventory obsolescence of \$349,535 for our golf shaft inventory was recorded. The provision at March 31, 2011 relates to golf equipment and components only. Our inventory comprises golf and fishing products and components. We concentrate our new purchases of inventory on where we anticipate our future sales; our best selling SKUs.

Our royalty payable was \$1,444,790 and \$1,139,776 at March 31, 2011 and June 30, 2010, respectively. The increase in the balance is due to royalties on sales in the current period which are unpaid to Advanced. The royalty is calculated as 20% of the net selling price of fishing products sold by the Company and any sub licensee.

Three Months Ended March 31, 2011 and 2010

For the three months ended March 31, 2011, the Company reported revenues of \$1,685,146, as compared to \$1,001,178 for the comparable prior year period. Included in revenue are fishing sales of \$964,371, as compared to \$1,001,405 for the comparable prior year period. The decrease in fishing sales has been offset by the recovery of out of pocket expenses paid on behalf of Zeroloft Corp. and Zeroloft sales of \$719,078, as compared to \$0 for the comparable prior year period.

We incurred costs of sales of \$1,314,027 for the three months ended March 31, 2011, as compared to \$954,874 for the comparable prior year period, and incurred general and administrative expenses of \$4,450,630, as compared to \$2,037,810 for the comparable prior year period. Cost of sales includes \$285,435 of expenditures related to Zeroloft activities, as compared to \$4,005 for the comparable prior year period and general and administrative expenses include \$413,496 of expenditures related to Zeroloft activities, as compared to \$298,894 for the comparable prior year period. Included in general and administrative expense for the three months ended March 31, 2011 is a non-cash charge of \$334,339 as compared to a non-cash charge of \$1,824,021 for the comparable prior year period, representing the value of compensatory common stock and warrants for services provided by consultants and a non-cash charge for amortization of intangible asset of \$0, as compared to \$161,948 for the comparable prior period and impairment of intangible asset of \$3,140,943 for the three month ended March 31, 2011, which was \$0 for the three month ended March 31, 2010.

For the three months ended March 31, 2011, we recognized interest income of \$1, and interest expense of \$0, as compared to interest income of \$482 and interest expense of \$12,041, respectively, for the comparable prior year period.

For the three months ended March 31, 2011, the Company had a net loss of \$4,079,510, as compared to a net loss of \$2,003,065 for the three months ended March 31, 2010. The increase in net loss is primarily the result of impairment loss recognized on intangible asset related to our Licence Agreement with Zeroloft Corp. We conducted an interim test for impairment which was triggered because the Company did not reach its sales forecasts for Zeroloft products during the second and third quarter of the fiscal year ended June 30, 2011 due to delays in production of Zeroloft products. An impairment charge of \$3,140,943 and \$0 was recorded during the three month periods ended March 31, 2011 and 2010, respectively.

Financial Condition, Liquidity and Capital Resources

The Company has negative working capital as of March 31, 2011 of \$3,617,566. The Company retains consultants to perform development and public company reporting activities in exchange for stock of the Company. At June 30, 2010, we had a working capital deficiency of \$124,889. Our working capital deficiency is due to unpaid management

compensation and royalties. Our continuation as a going concern will require that we raise significant additional capital. At March 31, 2011, \$1,897,806 (which was at June 30, 2010, \$1,795,746) was owed by the Company to the President of which \$400,814 (which was at June 30, 2010, \$400,814) is included in long-term liabilities on the balance sheet and \$1,496,992 is included in accrued expenses classified as current liabilities on the balance sheet (which was at June 30, 2010, \$1,394,932 is included in accrued expenses classified as long-term liabilities on the balance sheet). The President agreed not to demand, within 12 months of June 30, 2010, the repayment of \$1,795,746 in accrued compensation owing. Amounts due to the President are payable on demand, non-interest bearing and unsecured. At March 31, 2011, this waiver ceased to cover a 12 month period. Accordingly, the amounts were reclassified to their current presentation.

There is no assurance that consultants will continue to accept stock compensation for services. If consultants discontinue to accept stock compensation we may not be able to continue to retain the services of such consultants.

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

For the nine month period ended March 31, 2011, the Company has generated gross revenue of \$1,343,543, related to the recovery of out-of-pocket expenses paid on behalf of Zeroloft Corp. (March 31, 2010 - \$0) from Zeroloft. The terms of our contract with our Zeroloft customers will require a prepayment which will cover our expected upfront costs.

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, 2010. Our critical accounting policies and estimates have not changed materially during the nine months ended March 31, 2011.

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

In March 2010, John Grippo, the former CFO of the Company, and John Grippo Inc. (“Plaintiffs”) filed suit against the Company in the Superior Court in the County of Westchester, New York. The Plaintiffs are 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, 2010, the Plaintiffs obtained a temporary restraining order over our bank accounts held at JP Morgan Chase and Bank of America.

In June 2010, Rick Smith Enterprises, Inc. (“Plaintiff”), 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. The Plaintiff 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. The Plaintiff 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, 2010.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the three months ended March 31, 2011, the Company issued 250,000 shares of its common stock to consultants for services rendered and to be rendered by them and for an aggregate value of \$72,500. 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, 2011, the Company issued 237,522 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, 2010. 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 REMOVED AND RESERVED

ITEM 5 OTHER INFORMATION

From April 1, 2011 to May 13, 2011, the Company issued 542,009 shares of its common stock to consultants for an aggregate value of \$130,150 based on the quoted market price of the shares at time of issuance.

On April 1, 2011, the Company issued 253,916 shares of its common stock to holders of Series B Convertible Preferred Stock for accrued dividends of \$60,000 through March 31, 2011.

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.
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.++
- 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 13, 2011

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

May 13, 2011

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