

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 001-34852



Rare Element Resources

RARE ELEMENT RESOURCES LTD.

(Exact Name of Registrant as Specified in its Charter)

British Columbia

(State of other jurisdiction of incorporation or organization)

N/A

(I.R.S. Employer Identification No.)

225 Union Blvd., Suite 250

Lakewood, Colorado

(Address of Principal Executive Offices)

80228

(Zip Code)

(720) 278-2460

(Registrant's Telephone Number, including Area Code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class

Name of Each Exchange on Which Registered

Common Shares, No Par Value

NYSE Amex

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by checkmark 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 (§ 229.405 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 checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K.

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: As of December 31, 2010, the aggregate market value of the registrant's voting common stock held by non-affiliates of the registrant was \$631,905,111 based upon the closing sale price of the common stock as reported by the NYSE Amex.

The number of shares of the Registrant's Common Stock outstanding as of September 26, 2011 was 44,096,674

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the 2011 Annual General Meeting of Shareholders are incorporated by reference to Part III of this Annual Report on Form 10-K.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K and the exhibits attached hereto contain “forward-looking information” within the meaning of Canadian securities legislation and “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995 (collectively, “forward-looking statements”). Such forward-looking statements concern the Company’s anticipated results and developments in the Company’s operations in future periods, planned exploration and development of its properties, plans related to its business and other matters that may occur in the future. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management.

Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as “expects” or “does not expect”, “is expected”, “anticipates” or “does not anticipate”, “plans”, “estimates” or “intends”, or stating that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved) are not statements of historical fact and may be forward-looking statements. Forward-looking statements in this Annual Report on Form 10-K, include, but are not limited to:

- The progress, potential and uncertainties of the Company’s 2011 rare-earth drill program, metallurgical testing and 2011 gold exploration drilling program at the Bear Lodge Property;
- The potential and expectations set out in the NI 43-101 Mineral Resource Reports and the Preliminary Economic Assessment on the Bear Lodge Property;
- The success of getting the necessary permits for the drill programs and future project development;
- Expectations regarding the ability to raise capital and to continue its exploration and development plans on its properties;
- Plans to complete an updated mineral resource estimate and the Preliminary Prefeasibility Study level of analysis; and
- Plans outlined under the section heading “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Outlook”.

Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors which could cause actual events or results to differ from those expressed or implied by the forward-looking statements, including, without limitation:

- risks related to the Company’s history of losses and need for additional financing;
- risks associated with the Company’s lack of history of producing metals from its mineral properties;
- risks associated with increased costs affecting financial condition;
- risks associated with a shortage of equipment and supplies;
- risks associated with mining and resource exploration being an inherently dangerous activity;
- risks associated with operating in the resource industry, which is highly speculative;
- risks associated with the Company’s lack of known reserves;
- risks associated with resource estimates;
- risks associated with material changes in mineral resource estimates;
- risks associated with the difference in U.S. and Canadian practices for reporting reserves and resources;

- risks associated with the Company's lack of insurance for its operations;
- risks associated with mineral operations being subject to market forces outside of the Company's control;
- risks associated with the permitting, licensing and approval processes for the Company's operations;
- risks associated with the governmental and environmental regulations;
- risks associated with future legislation regarding the mining industry and climate change;
- risks associated with the Company's land reclamation requirements;
- risks related to competition in the mining and rare earth elements industries;
- risks related to joint ventures and partnerships;
- risks related to foreign currency fluctuations;
- risks related to the Company's dependence on key personnel;
- risks related to the potential difficulty of attracting and retaining qualified personnel;
- risks related to the Company's executive officers and directors being engaged in other businesses;
- risks related to title in the Company's properties;
- risks related to enforcement of civil liabilities in the United States;
- risks related to the Company's securities; and
- risks associated with tax consequences to U.S. shareholders.

This list is not exhaustive of the factors that may affect the Company's forward-looking statements. Some of the important risks and uncertainties that could affect forward-looking statements are described further under the section headings "Item 1. Description of the Business", "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Annual Report. Although the Company has attempted to identify important factors that could cause actual results to differ materially from those described in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, believed, estimated or expected. The Company cautions readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. Except as required by law, the Company disclaims any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. **The Company qualifies all the forward-looking statements contained in this Annual Report by the foregoing cautionary statements.**

PRELIMINARY NOTES

As used in this Annual Report on Form 10-K (“Annual Report”), references to “Rare Element”, “the Company,” “we,” “our,” or “us” mean Rare Element Resources Ltd., its predecessors and consolidated subsidiaries, or any one or more of them, as the context requires.

Change of Reporting Status

Effective July 1, 2011, Rare Element ceased to be a “foreign private issuer” as defined in Rule 3b-4 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and became subject to the rules and regulations under the Exchange Act applicable to domestic issuers. As a result, we are required to prepare and file this Annual Report on Form 10-K for the fiscal year ended June 30, 2011, whereas our Annual Reports were previously filed on Form 20-F.

Financial and Exchange Rate Information

In this Annual Report, unless otherwise specified, all dollar amounts are expressed in United States Dollars (“US\$” or “\$”). The Government of Canada permits a floating exchange rate to determine the value of the Canadian Dollar (“CDN\$”) against the United States Dollar.

The following table sets forth the exchange rates for the Canadian Dollar for the last five fiscal years ended June 30th. The average rates for the periods, the range of how and low rates for the periods and the closing values for the periods are disclosed. The data for each month during the most recent six months is also provided.

For purposes of this table, the rate of exchange means the noon exchange rate as reported by the Bank of Canada on its web site at www.bankofcanada.ca. The table sets forth the number of Canadian Dollars required under that formula to buy one United States Dollar. The average rate means the average of the noon exchange rates on each day of each month during the period as reported by the Bank of Canada.

| Period | Average | High | Low | Close |
|---|----------------|-------------|------------|--------------|
| September 2011 (through September 26, 2011) | 1.00 | 1.04 | 0.98 | 1.03 |
| August 2011 | 0.98 | 0.99 | 0.96 | 0.98 |
| July 2011 | 0.96 | 0.97 | 0.94 | 0.95 |
| June 2011 | 0.98 | 0.99 | 0.96 | 0.96 |
| May 2011 | 0.97 | 0.98 | 0.95 | 0.97 |
| April 2011 | 0.96 | 0.97 | 0.95 | 0.95 |
| March 2011 | 0.98 | 0.99 | 0.97 | 0.97 |
| Fiscal Year Ended 6/30/2011 | 1.00 | 1.07 | 0.94 | 0.96 |
| Fiscal Year Ended 6/30/2010 | 1.07 | 1.16 | 1.01 | 1.16 |
| Fiscal Year Ended 6/30/2009 | 1.17 | 1.30 | 1.00 | 1.16 |
| Fiscal Year Ended 6/30/2008 | 1.01 | 1.08 | 0.92 | 1.02 |
| Fiscal Year Ended 6/30/2007 | 1.13 | 1.19 | 1.06 | 1.06 |

Financial information is presented in accordance with generally accepted accounting principles (“GAAP”) in the United States (“US GAAP”) which do not differ in any material respects from GAAP in Canada.

CAUTIONARY NOTE TO U.S. INVESTORS

The technical information in this Annual Report on Form 10-K and incorporated by reference herein has been prepared in accordance with the requirements of the securities laws in effect in Canada, which differ from the requirements of United States securities laws. The terms “mineral reserve”, “proven mineral reserve” and “probable mineral reserve” are Canadian mining terms as defined in accordance with Canadian National Instrument 43-101 – Standards of Disclosure for Mineral Projects (“NI 43-101”) and the Canadian Institute of Mining, Metallurgy and Petroleum (the “CIM”) - *CIM Definition Standards on Mineral Resources and Mineral Reserves*, adopted by the CIM Council, as amended. These definitions differ from the definitions in United States Securities and Exchange Commission (“SEC”) Industry Guide 7 under the United States Securities Act of 1993, as amended (the “Securities Act”). Under SEC Industry Guide 7 standards, a “final” or “bankable” feasibility study is required to report reserves, the three-year historical average price is used in any reserve or cash flow analysis to designate reserves and the primary environmental analysis or report must be filed with the appropriate governmental authority.

In addition, the terms “mineral resource”, “measured mineral resource”, “indicated mineral resource” and “inferred mineral resource” are defined in and required to be disclosed by NI 43-101; however, these terms are not defined terms under SEC Industry Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. Investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves. “Inferred mineral resources” have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian rules, estimates of inferred mineral resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases. Investors are cautioned not to assume that all or any part of an inferred mineral resource exists or is economically or legally mineable. Disclosure of “contained ounces” in a resource is permitted disclosure under Canadian regulations; however, the SEC normally only permits issuers to report mineralization that does not constitute “reserves” by SEC Industry Guide 7 standards as in place tonnage and grade without reference to unit measures.

Accordingly, information contained in this Annual Report on Form 10-K and the documents incorporated by reference herein contain descriptions of our mineral deposits that may not be comparable to similar information made public by U.S. companies subject to the reporting and disclosure requirements under the United States federal securities laws and the rules and regulations thereunder.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Corporate Background

Rare Element Resources Ltd. was incorporated under the laws of the Province of British Columbia, Canada, on June 3, 1999 as “Spartacus Capital Inc.” On July 25, 2003, the Company’s name was changed to “Rare Element Resources Ltd.” Our executive office is located at 225 Union Blvd., Suite 250, Lakewood, Colorado 80228. The telephone number for our executive office is (720) 278-2460. We also maintain an administrative office in Canada at 325 Howe Street, Suite 410, Vancouver, British Columbia, Canada V6C 1Z7. We maintain a website at www.rareelementresources.com.

Our common shares are traded on the Toronto Stock Exchange (the “TSX”) under the symbol “RES” and on the NYSE Amex under the symbol “REE.” The Company’s common shares are also traded on the Deutsche Brose (Berlin), Frankfurt, and XETRA Stock Exchanges.

The authorized capital of the Company consists of an unlimited number of common shares without par value. As of June 30, 2011, the end of the latest completed fiscal year, there were 44,076,674 common shares issued and outstanding. On the date of this Form 10-K, there were 44,096,674 common shares issued and outstanding.

History

Originally organized as a “venture capital pool” company whose activities were focused on the identification and completion of a qualifying transaction on the TSX Venture Exchange (“TSX-V”), the Company transitioned to a “venture company” on July 25, 2003, coincident with the completion of its qualifying transaction, the reverse takeover (“RTO”) acquisition of Paso Rico Resources Ltd. (subsequently known as “Rare Element Holdings Ltd.”) and the completion of a CDN\$551,000 private placement. Rare Element Holdings Ltd.’s main asset, through its wholly-owned subsidiary, Rare Element Resources, Inc. (previously known as “Paso Rico (USA), Inc.” (“RER, Inc.”)), is the 100% interest in a group of unpatented mineral claims and one leased state section, together known as the “Bear Lodge Property” which contains two exploration projects: the Bear Lodge rare earth element (“REE”) project (“Bear Lodge REE Project”) and the Sundance gold project (“Sundance Gold Project”). Effective December 20, 2004, the Company’s authorized share capital was changed from 100,000,000 common shares to an unlimited number of common shares without par value.

Effective October 8, 1999, the Company completed its initial public offering of 1,500,000 common shares at \$0.20 per share, raising \$300,000. The common shares began trading on the TSX-V in Canada on November 15, 1999 under the symbol “SCI”, and on the NYSE Amex on August 18, 2010 under the symbol “REE”. On May 27, 2011, the Company graduated from listing on the TSX-V to the TSX and trades under the symbol “RES”.

Subsidiaries

The Company has one wholly-owned subsidiary, incorporated under the laws of British Columbia, Canada, on July 12, 1996 under the name “Paso Rico Resources Ltd.” which subsequently changed its name to “Rare Element Holdings Ltd.” on April 1, 2011. That subsidiary has one wholly-owned subsidiary, Paso Rico (USA) Inc., incorporated on August 21, 1997 in the State of Wyoming, USA which subsequently changed its name to “Rare Element Resources, Inc.” on February 28, 2011.

Narrative Description of Business

The Company’s business is the acquisition, exploration and development of mineral properties. The Company’s principal property is the Bear Lodge Property located in northeastern Wyoming, USA. This property contains the Bear Lodge REE Project, a large disseminated REE deposit, as well as the Sundance Gold Project, extensive gold occurrences.

The Bear Lodge Property was acquired through the July 2003 reverse-takeover acquisition of Rare Element Holdings Ltd. (formerly Paso Rico Resources Ltd.), which originally had an option to acquire full ownership of the property through exploration expenditures on the property before the reverse-takeover by Rare Element, and had obtained 100% ownership in September 2002.

The Company is exploring the Bear Lodge REE Project and, as of June 30, 2011, had expended \$11,261,353 on exploration.

In June 2006, the Company optioned the Sundance Gold Project to Newmont North America Exploration Limited (“Newmont”) whereby Newmont had the right to earn a 65% participating interest in the Sundance Gold Project by spending \$5 million on property exploration by 2011. The option agreement was terminated on May 14, 2010, resulting in the Company retaining ownership of 100% of its Sundance Gold Project including a group of unpatented claims on land originally held by Newmont only. Newmont expended approximately \$2.85 million on the exploration of the Sundance Gold Project. The Company is also exploring the Sundance Gold Project and, as of June 30, 2011, had expended \$1,242,391 on exploration.

The Eden Lake property in Manitoba, Canada (“Eden Lake Property”) was acquired on October 30, 2009 for 300,000 common shares and the seller’s retention of a 3% net smelter royalty. On February 23, 2010, the Company granted Medallion Resources Ltd. (“Medallion”) the right to earn a 65% interest in the Eden Lake Property. Subsequent to June 30, 2011, Medallion dropped its option right and returned the property to the Company.

The Nuiklavik property in Labrador, Canada (“Nuiklavik Property”) was acquired by the Company on January 6, 2010 for 200,000 common shares and the seller retaining a 2% gross overriding royalty.

Further description of the acquisition of the above properties is included under the section heading “Item 2. Description of Properties” in this Annual Report.

Recent Corporate Developments

The following significant corporate developments occurred during our fiscal year ended June 30, 2011:

- Incorporated the 2010 REE drilling program results into an updated mineral resource and announced an upgraded and increased NI 43-101 compliant mineral resource estimate on June 14, 2011.
- Completed the 2010 drilling program on the Bear Lodge REE Project in November 2010. The drilling included 61 drill holes and an additional 40 large diameter core holes. The 40 large diameter core holes provided a bulk sample for pilot-plant testing.
- Advanced a preliminary REE metallurgical recovery process in July 2010, with 80 percent estimated recoveries of rare-earth elements from the Bear Lodge REE Project with a goal to produce a 42-45 percent rare-earth-oxide (“REO”) concentrate.
- Completed a Preliminary Economic Assessment, in compliance with the NI 43-101, which shows positive economics using 3-year trailing average prices for rare-earth concentrates.
- Collected an 8.8 ton sample of REE mineralized material with the 40 large diameter core holes and additional bulk sample material excavated to be used in a pilot plant test in 2011.
- Completed a 34-hole gold-focused drilling program in November 2010 on the Sundance Gold Project focusing on three main gold targets. The targets provided the highest gold grades found to date. Filing of the Company’s first NI 43-101-compliant inferred mineral resource estimate reported 947,000 ounces of gold in these three deposits contained in 69.3 million metric tonnes averaging 0.42 g Au/t using a 0.15 g/t cutoff grade.
- Discovery of heavy rare earths enriched mineralization at Whitetail Ridge, East Taylor and Carbon and higher grade at East Taylor within the Bear Lodge REE Project.
- Successfully listed the Company’s common shares for trading on the NYSE Amex headquartered in New York, NY, as well as graduating the trading of our common shares in Canada from Tier One of the TSX Venture Exchange to the TSX main trading board.
- Established an executive office in Lakewood, Colorado. Successfully hired various key executives, including Chief Operating Officer, Chief Financial Officer and VP of Government and Community Relations.

- Completed two significant financings, April, 2010 and December, 2010, that combined raised gross proceeds of approximately CDN\$65 million. As of the date of this Annual Report, the Company has 44.1 million common shares outstanding and approximately \$73 million of cash and no debt.

Cautionary Note to U.S. Investors: Please read carefully the section titled “Cautionary Note to U.S. Investors Regarding Resource and Reserve Estimates” above.

Plan of Operations

Source of Funds for Fiscal Year Ending June 30, 2012

The Company’s primary source of funds since incorporation has been through the issuance of common shares. As at June 30, 2011, the Company had cash of \$72,311,970. During the period ended September 26, 2011, a total of 20,000 options were exercised, resulting in an increase in cash by CDN\$54,200.

The Company had working capital of \$71,952,619 at June 30, 2011.

As of September 26, 2011: the Company had 119,287 outstanding warrants with an exercise price of CDN\$4.75, which if exercised, would raise an additional CDN\$566,613; 3,526,500 outstanding stock options with exercise prices ranging from CDN\$0.55 to CDN\$15.16, which if exercised, would raise an additional CDN\$23,355,780; and 211,002 outstanding broker’s warrants with an exercise price of CDN\$9.00, which if exercised, would raise an additional CDN\$1,899,018. There is no guarantee that the warrants, the stock options or the broker’s warrants will be exercised. Management believes that with the cash the Company currently has on hand and with the potential exercise of the stock options, warrants and broker’s warrants, the Company will be able to fund its expenditures through the end of fiscal year 2012.

Use of Funds for Fiscal Year Ending June 30, 2012

The Company’s current capital expenditures are for the exploration/acquisition and evaluation expenses in its rare-earth and gold properties. For fiscal 2012, the Company estimates that it might expend \$3 million on general/administrative expenses and \$7 million on prefeasibility study and property acquisitions. During fiscal 2012, the Company estimates that it might expend \$5 million on rare-earth acquisition/exploration expenses and \$1 million on gold acquisition/exploration expenses.

Anticipated Changes to Facilities/Employees

The Company has established an office in Denver, Colorado, USA and hired a full-time Chief Operating Officer and Chief Financial Officer. The Company will continue to add key personnel to develop the corporate infrastructure to support the current project development and future production operation.

Trends – Rare-Earth Market

Prices of rare-earth elements are affected by the supply and demand fundamentals of the market. Recent years has seen raising prices due to increased demand and a reduction in supply. Raising demand has come from various new uses of rare-earth metals in batteries, magnets and other high tech uses. The Chinese control most of the world’s production of rare-earth metals and the Chinese have reduced exports to the rest of the world. We expect the demand of rare-earth elements to continue to increase. We also expect supply to also increase due to several large mines outside China that are expected to be in production soon. We cannot anticipate with any certainty what the Chinese may do in the future as to rare-earth metal exports.

Our ability to raise additional funds in order to complete our plan of operations at our Bear Lodge Property may be impacted by future prices for metals. As a natural resource exploration and development company, the marketability of our common shares and our ability to raise other sources of financing has been dependent on the prices of rare-earth elements and gold. If the global demand for rare-earth and gold decrease, it could adversely impair the Company’s ability to raise financing and fund the exploration and future development of its mineral properties.

Factors that could influence upward demand for rare earth products include:

- the use of neodymium, praseodymium, terbium and dysprosium in high-strength NdFeB magnets that are critical to hybrid and electric vehicles and the increased construction of wind power generation facilities, particularly off-shore installations;
- the use of lanthanum and cerium for NiMH batteries that are utilized in hybrid and electric vehicles;
- the use of europium, terbium and yttrium in the production of compact fluorescent light bulbs;
- the use of high-strength NdFeB magnets in the miniaturization of electronic products;
- the use of lanthanum in fluid cracking catalysts by refineries processing lower quality crude oil that consumes greater quantities of the catalysts;
- the increased use of REEs in the drive to improve energy efficiency and reduce greenhouse gas, or GHGs, by the United States and the European Union;
- the use of cerium in glass, ceramics, glass polishing, and advanced water filtration applications; and
- continued research and commercialization of new applications for rare earths products

The Company's acquisition/exploration/evaluation activities vary from period to period depending upon property acquisition opportunities and exploration results. Accordingly, amounts expended in past periods may not be indicative of future activities. Likewise, amounts of external capital raised to finance such activities may vary from period to period.

Segment Information

Segmented information is contained in note 15 of the "Notes to the Consolidated Financial Statements" contained under the section heading "Item 8. Financial Statements and Supplementary Data" below of this Annual Report and is incorporated herein by reference.

Sources and Availability of Raw Materials

The Company is currently in the predevelopment stage and as such does not require any significant raw materials in order to carry out its primary operating objectives. The Company's primary operating objective is to gather geological and processing information in order to complete a prefeasibility study on the Bear Lodge Project. For at least the next year, the Company is expected to continue to require the use of contract drilling services in order to obtain additional geological information. In the past year the Company has been able to secure contract drilling services without excess delay and excessive costs. We expect the contract drilling services will continue to be available over the next year.

The raw materials that the Company's current operations rely are gasoline and diesel fuel for the exploration vehicles and for the heavy equipment required to build roads and conduct drilling operations. In addition water is purchased from local municipalities to assist with the drilling activities, and a variety of drilling muds and additives are needed to ensure drill sample recovery.

Seasonality

Seasonality in the state of Wyoming is not a material factor to the Company's operations for its project. Snow fall in the winter limits access to the Company's Bear Lodge Property, but it is not a material issue for the Company.

Competition

Our industry is highly competitive. We compete with other mining and exploration companies in connection with the acquisition, exploration and development of mineral properties. There is competition for the limited number of mineral property acquisition opportunities, some of which is with other companies having substantially greater financial resources, staff and facilities than we do. As a result, we may have difficulty acquiring attractive exploration properties, staking claims related to our properties, and exploring and developing our properties.

China accounts for the vast majority of rare earth element production. While rare earth element projects exist outside of China, very few are in actual production. Further, given the timeline for current exploration projects to come into production, if at all, it is likely that the Chinese will be able to dominate the market for rare earth elements into the

future. This gives the Chinese a competitive advantage in controlling the supply of rare earth elements and engaging in competitive price reductions to discourage competition. Any increase in the amount of rare earth elements exported from other nations, and increased competition, may result in price reductions, reduced margins and loss of potential market share, any of which could materially adversely affect our profitability. As a result of these factors, we may not be able to compete effectively against current and future competitors.

Environmental Regulation

The Company's exploration activities are subject to extensive and costly environmental requirements regulated in all countries in which the Company operates under various federal, state, provincial and local laws relating to the protection of the environment, which generally includes air and water quality, hazardous waste management and reclamation. Environmental hazards may exist on the properties in which the Company holds interests which are unknown to the Company at present and which have been caused by previous or existing owners or operators of the properties. Environmental legislation is evolving in a manner that will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. Current and future laws, regulations and permits will impose significant costs, liabilities or obligations or could limit or prevent the Company's ability to continue operations or undertake new operations.

In particular, the Company's Bear Lodge REE Project and Sundance Gold Project in Wyoming are subject to federal and state environmental laws, regulations, and permits. The federal agency involved with compliance is the United States Forest Service, Sundance, Wyoming District Office. The state agency involved is the Wyoming Department of Environmental Quality. The Company operates under permits granted by these two agencies and has established bonds to ensure environmental reclamation of areas disturbed. In addition, the Company's operations and exploration activities in Canada are subject to national and provincial laws and regulations governing protection of the environment. As of June 30, 2011, the Company had reclamation bonds totaled \$422,283.

Minerals Exploration Regulation

Mining operations and exploration activities are subject to various national, state, provincial and local laws and regulations in the United States, which govern prospecting, development, mining, production, exports, taxes, labor standards, occupational health, waste disposal, protection of the environment, mine safety, hazardous substances and other matters. We believe that we are in compliance in all material respects with applicable mining, health, safety and environmental statutes and the regulations passed thereunder in the United States. There are no current orders or directions relating to us with respect to the foregoing laws and regulations.

Compliance with these laws and regulations may impose substantial costs on us and will subject us to significant potential liabilities. Changes in these regulations could require us to expend significant resources to comply with new laws or regulations or changes to current requirements and could have a material adverse effect on our business operations.

Mine Safety and Health Administration Regulations

Pursuant to Section 1503(a) of the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act (The "Dodd-Frank Act"), issuers that are operators, or that have a subsidiary that is an operator, of a coal or other mine in the United States are required to disclose in their periodic reports filed with the SEC information regarding specified health and safety violations, orders and citations, related assessments and legal actions, and mining-related fatalities. During the fiscal year ended June 30, 2011, our U.S. exploration properties were not subject to regulation by the Federal Mine Safety and Health Administration ("MSHA") under the *Federal Mine Safety and Health Act of 1977* (the "Mine Act").

Employees

At September 26, 2011, the Company had twenty three (23) full-time employees/consultants and thirty one (31) part-time employees/consultants. Sixteen (16) of the full-time and two (2) of the part-time employees/consultants are directly engaged in exploration activities, and three (3) full-time and twenty five (25) of the part-time employees/consultants are directly engaged in evaluation and development activities. As of June 30, 2011, the Company had nineteen (19) full-time and eighteen (18) part-time employees/consultants, including the three Senior

Management. Donald R. Ranta, President & CEO of the Company, is involved in both administration and exploration. He is based in Lakewood, Colorado, USA. None of the Company's employees are covered by collective bargaining agreements.

Available Information

The Company makes available, free of charge, on or through its Internet website, at www.rareelementresources.com its annual report on Form 10-K, its quarterly reports on Form 10-Q and its current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. The Company's Internet website and the information contained therein or connected thereto are not intended to be, and are not incorporated into this Annual Report on Form 10-K.

The Company's filings can be also be viewed at its Canadian administrative office, located at: 325 Howe Street, #410, Vancouver, British Columbia, Canada V6C 1Z7. The Company's reports, registration statements and other information can be inspected on the SEC's website at www.sec.gov and such information can also be inspected and copies ordered at the public reference facilities maintained by the SEC at the following location: Judiciary Plaza, 100 F Street NE, Washington, D.C. 20549. Further, the Company also files reports under Canadian regulatory requirements on SEDAR; you may access its reports filed on SEDAR by accessing their website at www.sedar.com.

ITEM 1A. RISK FACTORS AND UNCERTAINTIES

Readers should carefully consider the risks and uncertainties described below before deciding whether to invest in our common shares.

Our failure to successfully address the risks and uncertainties described below would have a material adverse effect on our business, financial condition and/or results of operations, and the trading price of our common shares may decline and investors may lose all or part of their investment. We cannot assure you that we will successfully address these risks or other unknown risks that may affect our business.

Estimates of mineralized material are forward-looking statements inherently subject to error. Unforeseen events and uncontrollable factors can have a significant impact on mineralized material estimates and actual results may differ from estimates.

Risks Related to Our Business

We have a history of losses and will require additional financing to fund exploration and, if warranted, development and production. Failure to obtain additional financing could have a material adverse affect on our financial condition and results of operation and could cast uncertainty on our ability to continue as a going concern.

For the fiscal year ended June 30, 2011, our net loss was (\$16,657,962). Our accumulated deficit at June 30, 2011 was (\$26,770,730). At June 30, 2011, our cash position was \$72,311,970 and our working capital position was \$71,952,619. We have not commenced commercial production on any of our mineral properties. We have no revenues from operations and anticipate we will have no operating revenues until we place one or more of our properties into production. All of our properties are in the exploration stage.

Our management believes that based on our current working capital position, we will be able to continue operations only through the end of Fiscal 2013 without raising additional capital either through debt or equity financing. We currently do not have sufficient funds to fully complete exploration and development work on any of our properties, which means that we will be required to raise additional capital, enter into joint venture relationships or find alternative means to finance placing one or more of our properties into commercial production, if warranted. If we fail to raise additional funds we will curtail our activities and may risk being unable to maintain our interests in our mineral properties.

Failure to obtain sufficient financing may result in the delay or indefinite postponement of exploration and development or production on one or more of our properties and any properties we may acquire in the future or even a loss of property interests. This includes our leases over claims covering the principal deposits on our properties, which may expire unless we expend minimum levels of expenditures over the terms of such leases. We cannot be certain that

additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favorable or acceptable to us. Future financings may cause dilution to our shareholders. Our ability to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions as well as our business performance.

The most likely source of future financing presently available to us is through the sale of our securities. Any sale of common shares will result in dilution of equity ownership to existing shareholders. This means that if we sell common shares, more common shares will be outstanding and each existing shareholder will own a smaller percentage of the shares than outstanding. Alternatively, we may rely on debt financing and assume debt obligations that require us to make substantial interest and capital payments. Also, we may issue or grant warrants or options in the future pursuant to which additional common shares may be issued. Exercise of such warrants or options will result in dilution of equity ownership to our existing shareholders.

We have no history of producing metals from our mineral properties.

We have no history of producing metals from any of our properties. Our properties are all exploration stage properties in various stages of exploration and evaluation. Our Bear Lodge REE Project and Sundance Gold Project are advanced exploration stage projects with identified mineralization, and our Eden Lake Property and Nuiklavik Property are each early stage exploration projects. Advancing properties from exploration into the development stage requires significant capital and time, and successful commercial production from a property, if any, will be subject to completing feasibility studies, permitting and construction of the mine, processing plants, roads, and other related works and infrastructure. As a result, we are subject to all of the risks associated with developing and establishing new mining operations and business enterprises including:

- completion of feasibility studies to verify reserves and commercial viability, including the ability to find sufficient REE or gold reserves to support a commercial mining operation;
- the timing and cost, which can be considerable, of further exploration, preparing feasibility studies, permitting and construction of infrastructure, mining and processing facilities;
- the availability and costs of drill equipment, exploration personnel, skilled labor and mining and processing equipment, if required;
- the availability and cost of appropriate smelting and/or refining arrangements, if required, and securing a commercially viable sales outlet for our products;
- compliance with environmental and other governmental approval and permit requirements;
- the availability of funds to finance exploration, development and construction activities, as warranted;
- potential opposition from non-governmental organizations, environmental groups, local groups or local inhabitants which may delay or prevent development activities;
- potential increases in exploration, construction and operating costs due to changes in the cost of fuel, power, materials and supplies; and
- potential shortages of mineral processing, construction and other facilities related supplies.

The costs, timing and complexities of exploration, development and construction activities may be increased by the location of our properties and demand by other mineral exploration and mining companies. It is common in exploration programs to experience unexpected problems and delays during drill programs and, if warranted, development, construction and mine start-up. Accordingly, our activities may not result in profitable mining operations and we may not succeed in establishing mining operations or profitably producing metals at any of our properties.

Increased costs could affect our financial condition.

We anticipate that costs at our projects that we may explore or develop, will frequently be subject to variation from one year to the next due to a number of factors, such as changing ore grade, metallurgy and revisions to mine plans, if any, in response to the physical shape and location of the ore body. In addition, costs are affected by the price of commodities such as fuel, rubber, and electricity. Such commodities are at times subject to volatile price movements, including increases that could make production at certain operations less profitable. A material increase in costs at any significant location could have a significant effect on our profitability.

A shortage of equipment and supplies could adversely affect our ability to operate our business.

We are dependent on various supplies and equipment to carry out our mining exploration and, if warranted, development operations. The shortage of such supplies, equipment and parts could have a material adverse effect on our ability to carry out our operations and therefore limit or increase the cost of production.

Mining and resource exploration is inherently dangerous and subject to conditions or events beyond our control, which could have a material adverse effect on our business and plans.

Mining and mineral exploration involves various types of risks and hazards, including:

- environmental hazards;
- power outages;
- metallurgical and other processing problems;
- unusual or unexpected geological formations;
- personal injury, flooding, fire, explosions, cave-ins, landslides and rock-bursts;
- inability to obtain suitable or adequate machinery, equipment, or labor;
- metals losses;
- fluctuations in exploration, development and production costs;
- labor disputes;
- unanticipated variations in grade;
- mechanical equipment failure; and
- periodic interruptions due to inclement or hazardous weather conditions.

These risks could result in damage to, or destruction of, mineral properties, production facilities or other properties, personal injury, environmental damage, delays in mining, increased production costs, monetary losses and possible legal liability. We may not be able to obtain insurance to cover these risks at economically feasible premiums. Insurance against certain environmental risks, including potential liability for pollution or other hazards as a result of the disposal of waste products occurring from production, may be prohibitively expensive. We may suffer a material adverse effect on our business if we incur losses related to any significant events that are not covered by our insurance policies.

We operate in the resource industry, which is highly speculative, and has certain inherent exploration risks which could have a negative effect on our operations.

Our long-term success depends on our ability to identify mineral deposits on our existing properties and other properties we may acquire, if any, that we can then develop into commercially viable mining operations. Resource exploration is a highly speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but from finding mineral deposits which, though present, are insufficient in quantity and quality to return a profit from production. Substantial expenditures are required to establish proven and probable reserves through drilling and analysis, to develop metallurgical processes to extract metal, and to develop the mining and processing facilities and infrastructure at any site chosen for mining. The marketability of minerals acquired or discovered by us may be affected by numerous factors which are beyond our control and which cannot be accurately predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment, and such other factors such as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environment protection. Any one or a combination of these factors may result in us not receiving an adequate return on our investment capital. The decision to abandon a project may have an adverse effect on the market value of our securities and our ability to raise future financing

We have no known reserves and no economic reserves may exist on our properties, which could have a negative effect on our operations and valuation.

Despite exploration work on our mineral claims, no known bodies of commercial ore or economic deposits have been established on any of our mineral properties. In addition, we are at the exploration stage on all of our properties and substantial additional work will be required in order to determine if any economic deposits exist on its properties. We

may expend substantial funds in exploring its properties only to abandon them and lose its entire expenditure on the properties if no commercial or economic quantities of minerals are found. Even if commercial quantities of minerals are discovered, the exploration properties might not be brought into a state of commercial production. Finding mineral deposits is dependent on a number of factors, including the technical skill of exploration personnel involved. The commercial viability of a mineral deposit once discovered is also dependent on a number of factors, some of which are the particular attributes of the deposit, such as content of the deposit including harmful substances, size, grade and proximity to infrastructure, as well as element prices and the availability of power and water in sufficient supply to permit development.

Most of these factors are beyond the control of the entity conducting such mineral exploration. We are an exploration stage company with no history of pre-tax profit and no income from its operations. There can be no assurance that our operations will be profitable in the future. There is no certainty that the expenditures to be made by us in the exploration of our properties will result in discoveries of mineralized material in commercial quantities. Most exploration projects do not result in the discovery of commercially mineable deposits and no assurance can be given that any particular level of recovery of mineral reserves will in fact be realized or that any identified mineral deposit will ever qualify as a commercially mineable (or viable) mineral deposit which can be legally and economically exploited. There can be no assurance that minerals recovered in small scale tests will be duplicated in large scale tests under on-site conditions or in production. If we are unsuccessful in our exploration efforts, we may be forced to acquire additional projects or cease operations which may have an adverse effect on the market value of our securities and our ability to raise future financing.

The figures for our resources are estimates based on interpretation and assumptions and may yield less mineral production under actual conditions than is currently estimated.

Unless otherwise indicated, mineralization figures presented in this Annual Report and in our filings with securities regulatory authorities, press releases and other public statements that may be made from time to time are based upon estimates made by independent geologists and our internal geologists. When making determinations about whether to advance any of our projects to development, we must rely upon such estimated calculations as to the mineral reserves and grades of mineralization on our properties. Until ore is actually mined and processed, mineral reserves and grades of mineralization must be considered as estimates only.

Estimates can be imprecise and depend upon geological interpretation and statistical inferences drawn from drilling and sampling analysis, which may prove to be unreliable. We cannot assure you that:

- these estimates will be accurate;
- resource or other mineralization estimates will be accurate; or
- this mineralization can be mined or processed profitably.

Any material changes in mineral resource estimates and grades of mineralization will affect the economic viability of placing a property into production and a property's return on capital.

Because we have not completed feasibility studies on any of our properties and have not commenced actual production, mineralization estimates, including resource estimates, for our properties may require adjustments or downward revisions. In addition, the grade of ore ultimately mined, if any, may differ from that indicated by our feasibility studies and drill results. Minerals recovered in small scale tests may not be duplicated in large scale tests under on-site conditions or in production scale.

The resource estimates contained in this Annual Report have been determined and valued based on assumed future prices, cut-off grades and operating costs that may prove to be inaccurate. Extended declines in market prices for gold, silver or other commodities may render portions of our mineralization and resource estimates uneconomic and result in reduced reported mineralization or adversely affect the commercial viability determinations we reach. Any material reductions in estimates of mineralization, or of our ability to extract this mineralization, could have a material adverse effect on our share price and the value of our properties.

There are differences in U.S. and Canadian practices for reporting reserves and resources.

Our reserve and resource estimates are not directly comparable to those made in filings subject to SEC reporting and disclosure requirements, as we generally report reserves and resources in accordance with Canadian practices. These practices are different from the practices used to report reserve and resource estimates in reports and other materials filed with the SEC. It is Canadian practice to report measured, indicated and inferred resources, which are generally not permitted in disclosure filed with the SEC by United States issuers. In the United States, mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. United States investors are cautioned not to assume that all or any part of measured or indicated resources will ever be converted into reserves.

Further, "inferred resources" have a great amount of uncertainty as to their existence and as to whether they can be mined legally or economically. Disclosure of "contained ounces" is permitted disclosure under Canadian regulations; however, the SEC only permits issuers to report "resources" as in place tonnage and grade without reference to unit measures.

Accordingly, information concerning descriptions of mineralization, reserves and resources contained in this report, or in the documents incorporated herein by reference, may not be comparable to information made public by other United States companies subject to the reporting and disclosure requirements of the SEC. See "Cautionary Note to U.S. Investors Regarding Resource and Reserve Estimates" above.

Our operations contain significant uninsured risks which could negatively impact future profitability as we maintain no insurance against our operations.

Our exploration of our mineral properties contains certain risks, including unexpected or unusual operating conditions including rock bursts, cave-ins, flooding, fire and earthquakes. It is not always possible to insure against these risks. Should events such as these arise, they could reduce or eliminate our assets and shareholder equity as well as result in increased costs and a decline in the value of our securities. We expect to maintain only general liability and director and officer insurance but no insurance against our properties or operations. We may decide to take out this insurance in the future if it is available at economically viable rates.

Mineral operations are subject to market forces outside of our control which could negatively impact our operations.

The marketability of minerals is affected by numerous factors beyond our control including market fluctuations, government regulations relating to prices, taxes, royalties, allowable production, imports, exports and supply and demand. One or more of these risk elements could have an impact on the costs of our operations and if significant enough, reduce the profitability of our operations.

Permitting, licensing and approval processes are required for our operations and obtaining and maintaining these permits and licenses is subject to conditions which we may be unable to achieve.

Many of our operations require licenses and permits from various governmental authorities. We believe we hold or are in the process of obtaining all necessary licenses and permits to carry on the activities which we are currently conducting or propose to conduct under applicable laws and regulations. Such licenses and permits are subject to changes in regulations and changes in various operating circumstances. There can be no guarantee that we will be able to obtain all necessary licenses and permits that may be required to maintain our exploration and mining activities including constructing mines or milling facilities and commencing operations of any of our exploration properties. In addition, if we proceed to production on any exploration property, we must obtain and comply with permits and licenses which may contain specific operating conditions. There can be no assurance that we will be able to obtain such permits and licenses or that we will be able to comply with any such conditions. Costs related to applying for and obtaining permits and licenses may be prohibitive and could delay our planned exploration and development activities. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions.

Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on our operations and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

We are subject to significant governmental regulations, which affect our operations and costs of conducting our business.

Our current and future operations are and will be governed by laws and regulations, including:

- laws and regulations governing mineral concession acquisition, prospecting, development, mining and production;
- laws and regulations related to exports, taxes and fees;
- labor standards and regulations related to occupational health and mine safety;
- environmental standards and regulations related to waste disposal, toxic substances, land use and environmental protection; and
- other matters.

Companies engaged in exploration activities often experience increased costs and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits. Failure to comply with applicable laws, regulations and permits may result in enforcement actions, including the forfeiture of claims, orders issued by regulatory or judicial authorities requiring operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or costly remedial actions. We may be required to compensate those suffering loss or damage by reason of our mineral exploration activities and may have civil or criminal fines or penalties imposed for violations of such laws, regulations and permits.

Existing and possible future laws, regulations and permits governing operations and activities of exploration companies, or more stringent implementation, could have a material adverse impact on our business and cause increases in capital expenditures or require abandonment or delays in exploration.

Our operations are subject to environmental risks and compliance with environmental regulations which are increasing and costly.

All phases of our operations are subject to environmental regulation in the jurisdictions in which we operate. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. These laws address emissions into the air, discharges into water, management of waste, management of hazardous substances, protection of natural resources, antiquities and endangered species and reclamation of lands disturbed by mining operations. Compliance with environmental laws and regulations and future changes in these laws and regulations may require significant capital outlays and may cause material changes or delays in our operations and future activities. It is possible that future changes in these laws or regulations could have a significant adverse impact on our properties or some portion of our business, causing us to re-evaluate those activities at that time.

U.S. Federal Laws

The Comprehensive Environmental, Response, Compensation, and Liability Act (CERCLA), and comparable state statutes, impose strict, joint and several liability on current and former owners and operators of sites and on persons who disposed of or arranged for the disposal of hazardous substances found at such sites. It is not uncommon for the government to file claims requiring cleanup actions, demands for reimbursement for government-incurred cleanup costs, or natural resource damages, or for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by hazardous substances released into the environment. The Federal Resource Conservation and Recovery Act (RCRA), and comparable state statutes, govern the disposal of solid waste and hazardous waste and authorize the imposition of substantial fines and penalties for noncompliance, as well as requirements for corrective actions. CERCLA, RCRA and comparable state statutes can impose liability for clean-up

of sites and disposal of substances found on exploration, mining and processing sites long after activities on such sites have been completed.

The Clean Air Act, as amended, restricts the emission of air pollutants from many sources, including mining and processing activities. Our mining operations may produce air emissions, including fugitive dust and other air pollutants from stationary equipment, storage facilities and the use of mobile sources such as trucks and heavy construction equipment, which are subject to review, monitoring and/or control requirements under the Clean Air Act and state air quality laws. New facilities may be required to obtain permits before work can begin, and existing facilities may be required to incur capital costs in order to remain in compliance. In addition, permitting rules may impose limitations on our production levels or result in additional capital expenditures in order to comply with the rules.

The National Environmental Policy Act (NEPA) requires federal agencies to integrate environmental considerations into their decision-making processes by evaluating the environmental impacts of their proposed actions, including issuance of permits to mining facilities, and assessing alternatives to those actions. If a proposed action could significantly affect the environment, the agency must prepare a detailed statement known as an Environmental Impact Statement (EIS). The U.S. Environmental Protection Agency, other federal agencies, and any interested third parties will review and comment on the scoping of the EIS and the adequacy of and findings set forth in the draft and final EIS. This process can cause delays in issuance of required permits or result in changes to a project to mitigate its potential environmental impacts, which can in turn impact the economic feasibility of a proposed project.

The Clean Water Act (CWA), and comparable state statutes, impose restrictions and controls on the discharge of pollutants into waters of the United States. The discharge of pollutants into regulated waters is prohibited, except in accordance with the terms of a permit issued by the Environmental Protection Agency (EPA) or an analogous state agency. The CWA regulates storm water mining facilities and requires a storm water discharge permit for certain activities. Such a permit requires the regulated facility to monitor and sample storm water run-off from its operations. The CWA and regulations implemented thereunder also prohibit discharges of dredged and fill material in wetlands and other waters of the United States unless authorized by an appropriately issued permit. The CWA and comparable state statutes provide for civil, criminal and administrative penalties for unauthorized discharges of pollutants and impose liability on parties responsible for those discharges for the costs of cleaning up any environmental damage caused by the release and for natural resource damages resulting from the release.

The Safe Drinking Water Act (SDWA) and the Underground Injection Control (UIC) program promulgated thereunder, regulate the drilling and operation of subsurface injection wells. EPA directly administers the UIC program in some states and in others the responsibility for the program has been delegated to the state. The program requires that a permit be obtained before drilling a disposal or injection well. Violation of these regulations and/or contamination of groundwater by mining related activities may result in fines, penalties, and remediation costs, among other sanctions and liabilities under the SWDA and state laws. In addition, third party claims may be filed by landowners and other parties claiming damages for alternative water supplies, property damages, and bodily injury.

Legislation has been proposed that would significantly affect the mining industry.

Members of the U.S. Congress have repeatedly introduced bills which would supplant or alter the provisions of the Mining Law of 1872. If enacted, such legislation could change the cost of holding unpatented mining claims and could significantly impact our ability to develop mineralized material on unpatented mining claims. Such bills have proposed, among other things, to either eliminate or greatly limit the right to a mineral patent and to impose a federal royalty on production from unpatented mining claims. Although we cannot predict what legislated royalties might be, the enactment of these proposed bills could adversely affect the potential for development of unpatented mining claims and the economics of existing operating mines on federal unpatented mining claims. Passage of such legislation could adversely affect our financial performance.

Regulations and pending legislation governing issues involving climate change could result in increased operating costs, which could have a material adverse effect on our business.

A number of governments or governmental bodies have introduced or are contemplating regulatory changes in response to various climate change interest groups and the potential impact of climate change. Legislation and increased regulation regarding climate change could impose significant costs on us, our venture partners and our suppliers, including costs related to increased energy requirements, capital equipment, environmental monitoring and reporting and other costs to comply with such regulations. Any adopted future climate change regulations could also

negatively impact our ability to compete with companies situated in areas not subject to such limitations. Given the emotion, political significance and uncertainty around the impact of climate change and how it should be dealt with, we cannot predict how legislation and regulation will affect our financial condition, operating performance and ability to compete. Furthermore, even without such regulation, increased awareness and any adverse publicity in the global marketplace about potential impacts on climate change by us or other companies in our industry could harm our reputation. The potential physical impacts of climate change on our operations are highly uncertain, and would be particular to the geographic circumstances in areas in which we operate. These may include changes in rainfall and storm patterns and intensities, water shortages, changing sea levels and changing temperatures. These impacts may adversely impact the cost, production and financial performance of our operations.

Land reclamation requirements for our properties may be burdensome and expensive.

Although variable depending on location and the governing authority, land reclamation requirements are generally imposed on mineral exploration companies (as well as companies with mining operations) in order to minimize long term effects of land disturbance.

Reclamation may include requirements to:

- control dispersion of potentially deleterious effluents;
- treat ground and surface water to drinking water standards; and
- reasonably re-establish pre-disturbance land forms and vegetation.

In order to carry out reclamation obligations imposed on us in connection with our potential development activities, we must allocate financial resources that might otherwise be spent on further exploration and development programs. We plan to set up a provision for our reclamation obligations on our properties, as appropriate, but this provision may not be adequate. If we are required to carry out unanticipated reclamation work, our financial position could be adversely affected.

Increased competition could adversely affect our ability to attract necessary capital funding or acquire suitable producing properties or prospects for mineral exploration in the future.

The mining industry is intensely competitive. Significant competition exists for the acquisition of properties producing or capable of producing, REE, gold or other metals. We may be at a competitive disadvantage in acquiring additional mining properties because we must compete with other individuals and companies, many of which have greater financial resources, operational experience and technical capabilities than us. We may also encounter increasing competition from other mining companies in our efforts to hire experienced mining professionals. Competition for exploration resources at all levels is currently very intense, particularly affecting the availability of manpower, drill rigs, mining equipment and production equipment. Increased competition could adversely affect our ability to attract necessary capital funding or acquire suitable producing properties or prospects for mineral exploration in the future.

We compete with larger, better capitalized competitors in the mining industry.

The mining industry is competitive in all of its phases, including financing, technical resources, personnel and property acquisition. We will require significant capital, technical resources, personnel and operational experience to effectively compete in the mining industry. Because of the high costs associated with exploration, the expertise required to analyze a project's potential and the capital required to develop a mine, larger companies with significant resources may have a competitive advantage over us. We face strong competition from other mining companies, some with greater financial resources, operational experience and technical capabilities than us. As a result of this competition, we may be unable to maintain or acquire financing, personnel, technical resources or attractive mining properties on terms we consider acceptable or at all.

Joint ventures and other partnerships may expose us to risks.

Historically, we have entered into joint venture arrangements to help fund the exploration and potential development of our properties. In the future, we may enter into joint ventures or other partnership arrangements with other parties in relation to the exploration, development and production of certain of the properties in which we have an interest. Joint ventures can often require unanimous approval of the parties to the joint venture or their representatives for certain fundamental decisions such as an increase or reduction of registered capital, merger, division, dissolution, amendments

of constating documents, and the pledge of joint venture assets, which means that each joint venture party may have a veto right with respect to such decisions which could lead to a deadlock in the operations of the joint venture or partnership. Further, we may be unable to exert control over strategic decisions made in respect of such properties. Any failure of such other companies to meet their obligations to us or to third parties, or any disputes with respect to the parties' respective rights and obligations, could have a material adverse effect on the joint ventures or their properties and therefore could have a material adverse effect on our results of operations, financial performance, cash flows and the price of the common shares.

Foreign currency fluctuations may have a negative impact on our financial position and results.

Our property interests in the United States make us subject to foreign currency fluctuations that may adversely affect our financial position and results. As we maintain our accounts in Canadian dollars, any appreciation in the US Dollar against the Canadian Dollar will increase our costs of carrying out operations in the United States. Management has not entered into any foreign currency contracts to mitigate this risk; as such, we may suffer losses due to adverse foreign currency fluctuations.

We are dependent on key personnel and the absence of any of these individuals could adversely affect us.

Our success is currently largely dependent on the performance, retention and abilities of our directors, officers, employees and management. The loss of the services of these persons could have a material adverse effect on our business and prospects. There is no assurance that we can maintain the services of our directors, officers, employees or other qualified personnel required to operate its business. Failure to do so could have a material adverse affect on us and our prospects. We do not maintain "key man" life insurance policies on any of our officers or employees.

We may experience difficulty attracting and retaining qualified management to meet the needs of our anticipated growth, and the failure to manage our growth effectively could have a material adverse effect on our business and financial condition.

Competition for additional qualified management is intense, and we may be unable to attract and retain additional key personnel, or to attract and retain personnel on terms acceptable to us. Management personnel are currently limited and they may be unable to manage our expansion successfully and the failure to do so could have a material adverse effect on our business, results of operations and financial condition. We have not entered into non-competition agreements. As our business is substantially dependent upon the directors, executive officers and consultants, the lack of non-competition agreements poses a significant risk to us in the event such persons were to resign or be terminated from such positions. Under such circumstances, such persons may provide confidential information and key contacts to our competitors and we may have difficulties in preventing the disclosure of such information. Such disclosure would have a material adverse effect on our business and operations.

Our directors/senior management are engaged in other businesses. Potential conflicts of interest and other obligations of management could interfere with corporate operations.

Most of our directors and officers are engaged and will continue to be engaged in the search for additional business opportunities on behalf of other entities, and situations may arise where these directors and officers will be in direct competition with us. Conflicts, if any, will be dealt with in accordance with the relevant provisions of applicable regulations and legislation. Some of our directors and officers are or may become directors or officers of other entities engaged in other business ventures. In order to avoid the possible conflict of interest which may arise between the directors and officers' duties to us and their duties to the other entities they are involved, our directors and officers have been advised as follows by us: participation in other business ventures offered to the directors or officers should be allocated between the various entities and on the basis of prudent business judgment and the relative financial abilities and needs of such entities to participate; no commissions or other extraordinary consideration will be paid to such directors and officers; and business opportunities formulated by or through other entities in which the directors and officers are involved should not be offered to us except on the same or better terms than the basis on which they are offered to third party participants. Our directors and officers are, or may become, involved in other business activities. As a result of their other business endeavors, our directors and officers may not be able to devote sufficient time to our business affairs, which may negatively affect its ability to conduct ongoing operations and to generate revenues. In addition, our management of may be periodically interrupted or delayed as a result of its officers' other business interests.

Title to our properties may be subject to other claims, which could affect our property rights and claims.

There are risks that title to our properties may be challenged or impugned. Our material property is located in Wyoming and may be subject to prior unrecorded agreements or transfers or native land claims and title may be affected by undetected defects. There may be valid challenges to the title of our properties which, if successful, could impair development and/or operations. This is particularly the case in respect of those portions of our properties in which we hold our interest solely through a lease with the claim holders, as such interest is substantially based on contract and has been subject to a number of assignments (as opposed to a direct interest in the property).

Several of the mineral rights to our properties consist of "unpatented" mining claims created and maintained in accordance with the U.S. General Mining Law. Unpatented mining claims are unique property interests, and are generally considered to be subject to greater title risk than other real property interests because the validity of unpatented mining claims is often uncertain. This uncertainty arises, in part, out of the complex federal and state laws and regulations under the U.S. General Mining Law. Also, unpatented mining claims are always subject to possible challenges by third parties or validity contests by the federal government. The validity of an unpatented mining or mill site claim, in terms of both its location and its maintenance, is dependent on strict compliance with a complex body of U.S. federal and state statutory and decisional law. In addition, there are few public records that definitively determine the issues of validity and ownership of unpatented mining claims. Should the federal government impose a royalty or additional tax burdens on the properties that lie within public lands, the resulting mining operations could be seriously impacted, depending upon the type and amount of the burden

U.S. investors may not be able to enforce their civil liabilities against us or our directors, controlling persons and officers.

It may be difficult to bring and enforce suits against us. We are incorporated in the province of British Columbia under the British Columbia *Business Corporations Act*. Many of our directors are residents of Canada, and a substantial portion of their assets are located outside of the United States, predominately in Canada. As a result, it may be difficult for U.S. holders of our common shares to effect service of process on these persons within the United States or to realize in the United States upon judgments rendered against them. In addition, a shareholder should not assume that the courts of Canada (i) would enforce judgments of U.S. courts obtained in actions against us or such persons predicated upon the civil liability provisions of the U.S. federal securities laws or other laws of the United States, or (ii) would enforce, in original actions, liabilities against us or such persons predicated upon the U.S. federal securities laws or other laws of the United States.

Risk Related to Our Securities

We do not currently intend to pay cash dividends.

We have not declared any dividends since incorporation and do not anticipate that we will do so in the foreseeable future. Our present policy is to retain all available funds for use in our operations and the expansion of our business. Payment of future cash dividends, if any, will be at the discretion of our board of directors and will depend on our financial condition, results of operations, contractual restrictions, capital requirements, business prospects and other factors that our board of directors considers relevant. Accordingly, investors will only see a return on their investment if the value of our securities appreciates.

Dilution through outstanding common share options could adversely affect our shareholders.

Because our success is highly dependent upon our employees and consultants, we have granted to some or all of our key employees, directors and consultants options to purchase common shares as non-cash incentives. To the extent that significant numbers of such options may be granted and exercised, the interests of the other shareholders may be diluted. As of the date of this Form 10-K, there are 3,526,500 share purchase options outstanding, which, if exercised, would result in an additional 3,526,500 common shares being issued and outstanding.

Price volatility of our publicly traded securities could adversely affect investor's portfolios.

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. It may be anticipated that any quoted market for the common shares will be subject to market trends and conditions generally, notwithstanding any potential success of the Company in creating revenues, cash flows or earnings. The price of our common shares have been subject to price and volume volatility in the past and will likely continue to be subject to such volatility in the future.

We likely constituted a "passive foreign investment company" during the tax year ended June 30, 2011, which will likely have adverse U.S. federal income tax consequences for U.S. shareholders.

U.S. investors in our common shares should be aware that we believe that we were classified as a PFIC during the tax year ended June 30, 2011, and based on current business plans and financial expectations, we expect that we will be a PFIC for the current tax year. If we are a PFIC for any year during a U.S. shareholder's holding period, then such U.S. shareholder generally will be required to treat any gain realized upon a disposition of common shares, or any so-called "excess distribution" received on its common shares, as ordinary income, and to pay an interest charge on a portion of such gain or distributions, unless the shareholder makes a timely and effective "qualified electing fund" election ("QEF Election") or a "mark-to-market" election with respect to the common shares. A U.S. shareholder who makes a QEF Election generally must report on a current basis its share of our net capital gain and ordinary earnings for any year in which we are a PFIC, whether or not we distribute any amounts to our shareholders. However, U.S. shareholders should be aware that there can be no assurance that we will satisfy record keeping requirements that apply to a qualified electing fund, or that we will supply U.S. shareholders with information that such U.S. shareholders require to report under the QEF Election rules, in the event that we are a PFIC and a U.S. shareholder wishes to make a QEF Election. Thus, U.S. shareholders may not be able to make a QEF Election with respect to their common shares. A U.S. shareholder who makes the mark-to-market election generally must include as ordinary income each year the excess of the fair market value of the common shares over the taxpayer's basis therein. Each U.S. shareholder should consult its own tax advisor regarding the U.S. federal, U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local, and foreign tax consequences of the PFIC rules and the acquisition, ownership, and disposition of common shares.

ITEM 1B. UNRESOLVED STAFF COMMENTS

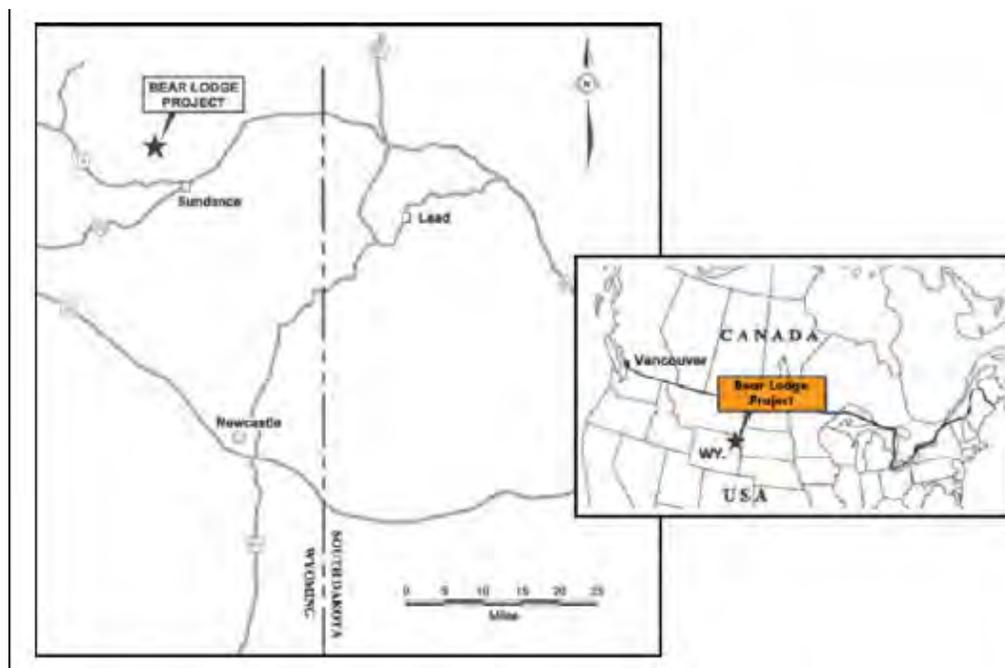
We do not have any unresolved comments from the SEC staff regarding our periodic or current reports under the Securities Exchange Act of 1934, as amended.

ITEM 2. DESCRIPTION OF PROPERTIES

The Company's business is the acquisition, exploration and development of mineral properties. The Company's primary properties are the Bear Lodge REE Project and the Sundance Gold Project located in northeastern Wyoming, USA. During the year ended June 30, 2010, the Company also acquired the Eden Lake property in Manitoba, Canada and the Nuiklavik property in Labrador, Canada. Both Eden Lake and Nuiklavik properties contain REE deposits.

Bear Lodge Property, Northeastern Wyoming, USA

Bear Lodge Property – Location Map



Acquisition

The property was acquired through the July 2003 reverse-takeover acquisition of Paso Rico Resources Ltd. (subsequently known as Rare Element Holdings Ltd., ("Holdings")), which originally had a property option to acquire full ownership of the property through exploration expenditures on the property and subsequently, before the reverse-takeover by the Company, obtained 100% ownership in September 2002.

Location and Ownership

Rare Element Resources, Inc. ("RER, Inc.") (a wholly-owned subsidiary of Holdings) holds a 100 percent mineral rights interest in a group of unpatented mineral claims, known as the Bear Lodge Property, which consists of the Bear Lodge REE Project and the Sundance Gold Project. The property is situated in the Bear Lodge Mountains of Crook County, northeastern Wyoming. These claims were, in part, acquired from Freeport-McMoRan Copper & Gold ("Freeport"), which was known as Phelps Dodge Corporation at that time, by way of a "Mineral Lease and Option for Deed". Some of the claims and a portion of a defined area of influence surrounding the claims were previously subject to a production royalty of 2 percent of Net Smelter Returns ("NSR") payable to Freeport. RER, Inc. owns a portion of the claim group outright and those claims were not subject to the NSR. On March 31, 2009, the Company re-purchased the NSR for \$50,000. The core group of claims is free of royalties.

The total property comprises 494 unpatented mineral claims located on land administered by the U.S. Forest Service and a 640-acre Wyoming state lease for a total of approximately 16 square miles.

| AMENDED RECORDATION RECEPTION NO. | | | | | | |
|--|-----------------------------------|--------------------------------------|-----------------------|-------------------------|-----------------|--------------|
| Claim Name | Recording Reception No | RECORDATION RECEPTION NO. | BLM Serial No. | Section | Township | Range |
| Sun 9-17 | 581022-30 | | WMC-275672-80 | 7,12,13,18 | 52N | 63W |
| Sun 34-41 | 581047-54 | | WMC-275697-704 | 7 | 52N | 63W |
| Sun 53 | 581066 | | WMC-275716 | 8 | 52N | 63W |
| Sun 55 | 581068 | | WMC-275718 | 5, 8 | 52N | 63W |
| Sun 57-74 | 581070-87 | | WMC-275720-37 | 7,8,17,18 | 52N | 63W |
| Sun 83 | 581096 | | WMC-275746 | 5 | 52N | 63W |
| Sun 85 | 581098 | | WMC-275748 | 5 | 52N | 63W |
| Sun 87-116 | 581100-129 | | WMC-275750-79 | 4,5,8,9,16,17 | 52N | 63W |
| COLE 7-20 | 570451-64 | | WMC-260907-20 | 22,23,26,27 | 52N | 63W |
| COLE 22 | 570466 | | WMC-260922 | 23 | 52N | 63W |
| COLE 24 | 570468 | | WMC-260924 | 23 | 52N | 63W |
| COLE 26-60 | 570470-504 | | WMC-260926-60 | 14,15,22,23 | 52N | 63W |
| COLE 60A | 612967 | | WMC-303658 | 15 | 52N | 63W |
| COLE 61 | 570505 | | WMC-260961 | 15 | 52N | 63W |
| | | | | 22 | 52N | 63W |
| COLE 62 | 570506 | | WMC-260962 | 15 | 52N | 63W |
| COLE 63-74 | 576950-61 | | WMC-268910-21 | 21,22 | 52N | 63W |
| DEN 1 | 577594 | | WMC-270117 | 26 | 52N | 63W |
| DEN 6 | 577599 | | WMC-270122 | 26,36 | 52N | 63W |
| DEN 22 | 577615 | | WMC-270138 | 3 | 51N | 63W |
| DEN 29 | 577622 | | WMC-270145 | 3 | 51N | 63W |
| DEN 36 | 577629 | | WMC-270152 | 32 | 52N | 63W |
| DEN 40-75 | 577633-68 | | WMC-270156-91 | 28,29,31,32,33 | 52N | 63W |
| DEN 88-97 | 577681-90 | 612971-77 | WMC-270204-13 | 28,29 | 52N | 63W |
| DEN 97A | 612969 | | WMC-303667 | 29 | 52N | 63W |
| DEN 98-118 | 577691-711 | | WMC-270214-34 | 29,30 | 52N | 63W |
| DEN 127-172 | 577720-65 | | WMC-270243-88 | 13,18,19,20,29,30 | 52N | 63W |
| | | | WMC-268922- 270363 | | | |
| OGDEN 1-87 | 576938-7840 | | | 21,22,26,27,28,33,34,35 | 52N | 63W |
| REU 1-78 | 570507-87 | | WMC-260963-040 | 3,4,5,32,33,34, | 51N, 52N | 63W |
| AF 58-62 | 612960-64 | | WMC-303651-55 | 27,28 | 52N | 63W |
| BL 15-39 | 571269-300 | | WMC-262061-84 | 7,18 | 52N | 63W |
| BL 45-52 | 571292-299 | | WMC-262085-92 | 17,18 | 52N | 63W |
| BL 59-65 | 510598-604 | 612978-84 | WMC-247983-89 | 17 | 52N | 63W |
| BL 72-78 | 510611-17 | 612985-91 | WMC-247996-002 | 17 | 52N | 63W |
| BL 85-91 | 571285-91 | | WMC-262093-99 | 16,17 | 52N | 63W |
| BL 300-19 | 571277-84 | 612992-000 | WMC-262100-107 | 21 | 52N | 63W |
| IVAN 1-23 | 577036-54 | | WMC-270381-400 | 28,29,32,33 | 52N | 63W |

Upon Newmont Mining Company's ("Newmont") withdrawal from the Sundance Gold Project, it transferred 327 of its claims to the Company in May 2010. There is a sliding scale royalty on certain state lease land due to the State of Wyoming if ore is mined from the state section. All claims are located on federal lands and are subject to annual maintenance fees payable to the United States Bureau of Land Management. These fees are paid up to date.

The Bear Lodge REE Project contains high grades of predominantly the “light” REE (lanthanum, cerium, praseodymium, neodymium, and samarium) and some of the highest grades in North America of the “heavy” REE europium and terbium plus significant quantities of the heavy REE--dysprosium.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

The Bear Lodge Property is located in central Crook County, northeastern Wyoming, in the northwestern portion of the Black Hills uplift. The property is situated immediately north of the crest of the Bear Lodge Mountains, a relatively small northwesterly trending range. The property is flanked to the west by the Powder River Basin, famous for its extensive coalmines, and is surrounded by the Great Plains. The Bear Lodge Property lies about 12 road miles northwest of the small town of Sundance, Wyoming, approximately 22 air miles west of the South Dakota state line, 55 air miles east of the larger town of Gillette, Wyoming, and 230 miles north of Cheyenne, the state capital. Gillette has many of the services required by the mining industry.

Access to the Bear Lodge Property is very good, but in the winter months the property is not as readily accessible due to snow accumulation. Primary access to the property is from the town of Sundance, Wyoming, situated along US Interstate Highway 90. The project area is reached by traveling on paved roads west from Sundance about 1.5 miles along US Highway 14, then north on US Forest Service Taylor Divide Road #838 for 7.4 miles to the summit of Warren Peaks. The final 3.2 miles to the Bull Hill area of the property is on well-maintained gravel roads (continuing on USFS#838 and then right on USFS#851) until the turnoff to the Bull Hill Road, about 0.8 miles of a narrow one-lane dirt road leading to the Bull Hill REE target area. Road access within the property is relatively extensive via a number of good quality logging roads and four-wheel drive trails that were cleared during previous exploration and logging activities.

Motels, restaurants, and gas stations are available to the south in the nearby town of Sundance, and a greater variety of accommodations and services are available to the east in Spearfish, South Dakota.

Necessary infrastructure, such as housing, food, fuel, etc., would be available in either town, or further to the west in Gillette, Wyoming, should the property enter the development stage. Water rights would likely be available through purchase, and a major power line runs within a mile of the property. Supplies can be trucked to the site 60 miles from Gillette, which is located on both US Interstate Highway 90 and rail lines. A Burlington Northern rail transport line also runs through Moorcroft, 34 miles west of Sundance. The Gillette area has a coal-fired power plant, and the city would be a major logistics center for any development at the Bear Lodge Property. The current size of the property is sufficiently large to support a mining operation, with no foreseeable obstacles regarding expansion, subject to a favorable environmental permitting outcome.

The Bear Lodge Mountains have a warm and relatively dry climate during summer, followed by cold winters with variable amounts of snow. Optimal field conditions extend from April to November. The Taylor Divide Road is not maintained during winter months, and snowmobile access is given priority from December through March. The property lies within the Black Hills National Forest along the crest of the northern part of the Bear Lodge Mountains, a narrow northwest-trending range situated in northeastern Wyoming. Physiographically it is a northwesterly extension of the Black Hills of western South Dakota. The range is characterized by rounded grass- and pine-covered mountains reaching elevations of 6,400 feet within the property. The mountains have moderate slopes covered by western yellow pine forest interspersed with dense thickets of brush. Narrow grassy meadows cover the upper reaches of seasonal drainages. The lowest point within the property is about 5,800 feet elevation.

Bear Lodge REE Project

Mineral Resources

The Company’s comprehensive NI 43-101-compliant Technical Report with an initial mineral resource estimate of REE plus yttrium at the Bull Hill deposit was dated April 14, 2009. The report incorporated descriptions of all the exploration work and metallurgical testing completed by the Company since the initial exploration NI 43-101-compliant report was issued in 2002. The report also included recommendations for additional exploration work to expand the REE mineral resource and the metallurgical testing program. The recommended work was completed.

On May 26, 2010, the Company reported an updated mineral resource estimate of REE plus yttrium contained in two deposits located in the Bull Hill area of the Bear Lodge REE Project. The updated mineral resource estimate increased the total pounds of Rare Earth Oxides (“REOs”) contained in the Bull Hill deposits by more than 50 percent from 800 million pounds to 1,210 million pounds at a 1.5 percent REO cutoff grade. The mineral resource was estimated by an independent consultant—Ore Reserves Engineering (“ORE”).

On June 14, 2011, the Company announced the results of an upgraded and increased NI 43-101 compliant mineral resource estimate of REE plus yttrium contained in three deposits located in the Bull Hill area of the Bear Lodge REE Project (Table 1). The updated resource estimate upgrades 4.9 million tons (4.44 mm metric tonnes) to the indicated category and increases the total pounds of REO contained in the Bull Hill high-grade deposits by 20 percent from 1,210 million pounds (550 million kg) to 1,450 million pounds (660 million kg) at a 1.5 percent REO cutoff grade (Tables 1 and 2). The mineral resources were estimated by ORE, an independent consultant.

The new resource estimate is derived from a REE database that includes eighty six core drill holes completed by the Company between 2008 and 2010 for a total of 62,625 feet (19,093 m). The new resource estimate focuses on the dike sets in the Bull Hill (Bull Hill Southwest) deposit, plus the Bull Hill Northwest and the Whitetail Ridge deposit areas. In addition, the drilling indicates significant potential for expansion of all three deposits, for discovering mineralization in the undrilled areas between the deposits, and for definition of resources in other areas, such as Bull Hill West, East Taylor and the Carbon REE target.

The total mineral resources estimate by ORE for the three deposits are summarized in the following tables at a range of cutoff grades and for the different oxidation zones, including the oxide, oxide-carbonate, transitional, and sulfide/unoxidized zones (Tables 1 and 2):

Table 1. Total Indicated Tons and Grade of the Various Oxidation Zones at a Range of Cut-Off Grades

| Cutoff Grade (%REO) ^{1,3} | Oxide | | Oxide-Carb. | | Total Oxidized | |
|------------------------------------|----------------|--------------|----------------|--------------|----------------|--------------|
| | Tons (million) | Grade (%REO) | Tons (million) | Grade (%REO) | Tons (million) | Grade (%REO) |
| 1 | 4.5 | 2.88 | 2.3 | 3.41 | 6.8 | 3.06 |
| 1.5³ | 2.9 | 3.78 | 2.0 | 3.75 | 4.9 | 3.77 |
| 2 | 2.3 | 4.33 | 1.8 | 4.02 | 4.0 | 4.20 |
| 2.5 | 1.8 | 4.94 | 1.5 | 4.35 | 3.2 | 4.67 |
| 3 | 1.4 | 5.53 | 1.2 | 4.80 | 2.6 | 5.20 |
| 3.5 | 1.1 | 6.12 | 0.9 | 5.27 | 2.0 | 5.74 |
| 4 | 0.9 | 6.72 | 0.7 | 5.74 | 1.6 | 6.30 |
| 4.5 | 0.7 | 7.29 | 0.5 | 6.27 | 1.2 | 6.87 |
| 5 | 0.6 | 7.73 | 0.4 | 6.81 | 1.0 | 7.39 |

Table 2. Total Inferred Tons and Grade of the Various Oxidation Zones at a Range of Cut-Off Grades

| Cutoff Grade (%REO) | Oxide | | Oxide-Carb. | | Total Oxidized | | Transitional | | Sulfide | | Total | |
|---------------------|----------------|--------------|----------------|--------------|----------------|--------------|----------------|--------------|----------------|--------------|----------------|--------------|
| | Tons (million) | Grade (%REO) |
| 1.0 | 13.7 | 2.49 | 4.3 | 2.52 | 18.0 | 2.50 | 1.8 | 2.11 | 7.6 | 2.22 | 27.3 | 2.39 |
| 1.5 | 8.4 | 3.33 | 3.3 | 2.93 | 11.6 | 3.22 | 1.0 | 2.71 | 5.1 | 2.68 | 17.8 | 3.03 |
| 2.0 | 6.6 | 3.76 | 2.6 | 3.22 | 9.2 | 3.60 | 0.7 | 3.23 | 3.4 | 3.16 | 13.3 | 3.47 |
| 2.5 | 5.1 | 4.20 | 2.1 | 3.49 | 7.1 | 3.99 | 0.5 | 3.58 | 2.3 | 3.58 | 10.0 | 3.88 |
| 3.0 | 3.5 | 4.88 | 1.4 | 3.88 | 4.9 | 4.60 | 0.3 | 4.10 | 1.4 | 4.17 | 6.5 | 4.48 |
| 3.5 | 2.4 | 5.67 | 0.7 | 4.45 | 3.1 | 5.39 | 0.2 | 4.49 | 1.0 | 4.51 | 4.3 | 5.13 |
| 4.0 | 1.7 | 6.41 | 0.4 | 4.93 | 2.2 | 6.11 | 0.2 | 4.75 | 0.7 | 4.90 | 3.0 | 5.77 |
| 4.5 | 1.5 | 6.83 | 0.3 | 5.32 | 1.7 | 6.59 | 0.1 | 5.38 | 0.4 | 5.41 | 2.2 | 6.34 |
| 5.0 | 1.2 | 7.22 | 0.2 | 5.67 | 1.4 | 7.03 | 0.0 | 6.01 | 0.3 | 5.75 | 1.7 | 6.81 |

Table 3. Resource Estimates and Contained REO for the Three Individual Deposits

| Resource Class | ZONE | | Bull Hill SW | | Bull Hill NW | | Whitetail R. | | Total | | |
|----------------|-----------------------|---------------------|-----------------|--------------|-----------------|--------------|-----------------|--------------|-----------------|--------------|--------------------|
| | Oxidation | Cutoff Grade (%REO) | Tons (millions) | Grade (%REO) | lbs REO (millions) |
| Indicated | Oxide | 1.5 | 2.9 | 3.78 | - | - | - | - | 2.9 | 3.78 | 220 |
| | Oxide+Carbonate | 1.5 | 2.0 | 3.75 | - | - | - | - | 2.0 | 3.75 | 149 |
| | Total Oxidized | 1.5 | 4.9 | 3.77 | - | - | - | - | 4.9 | 3.77 | 369 |
| Inferred | Oxide | 1.5 | 5.9 | 3.48 | 1.0 | 2.38 | 1.6 | 3.32 | 8.4 | 3.33 | 557 |
| | Oxide+Carbonate | 1.5 | 3.0 | 2.98 | 0.1 | 2.04 | 0.2 | 2.50 | 3.3 | 2.93 | 192 |
| | Total Oxidized | 1.5 | 8.9 | 3.31 | 1.1 | 2.35 | 1.7 | 3.24 | 11.6 | 3.22 | 749 |
| | Transition | 1.5 | 0.9 | 2.80 | 0.1 | 2.08 | 0.0 | 1.79 | 1.0 | 2.71 | 56 |
| | Sulfide | 1.5 | 3.9 | 2.80 | 1.2 | 2.30 | 0.0 | 1.69 | 5.1 | 2.68 | 275 |
| | Total Inferred | 1.5 | 13.7 | 3.13 | 2.4 | 2.31 | 1.7 | 3.22 | 17.8 | 3.03 | 1080 |

1. REO (rare-earth oxides) include Ce_2O_3 , La_2O_3 , Nd_2O_3 , Pr_2O_3 , Sm_2O_3 , Gd_2O_3 , Y_2O_3 , Eu_2O_3 , Dy_2O_3 , Tb_2O_3 , Er_2O_3 and other minor oxides listed in general order of decreasing abundance in the deposits.
2. The resources estimates are classified as Indicated and Inferred Mineral Resources as defined by CIM and referenced in NI 43-101.
3. ORE considers a range of 1.0 to 2.5 percent REO cut-off grade to be reasonable in preliminary estimation of potentially economic resources. A cutoff grade of 1.5 percent REO has been selected as the base case and it is highlighted; a cutoff grade of 3.0 percent REO is also highlighted to show the higher-grade tons above the cutoff. Low-grade material above 0.5 percent cut-off grade is undergoing metallurgical testing to determine if a simple low-cost process can result in its being upgraded.
4. A detailed program of core sampling and bulk density measurement was conducted successfully during the 2010 drilling program, especially for oxide mineralization which is more difficult to measure accurately.
5. **Cautionary Note to U.S. Investors** - In this Annual Report we use the terms "mineral resource", "measured mineral resource", "indicated mineral resource" and "inferred mineral resource", which are geological and mining terms as defined in accordance with NI 43-101 under the guidelines adopted by CIM, as CIM Standards in Mineral Resources and Reserve Definition and Guidelines adopted by the CIM. US investors in particular are advised to read carefully the definitions of these terms as well as the "Cautionary Note to U.S. Investors Regarding Reserve and Resource Estimates" above.

The current upgraded resource, plus additional resources planned for upgrade during the 2011 drill program, will be included in a Preliminary Feasibility Study scheduled for completion in early 2012. The Company's 2011 exploration program is planned to include more than 50 in-fill and step-out drill holes to further upgrade and expand the resource.

Geology & Mineralization

REE mineralization occurs in the north-central core of the Bear Lodge alkaline-igneous complex located in northeastern Wyoming. All of the most important REE deposits and occurrences in the Bear Lodge district are controlled by RER, Inc.'s lode claims, and are located in the vicinity of Bull Hill.

Rare-earth mineralized bodies occurring as dikes and veins within the Bull Hill area of the district include a well-defined, near-surface oxidized FMR (iron oxide-manganese oxide-REE) zone, a near-surface oxidized but incompletely leached carbonatite zone (oxide-carbonate zone), a transitional or mixed zone (oxide + sulfide), and a deeper sulfide-bearing carbonatite (a high-carbonate igneous rock) zone. The oxide-carbonate and transitional zones were referred to collectively in previous new releases and technical reports as "transitional zone". As the Company's understanding of the deposit has progressed, it made sense to subclassify mineralized zones based on key characteristics of those zones. The FMR dikes and veins contain no matrix carbonates or sulfides. The sulfides are completely oxidized to hydrous iron oxides, and the non-REE bearing carbonate minerals (calcite and strontianite) are completely leached from the zone, which ranges from the surface to depths of about 300 – 500 feet. The oxide-carbonate zone generally occurs beneath the oxide zone, but may locally breach the surface in select dikes. It is characterized by an absence of sulfides, with the residual iron oxides formed during the complete oxidation of the

former sulfide minerals, and by variable amounts of relict matrix carbonates (calcite ± strontianite). As now defined, the transitional zone is relatively flat-lying and occurs as a thin layer immediately above the sulfide-bearing carbonatite zone. It contains mixed iron oxides and sulfides, along with a significant amount of relict matrix carbonates. The iron oxides in this zone are derived primarily from the variable partial to complete oxidation of constituent sulfide minerals. The unoxidized sulfide-bearing carbonatite at depth has not been leached of matrix carbonates and retains all of its initial sulfide content.

Metallurgy of the oxide zone is well established and has been reported previously. Initial metallurgical testing of the oxide-carbonate zone resource indicates that mineral pre-concentration test results are similar to those for the oxide zone mineralization. Early indications suggest that chemical concentration of the REO from this zone will consume more reagents than the oxide zone mineralization.

The **Bull Hill** deposit, formerly known as Bull Hill SW, contains the bulk of the current resources. The deposit comprises a steeply-dipping FMR-carbonatite dike swarm. Geological interpretation of results from the 2010 drill program indicate that the Bull Hill resource area is dominated by northwest-striking mineralized bodies in the southern two-thirds of the resource area, while the northern part of the resource area exhibits a transitional change in strike from dominantly northwesterly to almost due north. The dike swarm primarily intrudes heterolithic intrusive breccia of the Bull Hill diatreme. Carbonatite dikes at depth are interpreted to transition toward the surface into either oxide-carbonate bodies or FMR bodies, which range in size from veinlets to large dikes more than 100 feet in width. The Bull Hill deposit consists of one dominant dike set and several subsidiary dike sets in a swarm that strikes over 1,500 feet in length and covers several hundred feet in width. The dikes appear to pinch and swell in both strike and dip directions, and they can be traced in drill holes more than 1,000 feet down dip. A number of gold deposits and other occurrences of anomalous gold are distributed peripherally to the Bull Hill REE mineralization and are part of the Company's Sundance Gold Project.

The **Bull Hill Northwest** deposit shares many characteristics with the Bull Hill deposit. The oxide zone extends somewhat deeper, probably owing to a complex regime of intersecting fault structures. The structural controls for the mineralized bodies remain incompletely understood in this resource area, but it appears most likely that northerly-striking mineralized bodies predominate. The dikes cut alkalic silicate rocks, predominantly trachytes and phonolites, and they are part of an FMR/carbonatite dike system that appears to be distinct from the Bull Hill SW dike system. The deposit is open to the north and at depth. Additional drilling will be done during the 2011 program to better define the orientation of the system and to expand the current resource.

The **Whitetail Ridge** deposit is marked at the surface by a zone of FMR stockwork and a coincident geophysical anomaly. The size of the geophysical anomaly (approximately 1,400 by 2,000 feet elongate northeasterly) provides an indication that the REE target may be larger than others in the district. Detailed mapping suggests that the REE mineralization consists of northwest-striking FMR dikes and an FMR stockwork zone that is elongate northeasterly, with dimensions of roughly 1,250 feet (380 meters) by 950 feet (290 meters). The enveloping geophysical anomaly is larger and may indicate a broader distribution of REE mineralization beneath the extensive soil and colluvial cover. This is the same area that the US Bureau of Mines drilled in the early 1950s and estimated a large tonnage of low-grade stockwork mineralization. Only a small part of this target area has been tested with the Company's drill holes. Drilling during the Company's planned 2011 program is expected to expand and better delineate the current Whitetail Ridge resource.

The major dike sets in all of the resource areas are accompanied by peripheral zones of lower-grade stockwork REE mineralization. The term "stockwork" refers to a rock cut by a network of small veins or dikes that contain the mineralization. REE grades in the stockwork zones range between about 0.5 and 2 percent REO. The Company is investigating low-cost physical processing methods to upgrade the contained REE mineralization in the stockwork for eventual inclusion with the resources reported here.

The Company considers the geologic modeling and resource estimation results encouraging for the following reasons:

- A portion of the oxidized resource was upgraded to the "indicated" category.
- The tonnage of the overall resource was expanded relative to the May, 2010 NI 43-101- compliant resource estimate, but with slightly lower REO grades.
- The more extensively drilled Bull Hill deposit shows excellent lateral and vertical continuity of mineralization and grades within the dike sets.

- The REE mineralization that constitutes the Bull Hill resource is open for expansion at depth, to the southeast, and to the northwest toward Whitetail Ridge.
- The Whitetail Ridge deposit was defined by drilling in only a small part of the target area.
- The Bull Hill West target area hosts FMR/carbonatite dikes that may be related to both the Bull Hill and Whitetail Ridge mineralizing systems and mineralization appears to be open in all directions.
- The Company believes that there is room for the mineral resource tonnage to increase significantly in all deposit and target areas.
- Bulk-tonnage, lower-grade stockwork mineralization adjacent to the higher-grade zones is extensive, and only a small part of the potential has been tested by drill holes. With further metallurgical testing, this material may be defined as an additional resource.

The updated mineral resource estimate confirms that potentially economic resources are present in the Bull Hill area, and it justifies further technical work including drilling, metallurgical testing, and engineering studies. Considerable in-fill definition drilling is required to increase the confidence level and upgrade more of the inferred resources to the indicated category. Step-out drilling is planned to expand the resource and define the boundaries of the mineralization.

Cutoff Grade & Metallurgy

The resource size is sensitive to an assumed cut-off grade, which is sensitive to metallurgical operating costs. The Company is advancing its rare-earth metallurgical studies at: Mountain States Research & Development International, Vail, Arizona, Nagrom, Perth, Australia, and Hazen Research, Golden, Colorado. The objective for each of these testing laboratories is developing and optimizing an effective and cost-efficient metallurgical flowsheet. The metallurgical testing program will continue through 2011 on mineralized core samples collected during 2010. The test program includes a pilot plant test being conducted at Hazen Research using approximately 13 tons of material collected in 2010 near the surface with large diameter core drilling and from surface samples collected during drill-site excavations.

Quality Assurance

The mineral resource estimate was completed by Mr. Alan C. Noble, P.E., principal engineer of Ore Reserves Engineering (ORE), and is based on geological interpretations supplied by the Company to ORE and subsequently modified by ORE. Mr. Noble is an independent qualified person for the purposes of National Instrument 43-101 standards of disclosure for mineral projects of the Canadian Securities Administrators and has verified the data disclosed here.

The Rare Element Resources' field programs were carried out under the supervision of Dr. James G. Clark, the Company's Vice President of Exploration. Dr. Clark was also a senior geologist and, subsequently, exploration supervisor for Hecla Mining Company during the late 1980's and early 1990's and was responsible for that company's exploration of Bull Hill and the Bear Lodge district, and its initial discovery of the Bull Hill SW resource area. A detailed QA/QC program was implemented for the 2007 through 2011 drill programs. The QA/QC program was organized by Dr. Jeffrey Jaacks. Dr. Jaacks and Dr. Clark have verified the sampling procedures and QA/QC data delivered to ORE. They share the opinion that the data are of good quality and suitable for use in the resource estimate.

Metallurgy

The metallurgical testing is ongoing on oxide samples. Nearly all of this material is sufficiently close to the surface for potential mining by open pit methods. The current oxide mineral resource contains 4.9 million tons of indicated resource at a grade of 3.77% REO and 11.6 million tons of inferred resource at a grade of 3.22% REO, using a 1.5% REO cutoff grade (Table 3 above). The oxide mineralization extends from surface to depths of 400 to 500 feet. Excellent exploration potential for expansion of the oxide mineralization was tested in 2010 by a program of step-out drilling, and in-fill drilling was directed at an upgrade of the mineral resource category.

The current testing program conducted on this oxide mineralization is designed to take advantage of the unique type of mineral occurrence of the REE mineralization. The mineralization is characterized by fine-grained REE minerals that variably adhere to the surfaces of the coarser gangue (non-REE-bearing) minerals. The REE minerals in oxide mineralization from the mineral resource area are largely from the bastnasite group (bastnasite, synchysite, and parasite) with variable proportions of monazite.

Metallurgical testwork is being conducted at Mountain States R&D International, Inc. (MSRDI) of Vail, Arizona. Preliminary Testing of REE separation was conducted at Intellimet LLC of Missoula, Montana. Confirmatory testing is being conducted by NAGROM of Perth, Australia with additional separation testwork planned to be conducted by ANSTO (Australian Nuclear Science and Technology Organization) of Sydney, Australia. Bulk sampling of oxide mineralization from large diameter drill core and from surface trenches took place in the Fall of 2010. The bulk sample is being processed in a pilot plant test currently in 2011 as part of a planned pre-feasibility study.

Rare-earth mineralized bodies occur as high-grade dikes and veins within the Bull Hill deposit. They include a well-defined, near-surface oxidized zone that has been the subject of most metallurgical testing to date. The oxide mineralization contains essentially no matrix carbonates or sulfides. The sulfides are completely oxidized to hydrous iron oxides, and the non-REE bearing carbonate minerals (calcite and strontianite) are completely leached from the zone, which ranges from the surface to depths of about 500 feet. These conditions created a loose and friable oxide material that allows for a simple physical mineral processing method.

In parts of the high-grade zone, the sulfides are oxidized but matrix carbonate is partially and variably leached. This zone is termed the "oxide-carbonate" zone. A thin "transitional zone" occurs at the base of the oxide and/or oxide-carbonate zone at a depth of approximately 500 feet (150 m). The transitional zone passes relatively abruptly into the sulfide-bearing zone with typical carbonatite characteristics.

Tests on the high-grade oxide mineralization indicate that recoveries of 80 to 85 percent of REO are expected using a two-stage process. The first stage is mineral concentration, also known as physical upgrading ("PUG"). The second stage is a chemical leaching process using hydrochloric acid that produces a mixed rare-earths leachate that is precipitated as a bulk carbonate concentrate. The series of bench-scale testing programs was completed by MSRDI under the direction of Dr. Roshan Bhappu. The test results show that 90 percent REO can be recovered in 40-50 weight percent of the original mass weight by employing a simple washing, scrubbing, and screening process that produces a mineral pre-concentrate of sand-size and finer particles. The washing and screening process uses only water as a process media and is similar to gravel washing plants that are commonly employed throughout the United States. Using an 8 percent REO head grade sample, the pre-concentrate can be upgraded to 14-18 percent REO using this process. A parallel series of tests to verify the process has been conducted by Nagrom of Perth, Australia, under the direction of Mr. Tony Wilkinson, General Manager.

Mr. Jaye T. Pickarts, P.E., who is the Company's Chief Operating Officer, is the Qualified Person as defined under National Instrument 43-101 and has reviewed and approved the contents of the "Metallurgy" section of this Form 10-K.

Preliminary Economic Assessment (PEA)

Highlights of the Preliminary Economic Assessment ("PEA" or the "Study") are summarized in the Table 4 below, with additional commentary following.

Table 4. Preliminary Economic Assessment – Bear Lodge Rare-Earths Project

| | Case 1 (Base Case) | Case 2 |
|---|---|---|
| | <i>3-year trailing average prices¹</i> | <i>Estimated long-term prices²</i> |
| Production Rate (tpd) | 1,000 | 1,000 |
| Mine Life (Years) | 15 | 15 |
| Initial Capital (US\$) | \$87 million | \$87 million |
| Operating Cost (US\$/ton) | \$213 | \$213 |
| Life of mine sustaining capital (US\$) | \$88 million | \$88 million |
| REO recoveries to concentrates | 80 percent | 80 percent |
| Annual REO contained in concentrates (tons) | 11,400 | 11,400 |
| Annual Payable Value of REO (US\$) | \$143 million | \$178 million |
| Annual Operating Cash Flow (US\$) | \$50 million | \$80 million |
| Internal rate of return (IRR) | 40 percent | 60 percent |
| After-tax Life-of-mine Cash Flow (US\$) (Undiscounted) | \$598 million | \$978 million |
| After-tax Net Present Value (US\$) (At 10 percent discount rate) | \$213 million | \$380 million |
| After-tax Net Present Value (US\$) (At 15 percent discount rate) | \$131 million | \$251 million |
| Payback (years) | 3.1 | 2.4 |

1. Rare-earth bulk concentrate prices are used in the Study and are based on historic three-year average concentrate prices from Metal-Pages and assembled by the Industrial Minerals Company of Australia (“IMCOA”).
2. Estimated long term prices of bulk concentrates represent a price increase of 25 percent over the historic three year average concentrate price.
3. **Cautionary Note to U.S. Investors:** The Company does not currently have proven or probable reserves under SEC standards. US investors in particular are advised to read carefully the definitions of these terms as well as the "Cautionary Note to U.S. Investors Regarding Reserve and Resource Estimates" above.

The Study was prepared by independent consultant, John T. Boyd Company (“Boyd”), with the assistance of consultants Mountain States R&D International (“MSRDI”) and ORE. It includes NI 43-101-compliant inferred mineral resource estimates for two of the four known mineralized zones at Bear Lodge REE Project (Bull Hill and Bull Hill Northwest deposits) that were prepared by ORE. The Study provides an initial development model and a preliminary economic analysis of the project based on the mineral resources estimated for the two deposits. The final NI 43-101-compliant technical report was filed on SEDAR on November 9, 2010.

The Study was commissioned by the Company in 2009 to evaluate the potential economic viability of recovering REEs in concentrate from the mineral resources in the Bull Hill area of the Bear Lodge REE Project, with a future goal to recover individual REOs. This was in response to growing demand for these elements in environmental and other applications where the REE are vital to the new technologies developed for fuel efficient (“hybrid”) automobiles and plug-in electric vehicles. Many hybrid cars use rechargeable nickel-metal-hydride (Ni-M-H) batteries that contain lanthanum along with electric motors and generators that require high-strength permanent magnets containing neodymium, praseodymium, dysprosium, and terbium. Substantial quantities of all five of these rare-earth elements would be produced by a mine at Bear Lodge, and these five elements would represent nearly 65 percent of potential saleable products’ value.

Rare Earths – Markets and Pricing

For an independent analysis of REE markets, including supply and demand forecasts, Boyd relied on a recent confidential report and supporting data produced by IMCOA, an independent industrial minerals research firm based in Perth, Australia and led by Dudley J. Kingsnorth. This report was requested by the Company and provided to Boyd as a basic reference. The IMCOA report forecasts growth in global demand for REE at a rate of nearly 10 percent per year until 2020, from approximately 125,000 tons in 2010 to 200,000 tons by 2015 to 280,000 tons by 2020, expressed

as “TREO” (total rare-earth oxides or the sum of all 14 REE plus yttrium). During this period, primary supply sources located mainly in China are not expected to increase production significantly, creating a growing supply/demand gap. China has been reducing its exports of rare earths for several years and announced a major reduction in exports in early July 2010. These policies have already caused significant price increases for most REE and created opportunities for new primary suppliers to enter the market. Boyd concludes that the Bear Lodge REE Project mineral resources, which require significant further work to bring to the feasibility level of analysis, represent an attractive potential mine development opportunity for the Company.

Bear Lodge – Low-cost Open Pit Mining

The development model utilized by Boyd and its associates for the Study contemplates conventional truck and shovel open-pit mine production from the near-surface oxide inferred mineral resources in the Bull Hill and Bull Hill NW deposits, which would provide an initial mine life of 15 years. Recent drilling has successfully intersected REE outside the known mineral resources and may support an eventual increase of mine life beyond that contemplated in the Study. The current mineral resources at the Bear Lodge REE Project are categorized as indicated and inferred mineral resources. Mineral resources that are not mineral reserves do not have demonstrated economic viability. Mineral resource estimates do not account for mineability, selectivity, mining loss and dilution. These mineral resource estimates include inferred mineral resources that are normally considered too speculative geologically to have economic considerations applied to them that would enable them to be categorized as mineral reserves. There is also no certainty that these inferred mineral resources will be converted to measured and indicated categories through further drilling, or into mineral reserves, once economic considerations are applied. Also, there is no certainty that this Preliminary Economic Assessment will be realized. An economic assessment will almost certainly change as new information is generated on the mineral resources, mine plan, and processing methodology.

Bear Lodge – REE Production

In the base case scenario, a conservative production rate beginning at 500 tons per day of mineralized material will progressively increase to 1,000 tons per day by year three. Once full production is achieved, the total REO (“TREO”) produced each year would be approximately 11,400 tons (10,300 metric tons) in bulk REE concentrates. Discounted cash flow analysis of this scenario, using 2008 through 2010 REE bulk mixed concentrate prices, and capital and operating costs, yields a 40 percent Internal Rate of Return (IRR) and a Net Present Value (NPV) of US\$213 million at a 10 percent discount rate or a US\$131 million NPV at a 15 percent discount rate on an after-tax basis over a mine life of 15 years. The Company is performing initial market studies regarding the sale of bulk REE concentrates in North America to potential refiners/processors.

Hydrometallurgical tests for extraction and separation of individual rare-earth oxides are progressing, and the ultimate goal is the production and sale of high-purity oxides of cerium, lanthanum, neodymium, praseodymium, and possibly europium, dysprosium, terbium, and other REO. These products may be sold individually as oxides, or in various combinations such as “Didymium” (Neodymium and Praseodymium), “SEG” (Samarium, Europium and Gadolinium), or as mischmetal (a mix of the rare earth elements).

Bear Lodge – Rare Earth Prices

The prices used in this Study are based on historic three-year average concentrate prices. It is important to note the following:

1. REO concentrate prices are lower than refined REO prices.
2. Historic REO concentrate prices are significantly lower than the current REO concentrate prices as quoted in Metal Pages. For the Bear Lodge distribution of rare earths, current prices have recently increased approximately 360 percent from the three-year historic average due to the reduction in exports of REE products from China during the third quarter of 2010; however, it is unknown if the current higher prices are sustainable.
3. A 10 percent change in the price of REO concentrate would change the Base Case NPV of the project on an after-tax basis by approximately \$58 million at a 10 percent discount rate, and \$42 million at a 15 percent discount rate.
4. The sale of concentrates from Bear Lodge would likely be subject to a long-term supply contract for which a price would be set in the contract with one or more buyers. These long-term prices can differ substantially from quoted spot prices for metals with smaller markets such as REEs.

The price assumptions used by Boyd for the REO concentrates are based on compilations of the past three years that range from \$4.59 (2008), to \$3.65 (2009), to \$7.54/kg (2010). These concentrates contain approximately 43.5 percent REO and were derived from deposits that have a similar, but slightly less valuable, REO distribution compared to the Bear Lodge deposits. The 2010 concentrate price is based on Metal-Pages' data through August 31, 2010.

A recent price quote for REE concentrates on an FOB China basis, as reported on September 2, 2010 by Metal-Pages.com, was \$33.25/kg and on February 3, 2011, is \$38/kg. The elements needed for high-strength permanent REE magnets include neodymium, praseodymium, dysprosium and terbium; prices were quoted by Metal-Pages (September 2, 2010) at \$56.75, \$55.75, \$288 and \$595/kg, respectively for those elements, and (February 3, 2011) at \$104.50, \$103.50, \$365 and \$630/kg, respectively. Current REE producers seek to increase production of neodymium, praseodymium, dysprosium and terbium to meet the growing demand from magnet manufacturers. This underlines the need for new producers with mineral resources having an REE distribution that is more reflective of current market demand, such as that indicated for the bastnasite-group minerals at Bear Lodge.

The economic model suggested by IMCOA and tested by Boyd envisions a 5 percent market share capture (10,400 metric tonnes of up to a 200,000-tonne REO market) specifically for cerium, lanthanum, neodymium, praseodymium, plus significant quantities of other rare earths. This assumes that 2 other mines, one in the USA and one in Australia, plus possibly one or two others will go into production prior to Bear Lodge, and that IMCOA's projections of market growth will allow additional producers of the light and heavy rare earths to successfully market their products by 2015.

For the purposes of the PEA, the Company has also shown a case that uses a 25 percent increase from the three-year trailing average prices used in the Base Case scenario. The Company believes these may more realistically reflect long-term pricing for REO based on market outlook information available at this time. As with the recent pricing for REO, there is no certainty these prices will be maintained for the duration of the operating life of the Bear Lodge REE Project.

Bear Lodge – Capital Costs

Capital cost estimates for the Bear Lodge REE Project are lower than many other REE projects for two principal reasons: 1) infrastructure in the project vicinity is already well established with an excellent road and highway system, nearby railroads, nearby power lines, an available water source, and skilled labor within several local communities; and 2) the metallurgical pre-concentration of rare-earth minerals is a very simple and low-cost process that upgrades the mineralized material for further hydrometallurgical concentration.

The capital cost estimate for the base-case production is projected at \$87 million in construction capital and \$88 million in sustaining capital. This scenario involves development of the Bull Hill deposit at a mining rate of 1000 tons per day (tpd) or 360,000 tons per year (tpy). Operating costs for the project are estimated at \$213 per ton of material milled, with the most significant single cost being reagent consumption in hydrometallurgical processing. The model assumes mining by open pit methods and processing of the mineralized material on site to produce mineral pre-concentrates by crushing, attritioning with water, and size separation methods. REE recoveries of 90 percent are assumed for the mineral pre-concentration based on preliminary bench-scale testwork; however these results have yet to be confirmed with pilot-scale tests. While this model further assumes construction of a hydrometallurgical plant near the mine site, the current plans are to move this plant off site to an industrial area where there is access to water and low-cost power for the processing of the REE mineral concentrates in order to produce a bulk mixed REE concentrate. Metallurgical recovery to a concentrate is estimated at 90 percent from the pre-concentrate, for overall recoveries of approximately 80 to 85 percent into the concentrate. All of these process stages are being tested currently for optimization and reduction of operating costs, and significant progress is being made with potential reduction of reagent costs.

Further testwork is ongoing to extract and separate individual REO products to 99+ percent purity levels. The Company's ultimate goal is the production and sale of individual high-purity rare-earth oxides (REO), which would require additional capital costs.

Bear Lodge – REO Distribution

The REE mineral resources at Bear Lodge are of potentially significant interest to the market because of their relatively high proportions of contained neodymium, praseodymium, europium, dysprosium and terbium. Demand is

increasing for these elements in the magnet production and other industries, but they typically occur in lower concentrations in the majority of known REE deposits.

Bear Lodge – PEA Summary

The results of the PEA demonstrate that the Bear Lodge REE Project can achieve acceptable after-tax returns on invested capital and therefore warrants further investment to advance the project to a prefeasibility level of analysis. Increased rates of return are potentially achievable through any combination of higher prices, increased product sales, higher mineral resource/reserve grades, lower operating costs, or higher metal recoveries.

Boyd recommended that the Bear Lodge REE Project proceed to a Preliminary Feasibility level analysis. The recommended work includes completion of bulk sampling, pilot plant testing, further drilling of the Bull Hill and Bull Hill NW deposits to upgrade more of the REE mineral resources to Measured or Indicated categories of confidence, REO extraction and separation testwork on both the Bull Hill and Bull Hill NW deposits, environmental studies, mine permitting, and continuing community engagement.

The estimated cost of this work program is \$15 million with the work to be conducted in two phases. Phase 1 is currently underway and comprises preparation of an updated mineral resources estimate that includes 2010 drilling results (completed), continued metallurgical testing, and a pilot plant test. Phase 1 work is being conducted on samples and analyses from the 2010 drilling program. Phase 2 includes another drilling program (initiated in June 2011 and extending through November 2011) for further mineral resource expansion, mineral resource definition, and collection of metallurgical samples that will be used in a subsequent full feasibility study. The Phase 2 program will then proceed to more detailed metallurgical testwork and engineering studies, leading to final process design and commercial testing, market studies, environmental studies and mine permitting, community consultation, engineering design, and economic modeling. Phase 2 work commenced in the late spring of 2011.

Risks & Opportunities

The principal risks for the Bear Lodge REE Project are identified as follows:

1. Permitting and regulatory timelines and outcomes;
2. Changes in metallurgical recoveries as testwork continues;
3. Future pricing of REO;
4. Changes to capital and operating costs as studies continue.

The principal opportunities for the project are identified as follows:

1. Drilling in 2010 intersected significant grades of REO outside the limits of the mineral resources used in the PEA, which could result in increased mineral resources and potentially extend the mine life and/or support a higher production level.
2. Optimization work is advancing and has had some success in developing a more cost-effective and efficient metallurgical processing method than that included in the Scoping Study for the Bull Hill area mineralization. These data were not available for the Scoping Study.
3. Hydrometallurgical tests for extraction and separation of individual rare-earth oxides is progressing, and the ultimate goal is the production and sale of high-purity oxides of neodymium, praseodymium, dysprosium, terbium, europium, lanthanum, cerium, and other REO.
4. Drilling has encountered large areas of low-grade (1.0-1.5 percent REO) oxide mineralization adjacent to the higher grade dikes. These areas are not included in the mineral resource estimates and will be the subject of some drilling and metallurgical testing to determine if the material can be upgraded with a simple, inexpensive process of screening or screening and washing.

Qualified Persons

Michael P. Richardson, P.E. is the independent qualified person from John T. Boyd Company responsible for the Preliminary Economic Assessment (Scoping Study) as well as mine planning, capital and operating cost estimation, and development of the economic models. He also reviewed and approved the section titled “Preliminary Economic Assessment”, as well as all sections of the PEA filed on www.sedar.com. Alan C. Noble, P.E. of Ore Reserves Engineering, is the independent qualified person responsible for mineral resource estimation. Dr. James G. Clark, L.Geol., who has direct experience with the project dating back to 1986, is responsible for the geological, drilling, and sampling data on behalf of the Company. These data and descriptions were reviewed and approved by Mr. Richardson. The full PEA is accessible on SEDAR and the Executive Summary is available on the Company’s website.

Recent Updates

On August 4, 2011, the Company announced the discovery of high grades of heavy rare-earth elements (“HREE”) in the Whitetail Ridge resource area, and in the East Taylor and Carbon target areas, and the discovery of high-grade REE mineralization at the East Taylor target at the Bear Lodge REE Project (Figure 1). All three of the mineralized zones are located in the western half of an expanding REE mineralized district (the Bear Lodge REE District). The western areas are characterized by high grades (>3 percent REO) and substantial quantities of the light rare earths (“LREE”), along with some of the highest grades of heavy rare earths in North American deposits. They are particularly enriched in europium, terbium, dysprosium, and gadolinium (Eu, Tb, Dy, and Gd). The East Taylor and Carbon targets also contain significant yttrium.

The recognition of substantial grades of HREE, in addition to the known high grades of LREE in the western part of the Bear Lodge rare-earth district, is a major step forward in expanding the potential size of the district. The higher HREE values and projected increased demand for select light and heavy REE could have strongly positive economic benefits to the Bear Lodge REE Project. These deposits may represent a significant source of the most valuable REE, which include neodymium, praseodymium, europium, terbium, and dysprosium. Rare Element is considering a variety of alliances in the advancement of its Bear Lodge REE Project.

Bear Lodge Rare-Earth District—Zonation of light and heavy REE

Discoveries of high-grade REE mineralization at Whitetail Ridge, East Taylor, and Carbon expand the area of known REE mineralization well outside of the Bull Hill deposits and identify a “district” underlain by significant and potentially economic REE mineralization. The data indicate that the Bear Lodge REE District covers a crudely elliptical area that extends approximately 5740 feet (1750m) northwest-southeast by 4260 feet (1300m) northeast-southwest (Figure 1). The Whitetail Ridge resource area and Carbon target are located northwest of the Bull Hill REE deposits, and the East Taylor target is located west of the Bull Hill deposits. Based on a re-evaluation of assay data for the Whitetail Ridge and Carbon areas during the Company’s most recent resource estimation (news release dated 10 June 2011), and newly received REE assay data from the East Taylor target area, assay grades for individual REE between deposits and target areas at the Bear Lodge project suggest a zonation of REE distribution in the district. The mineralization at Whitetail Ridge, East Taylor, and Carbon has a distribution characterized by elevated abundances of HREE relative to the mineralization at Bull Hill. The three western mineralized zones are characterized by high grades and substantial quantities of the LREE, as well as some of the highest grades of HREE in North American deposits. They are particularly enriched in europium, terbium, dysprosium, and gadolinium (Eu, Tb, Dy, and Gd), as shown in Table 5. The HREE enrichment was identified during the re-examination of reverse circulation drill chips in several of the Company’s gold exploration holes. The mineralized intervals in drill holes SUN-076, SUN-079, and SUN-090 were submitted for REE analyses earlier this year, and the assay results demonstrate the HREE enrichment. LREE generally include Ce, La, Nd, Pr, and Sm; HREE include Eu, Gd, Tb, Dy, Ho, Er, Tm, Yb, Lu, and Y.

These new discoveries indicate good potential for new deposits of high-grade REE in the western half of the Bear Lodge REE project, and those deposits appear particularly enriched in the HREE. A grade comparison of individual REE between the Bull Hill resource, the Whitetail Ridge resource, and drill holes at the East Taylor and Carbon target areas is given below in Table 5. The location and geologic setting of the deposits and targets are shown in Figure 1.

Figure 1

Location and Geological Map of the Bear Lodge Rare-Earth District, including Bull Hill, Whitetail Ridge, East Taylor, Carbon, and other targets. (The black MnOx dikes show the areas with greatest potential for additional high-grade REE mineralization.)

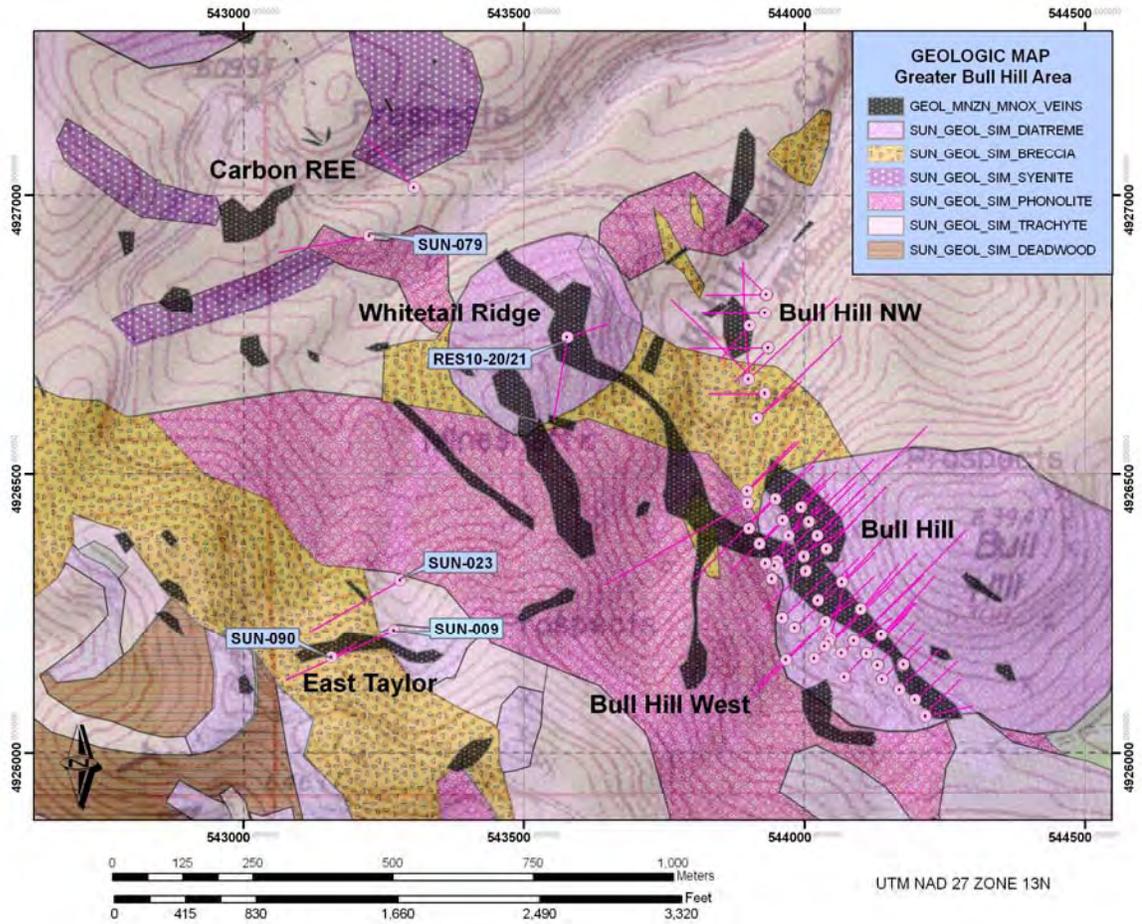


Table 5. Comparison of REO grades at Bull Hill, Whitetail Ridge, East Taylor, and Carbon

| AREA | Bull Hill | Whitetail Ridge | East Taylor | Carbon |
|---------------------------------------|-----------|-----------------|--|-------------------------------|
| Resource Category Rare Earth Oxide | Indicated | Inferred | Exploration/SUN090, 45-100', 105-160' | Exploration/SUN079, 15-45' |
| La ₂ O ₃ | 1.08 | 0.81 | 1.23 | 0.96 |
| Ce ₂ O ₃ | 1.64 | 1.19 | 1.98 | 1.89 |
| Pr ₂ O ₃ | 0.186 | 0.158 | 0.264 | 0.23 |
| Nd ₂ O ₃ | 0.65 | 0.64 | 0.894 | 0.91 |
| Sm ₂ O ₃ | 0.099 | 0.142 | 0.191 | 0.165 |
| Eu ₂ O ₃ | 0.021 | 0.042 | 0.056 | 0.040 |
| Gd ₂ O ₃ | 0.048 | 0.103 | 0.173 | 0.097 |
| Tb ₂ O ₃ | 0.0037 | 0.0115 | 0.026 | 0.013 |
| Dy ₂ O ₃ | 0.0104 | 0.0361 | 0.092 | 0.062 |
| Y ₂ O ₃ | 0.032 | 0.087 | 0.319 | 0.283 |
| ∑ Eu+Tb+Dy | 0.0351 | 0.090 | 0.174 | 0.115 |
| ∑ Nd+Pr+Eu+Tb+Dy | 0.871 | 0.888 | 1.332 | 1.255 |
| Grade (%REO) | 3.77 | 3.24 | 5.61 | 4.69 |
| Metric Tonnes | 4.45 | 1.5 | ----- | ----- |

Cautionary Note to U.S. Investors - In this Annual Report we use the terms "mineral resource", "measured mineral resource", "indicated mineral resource" and "inferred mineral resource", which are geological and mining terms as defined in accordance with NI 43-101 under the guidelines adopted by CIM, as CIM Standards in Mineral Resources and Reserve Definition and Guidelines adopted by the CIM. US investors in particular are advised to read carefully the definitions of these terms as well as the "Cautionary Note to U.S. Investors Regarding Reserve and Resource Estimates" above.

Identification of High-grade HREEs at the Whitetail Ridge Deposit

The identification of significant HREE mineralization at the Whitetail Ridge resource area is the result of a detailed evaluation of assay data during the most recent resource estimation work (news release dated June 14, 2011). This recognition triggered a review of all the REE mineralized drill holes in the general western area. The Whitetail Ridge deposit is located approximately 1500 feet (450 m) northwest of the main Bull Hill REE deposit (Figure 1). The area was identified previously as an exceptional REE mineralization target (news release dated October 13, 2009), based on factors including: 1) the intersection of REE mineralization as FMR (FeOx-MnOx-REE; designated as MnOx veins in Figure 1) dikes and veins in five nearby historic drill holes; 2) detailed geological mapping of FMR vein material in historic exploration trenches (Figure 1); and 3) a broad positive ground geophysical anomaly of a type coincident with significant REE mineralization in other parts of the project area. The size of the geophysical anomaly (approximately 1400 by 2000 feet, 400 by 610 m, elongate northeasterly) provides an indication that this REE target may be larger than others in the district. Detailed mapping suggests that the REE mineralization consists of northwest-striking FMR dikes and an FMR stockwork zone that is elongate northeasterly, with dimensions of roughly 1250 feet (380 meters) by 950 feet (290 meters). The enveloping geophysical anomaly is larger and may indicate a broader distribution of REE mineralization beneath the extensive soil and colluvial cover. Preliminary mineralogical studies by Dr. Anthony N. Mariano indicate that monazite (an REE-Th phosphate) may represent a significant proportion of the REE mineralogy, and that the HREE mineralization may reside in the monazite. Grades for europium, gadolinium, terbium, and dysprosium for the current Whitetail Ridge resource estimate, as reported in Table 5, are among the highest in North American REE deposits.

During the 2010 drilling program, two core holes were completed in the Whitetail Ridge area from a single drill site (Figure 1). Both holes encountered significant intercepts of REE mineralization that exhibit strong enrichment in both LREE and HREE (Tables 5 and 6; news release dated November 9, 2010). Only a small portion of the large Whitetail Ridge target area was tested with the holes, but the drilling gives a good indication of the total potential of the target area. These holes, plus historic drill-hole assay data from five widely spaced older holes in the general target area, surface mapping, and trench sampling assay data were all used directly or indirectly by ORE to estimate an inferred mineral resource for Whitetail Ridge of 1.7 million tons (1.5 million metric tonnes) averaging 3.24 percent TREO (news release dated June 14, 2011). Drilling is currently underway at the Whitetail Ridge deposit and surrounding target area. Approximately 12 to 15 additional holes are planned for the target area in 2011.

Table 6. REO Grades and Distribution in the Oxidized Zone of the Whitetail Ridge Deposit

| Element | Ce | La | Nd | Pr | Sm | Gd | Y | Eu | Dy | Tb | Er | Yb | Lu | Ho | Tm |
|----------------------|-------|-------|-------|-------|-------|-------|-------|-------|--------|--------|--------|--------|---------|---------|---------|
| Assay REO % | 1.19 | 0.81 | 0.64 | 0.158 | 0.142 | 0.103 | 0.087 | 0.042 | 0.0361 | 0.0115 | 0.0057 | 0.0033 | 0.00040 | 0.00374 | 0.00052 |
| Distribution Oxide % | 36.73 | 25.00 | 19.75 | 4.88 | 4.38 | 3.18 | 2.68 | 1.30 | 1.11 | 0.35 | 0.176 | 0.102 | 0.012 | 0.115 | 0.016 |

New High-grade REE Discovery at East Taylor and HREE-enrichment

The East Taylor target is located approximately 2500 feet (760 m) west of the main Bull Hill REE deposit and 2500 feet southwest of the Whitetail Ridge deposit (Figure 1). The Taylor target area was principally known as a gold target until the 2010 drilling program intersected a thick FMR zone in reverse circulation (RC) drill-hole SUN-090. Drill-hole SUN-090 and an earlier RC hole drilled by Newmont (SUN-009) were collared adjacent to an outcrop of FMR veins identified by the U.S. Geological Survey (Staatz, 1983) (Figure 1). The zone appears to have an easterly strike, as opposed to the dominant northwesterly and northerly mineralized structures in the Bull Hill/Whitetail Ridge deposits. Preliminary geological mapping and projection of FMR intercepts in drill holes suggest that the REE mineralization consists of dikes and adjacent stockwork with dimensions of roughly 700 feet (210 meters) east-west by 250 feet (75 meters) north-south, and the mineralization is open to the east.

The REE mineralization was recognized in drill chips from SUN-090 by Rare Element geologist, Allen Andersen. The mineralized intercepts were sent subsequently for quantitative REE assays, reported here in Tables 5 and 7. Newmont hole SUN-009 also intersected strong REE mineralization in a correlative intercept (Table 7). The high-grade REE zone in drill-hole SUN-090 is contained within a well-mineralized gold zone that averages 0.038 ounces per ton (1.3 grams per tonne) from 0 to 205 feet (0-62.5 m). Correlative FMR mineralization was recognized also in Newmont drill hole SUN-023, which was not assayed for REE. Follow-up core drilling at the East Taylor target was undertaken with seven drill holes. Assays are pending.

Table 7. REE- mineralized intercepts at the East Taylor Target area

| Drill Hole | Interval (feet) | Mineralized Intercept (feet) | TREO (%) |
|------------|-----------------|------------------------------|----------|
| SUN-090 | 45 – 100 | 55 | 3.38 |
| | 105 - 160 | 55 | 7.84 |
| SUN-009* | 80-165 | 85 | >1.4* |
| | 540-575 | 35 | >1.4* |

* Note: REE assays for Newmont drill-hole SUN-009 were done using partial digestion analytical methods. In many cases values exceeded the upper limit of the method for individual REE (i.e. upper assay limit for Ce was 5000 ppm).

It should be noted that the Company’s proprietary internal standards submitted with the samples from drill hole SUN-090 were certified at that time for only Y, La, Ce, Pr, Nd, Sm, Th, and U, and not for the other REE. The samples are now being re-submitted with the newly developed standards that are certified for Y, La, Ce, Pr, Nd, Sm, Eu, Gd, Tb, Dy, Ho, Th, and U. Rare Element’s rigorous QA/QC program exceeds industry standards, as REE assays are routinely reported and assessed using only analytical laboratory standards for evaluation of data quality.

Discovery of High-grade HREEs at the Carbon REE Target

The Carbon REE mineralization was identified by Rare Element in drill-hole SUN-079, a reverse circulation drill hole that was part of the Company’s 2010 gold exploration program. The Carbon REE target is located about 1200 feet (370 m) northwest of the Whitetail Ridge deposit along an apparent northwest-trending zone of mineralization (Figure 1). Two reverse-circulation drill holes (SUN-076 and SUN-079) completed during the 2010 Sundance gold exploration program cut significant REE mineralization in FMR vein material. REE-bearing intercepts from the Carbon target area

are summarized in Table 8 and were reported earlier this year in a news release dated April 6, 2011. If this mineralization is a continuation of the Whitetail Ridge dike system and the Bull Hill system, the total mineralization trend may reach more than 5000 feet (1500m) in length.

Table 8. REE-mineralized intercepts at the Carbon target area

| <i>Drill Hole SUN-076 (N45W, -45°; total depth 615 feet)</i> | | | |
|--|-------------------------------------|------------------------------|-----------------|
| Interval (feet) | Mineralized Intercept (feet) | Mineralized lithology | TREO (%) |
| 100-110 | 10 | FMR drill chips | 1.66 |

| <i>Drill Hole SUN-079 (S80W, -45°; total depth 775 feet)</i> | | | |
|--|-------------------------------------|------------------------------|-----------------|
| Interval (feet) | Mineralized Intercept (feet) | Mineralized lithology | TREO (%) |
| 0-5 | 5 | FMR drill chips | 1.69 |
| 15-45 | 30 | FMR drill chips | 4.69 |
| 700-760 | 60 | carbonatite drill chips | 3.58 |

Assays, Quality Control, and Standard Certification

ALS Chemex conducted the assaying for the REEs reported here in their Vancouver, British Columbia assay facility. ALS Chemex Vancouver is accredited to ISO 9001 and operates according to ALS Group standards consistent with ISO 17025 methods at other laboratories. The samples were prepared and subjected to lithium metaborate fusion, followed by ICP analysis and a mass spectroscopy finish.

Analytical quality is monitored through the use of randomly inserted quality control samples, including standards, blanks, and duplicates, which are blinded to the analytical laboratory. No duplicates were submitted for the SUN-090 samples, owing to insufficient sample. Results of the analyses at ALS Chemex are evaluated continuously by Dr Jeffrey Jaacks, the Company's QA/QC consultant, who is a Qualified Person according to National Instrument 43-101. The results from the current data set indicate acceptable accuracy and precision. Blank analyses also indicate no issues with carry-over contamination.

Rare Element Resources developed a set of proprietary internal REE analytical standards using Bear Lodge deposit mineralized material during late 2009 and early 2010 under the supervision of Dr. Jaacks. The original round robin assay series at four laboratories indicated that these materials could be used as standards for Y, La, Ce, Pr, Nd, Sm, Th, and U analyses. However, the results also indicated that the concentration of the remaining elements in the REE series were at the lower end of the working range of the analytical method, and standard values gave unacceptable accuracy and precision for Eu, Gd, Tb, Dy, Ho, Er, Tm, Yb, and Lu analyses. The Company conducted a new round robin standard certification program during the first half of the current year. The results from most recent round robin assay series qualify the reference materials for a greater number of rare-earth elements. Improvements in analytical methods, and a larger base of certification analyses generated by utilizing eight analytical laboratories, indicates that the standards can be used as reference materials for Au, Y, La, Ce, Pr, Nd, Sm, Eu, Gd, Tb, Dy, Ho, Th, and U analyses.

2011 REE Drill Program

The 2011 REE drilling program commenced in mid June 2011 at the Company's Bear Lodge REE Project in Wyoming. Four core drilling rigs are currently on the project site and will be used to test REE mineralization at the Bull Hill and Whitetail Ridge resource areas, and at the Bull Hill West, East Taylor, and Carbon REE target areas. The program to test the REE mineralization will consist of approximately 60 angle drill holes to general depths of 400 to 1,200 feet. The REE drilling program will be augmented by geological mapping, geophysical surveys, soil and rock chip geochemical surveys, and additional bulk sampling of near-surface mineralized material.

Personnel

The Company hired a government and community affairs specialist, Mr. George G. Byers as VP Government and Community Affairs, to advance project development activities on the Bear Lodge REE Project. With the guidance of Mr. Byers, the Company has initiated a program to educate federal, state, and local government officials and community leaders about the quality and quantity of the Bear Lodge REE mineral resources, and about its exceptional exploration and development potential.

The Company hired Jaye T. Pickarts, P.E. as Chief Operating Officer (COO) of the Company. Mr. Pickarts' primary focus will be to lead the technical team in advancing the Company's Bear Lodge REE project through the development phase and into production. Mr. Pickarts' primary responsibilities are to coordinate all of the following activities: mine planning, mineral processing and hydrometallurgical studies, environmental baseline assessment and permitting studies, other engineering studies, and completion of the Pre-Feasibility Study. Successful completion of these studies with positive results will allow the project to advance to Feasibility Study stage and further the project's development.

Dr. James G. Clark, L.Ge, the Company's Vice President of Exploration, assisted by John Ray, Exploration Manager and Dr. Ellen Leavitt, Chief Geologist/REE, lead the Bear Lodge REE Project exploration program. Dr. Clark and Dr. Leavitt are both qualified persons for the purposes of NI 43-101.

During the year ended June 30, 2011, the Company incurred \$6.9 million in exploration expenses on the Bear Lodge REE Project. As of at June 30, 2011, the Company had incurred a total of \$11.3 million on exploration work at the Bear Lodge REE Project.

| | Period from June 3, 1999 (inception) to June 30, 2011 | Year ended June 30, 2011 | Year ended June 30, 2010 |
|--------------------------------|--|-------------------------------------|-------------------------------------|
| Bear Lodge REE property | | | |
| Assays | \$ 917,154 | \$ 636,169 | \$ 251,038 |
| Drilling | 4,804,096 | 2,878,469 | 1,190,955 |
| Engineering consulting | 852,562 | 721,355 | 131,207 |
| Environmental costs | 385,911 | 373,408 | 12,503 |
| Geochemistry | 149,515 | 75,443 | 74,072 |
| Geological consulting | 2,002,917 | 993,406 | 570,752 |
| Land & claims | 155,671 | 138,560 | 17,111 |
| Metallurgical testing | 965,717 | 504,309 | 306,378 |
| Overhead expenses | 198,603 | 150,548 | 34,531 |
| Resource estimation | 111,485 | 64,007 | 47,478 |
| Travel expenses | 149,760 | 107,228 | 18,114 |
| Wages | 176,777 | 77,043 | - |
| Others | 391,185 | 207,394 | 70,379 |
| Bear Lodge REE property | \$ 11,261,353 | \$ 6,927,339 | \$ 2,724,518 |

In addition, during the year ended June 30, 2011, the Company incurred \$0.4 million in costs associated with the pre-feasibility study of the Bear Lodge REE Project.

Sundance Gold Project

The Sundance Gold Project is the second project located on the Company's Bear Lodge Property. For a description of the property's location, ownership, accessibility, infrastructure and climate, see the section heading "Item 2. Properties – Bear Lodge Property (Wyoming, USA)" above.

Mineral Resources

The Company reported an NI 43-101-compliant inferred mineral resource estimate for the Sundance Gold Project on March 15, 2011. The gold mineral resource estimate was prepared by ORE of Lakewood, Colorado.

Drill-hole Database Compilation and Mineral Resource Estimation

Following compilation of the Sundance drill-hole database, ORE analyzed the data to determine the size, shape, and internal continuity of the three principal gold deposits in order to calculate inferred mineral resources. Alan C. Noble, P.E., is the Principal Engineer of ORE and is an independent Qualified Person for the purpose of Canadian NI 43-101, Standards of Disclosure for Mineral Projects. These wireframe models will also be utilized to design the optimal placement of new drill holes to be completed in 2011.

The East and West Breccias of the Smith deposit were discovered by FMC (1982-1986), and subsequently explored by International Curator and Coca Mines (“Coca”). In 1991, Coca estimated a historical mineral resource of 8.2 million tons (7.4 million metric tonnes) at a grade of 0.02 ounces of gold per ton (0.68 g/t; not NI 43-101 compliant) for the two deposits. The Company is not treating the historical estimate as NI 43-101 defined mineral resources verified by a qualified person, and the historical estimate should not be relied upon. The new ORE mineral resource estimate updates this historical mineral resource to the current standards and incorporates the drilling done during the past several years by Rare Element Resources and Newmont Mining Company. The new Smith mineral resource includes 25.2 million tonnes grading 0.50 grams of gold/tonne at a cutoff of 0.15 g/t (Table 9). Mineral resource estimates for the Taylor and Carbon areas are also shown in Table 9.

Table 9. Inferred gold mineral resources estimated by O.R.E. for the Sundance project

| Deposit | Price (\$) | Cutoff (g Au/t) | Tonnes (1000's) | Gold Grade (g Au/t) | Contained Ounces Gold (1000's) | Waste Tonnes (1000's) | Stripping Ratio |
|---|-------------|-----------------|-----------------|---------------------|--------------------------------|-----------------------|-----------------|
| Carbon | 800 | 0.2 | 4,600 | 0.44 | 65 | 1,600 | 0.35 |
| Carbon | 1000 | 0.15 | 7,500 | 0.38 | 92 | 2,600 | 0.35 |
| Carbon | 1200 | 0.15 | 11,600 | 0.34 | 127 | 5,200 | 0.45 |
| Carbon | 1400 | 0.15 | 13,100 | 0.33 | 138 | 6,600 | 0.50 |
| Smith | 800 | 0.2 | 10,900 | 0.54 | 189 | 10,000 | 0.92 |
| Smith | 1000 | 0.15 | 16,300 | 0.50 | 262 | 18,400 | 1.13 |
| Smith | 1200 | 0.15 | 25,200 | 0.50 | 408 | 49,200 | 1.95 |
| Smith | 1400 | 0.15 | 27,200 | 0.51 | 443 | 59,500 | 2.19 |
| Taylor | 800 | 0.2 | 20,800 | 0.46 | 310 | 5,100 | 0.25 |
| Taylor | 1000 | 0.15 | 26,600 | 0.42 | 360 | 5,600 | 0.21 |
| Taylor | 1200 | 0.15 | 32,400 | 0.40 | 412 | 9,800 | 0.30 |
| Taylor | 1400 | 0.15 | 34,900 | 0.39 | 434 | 13,300 | 0.38 |
| Total | 800 | 0.2 | 36,300 | 0.48 | 564 | 16,800 | 0.46 |
| Total | 1000 | 0.15 | 50,400 | 0.44 | 714 | 26,600 | 0.53 |
| Total | 1200 | 0.15 | 69,300 | 0.42 | 947 | 64,200 | 0.93 |
| Total | 1400 | 0.15 | 75,100 | 0.42 | 1,016 | 79,400 | 1.06 |
| Notes | | | | | | | |
| <ul style="list-style-type: none"> The base case is chosen at an assumed gold price of \$1200 per ounce. Mineral resources are estimated using inverse-distance-power (IDP) estimation within 3-dimensional wireframe models based on the geologic interpretation and continuous mineralization above an approximate 0.05 ppm Au cutoff grade. Drill holes were composited to 5-meter intervals for mineral resource estimation and were capped, after compositing, at 3 ppm Au for all deposits except for Smith, which was capped at 5 ppm Au. All mineral resources are classified as inferred mineral resource as defined by CIM and referenced in NI 43-101. Floating cone studies at a range of gold prices are used to demonstrate the potential for economic extraction of the mineral resource. The floating cone studies are not considered to be an economic study and should not be relied upon as an economic study. Floating cone parameters include: Pit slope of 42 degrees, Mining Cost of \$2/tonne ore and \$1.75/tonne waste, processing and pad costs of \$2.50/tonne ore, G&A costs of \$0.50/tonne ore, and gold recovery of 65 percent. These parameters are believed to be reasonable, order-of-magnitude estimates for a low-cost, run-of-mine, heap leaching operation. Cautionary Note to U.S. Investors - In this Annual Report we use the terms "mineral resource", "measured mineral resource", "indicated mineral resource" and "inferred mineral resource", which are geological and mining terms as defined in accordance with NI 43-101 under the guidelines adopted by CIM, as CIM Standards in Mineral Resources and Reserve Definition and Guidelines adopted by the CIM. US investors in particular are advised to read carefully the definitions of these terms as well as the "Cautionary Note to U.S. Investors Regarding Reserve and Resource Estimates" above. | | | | | | | |

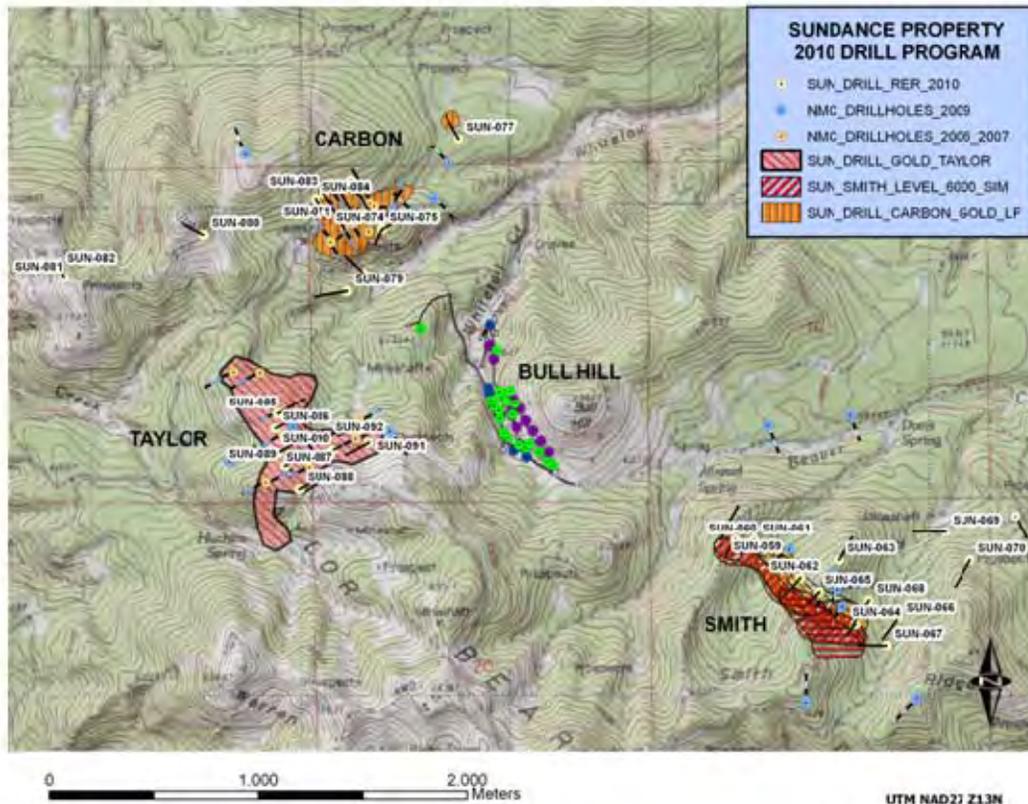
Mineral Resources are not Reserves

Mineral resources that are not mineral reserves do not have demonstrated economic viability. Mineral resource estimates do not account for mineability, selectivity, mining loss and dilution. These mineral resource estimates are in the inferred mineral resource category. Inferred mineral resources are normally considered too speculative geologically for the application of economic considerations that would enable them to be categorized as mineral reserves, however they are allowed to be included in a preliminary economic assessment. There is also no certainty that these inferred mineral resources will be converted to measured and indicated mineral resource categories through further drilling, or into mineral reserves once economic considerations are applied. **Cautionary Note to U.S. Investors** - US investors in particular are advised to read carefully the definitions of these terms as well as the "Cautionary Note to U.S. Investors Regarding Reserve and Resource Estimates" above.

Drill-hole Results from the 2010 Program

The Company announced assay results from the 2010 rotary (reverse circulation) drill program in three previous press releases (dated September 21 and November 15, 2010 and January 3, 2011). Thirty-four rotary drill holes containing 21,605 feet (6,585 m) were drilled during 2010 on near-surface targets within oxide zone mineralization at the Smith, Carbon, and Taylor target areas (Figure 2). Gold exploration activity during 2010 focused on: 1) detailed definition of known gold-mineralized targets with in-fill drilling, 2) step-off drilling from known mineralization, and 3) discovery of gold mineralization in new peripheral gold targets.

Figure 2. Plan map showing the location of the Smith, Carbon, and Taylor gold target areas within part of Rare Element Resources' Sundance Property. The gold targets surround the Bull Hill REE deposit. The drill hole collars from the 2010 program are shown in yellow. Drill-indicated gold-mineralized areas that contain greater than 300 ppb (>0.3 g/t) gold for each target area are shown as ruled polygons.



Smith Gold Target

Highlights of the drilling program at Smith include the following gold assay results:

- SUN 60 85.4 m @ 0.89 g/t, including 44.2 m @ 1.3 g /t
- SUN 62 143.3 m @ 0.74 g/t, including 15.2 m @ 1.6 g/t and 15.2 m @ 1.4 g/t
- SUN 64 77.7 m @ 0.66 g/t, including 7.6 m @ 1.7 g/t

Carbon Gold Target

Highlights of the drilling program at Carbon include the following gold assay results:

- SUN-071 of 0.52 g/t Au over 68.3m (includes 0.96 g/t over 12.2m)
- SUN-072 of 0.59 g/t Au over 79.3m
- SUN-077 of 0.41 g/t Au over 51.8m

Taylor Gold Target

Highlights of the drilling program at Taylor include the following gold assay results:

- SUN-085 - 0.56 g/t over 71.6m
- SUN-089 - 0.67 g/t over 137.2m (includes 3.05 g/t over 12.2m)
- SUN-090 - 0.67 g/t Au over 192.1m (includes 1.34 g/t Au over 62.5m from the surface)
- SUN-091 - 0.45 g/t over 56.4m
- SUN-092 - 0.42 g/t over 64.0m

Quality Assurance

The mineral resource estimate was completed by Mr. Alan C. Noble, P.E., principal engineer of ORE, and is based on geological interpretations supplied by the Company to ORE and subsequently modified by ORE. Mr. Noble is an independent qualified person for the purposes of National Instrument 43-101 standards of disclosure for mineral projects of the Canadian Securities Administrators and has verified the data disclosed in this release.

The Rare Element Resources' field programs were carried out under the supervision of Dr. James G. Clark, LGeo, the Company's Vice President of Exploration and a qualified person for the purposes of National Instrument 43-101 standards of disclosure for mineral projects of the Canadian Securities Administrators. Dr. Clark has direct experience with the project dating back to 1986.

A detailed QA/QC program was implemented by the Company for the 2010 drill program. The 2009 QA/QC program was organized by Dr. Jeffrey Jaacks. Newmont Mining was responsible for QA/QC during their work from 2004 through 2009. Dr. Jaacks and Dr. Clark have verified the 2010 sampling procedures and QA/QC data delivered to ORE. They share the opinion that the data are of good quality and suitable for use in the mineral resource estimate.

Recent Updates

As of at June 30, 2011, the Company had incurred a total of \$27,000 for the acquisition costs on the Sundance Gold Project.

| | Sundance Gold Project |
|--|------------------------------|
| Mineral property costs, June 30, 2009 | \$ - |
| Acquisition costs | 27,000 |
| Mineral property costs, June 30, 2011 and 2010 | <u>\$ 27,000</u> |

During the year ended June 30, 2011, the Company incurred \$1.2 million in exploration expenses on the Sundance Gold Project. As of at June 30, 2011, the Company had incurred a total of \$1.2 million in exploration work at Sundance Gold Project, in addition to Newmont's expenditures of \$2.9 million over four years.

| | Period from June 3, 1999 (inception) to June 30, 2011 | Year ended June 30, 2011 | Year ended June 30, 2010 |
|-------------------------------|--|-------------------------------------|-------------------------------------|
| Sundance Gold property | | | |
| Assays | \$ 132,346 | \$ 132,346 | \$ - |
| Drilling | 467,520 | 463,372 | 4,148 |
| Geological consulting | 394,812 | 341,559 | 53,253 |
| Others | 247,713 | 235,401 | 12,312 |
| Sundance Gold property | \$ 1,242,391 | \$ 1,172,678 | \$ 69,713 |

Upcoming / Outlook

The Company's plans for 2011 include completion of metallurgical tests of the Smith deposit mineralized rock, continuation of geochemical and structural reviews, conducting a limited geophysical survey, and rotary and core drilling to define the lateral limits of known gold mineral resources at Smith, Taylor, and Carbon, which are open in several directions, as well as deeper and to identify and define outlying targets.

The new mineral resources estimate will be used to guide a subsequent planned drilling program. The Company's 2011 exploration program will focus on expanding zones of greater than 1 g Au/t mineralization to enhance future economic evaluations. This mineral resource is provided for information and the Company believes that subsequent work on the gold targets may provide an asset that has the potential to substantially increase in size and value to the Company in the future.

Eden Lake Property (Manitoba, Canada)

The Company does not currently consider this property to be a material property of the Company. This property is an exploration stage property and is without known reserves, as defined in SEC Industry Guide 7.

Location and Ownership

On October 30, 2009, the Company acquired 100 percent of the Eden Lake REE project located in the province of Manitoba, Canada for a payment of 300,000 common shares.

The underlying owner, Strider Resources Limited, retains a 3 percent NSR royalty with the Company having the right to buy 50 percent of the NSR at anytime for CDN\$1.5 million.

Finders' fees of 20,000 common shares were issued to two unrelated parties for this acquisition. The common shares issued on the acquisition are subject to trading restrictions over an 18-month period.

On February 23, 2010, the Company granted Medallion Resources Ltd. ("Medallion") an option to acquire a 65 percent interest in a joint venture to explore and develop the property. The terms of the agreement require Medallion to pay a total of CDN\$1.5 million in cash (CDN\$50,000 received), issue an aggregate of 1.8 million shares (200,000 shares were received) and complete CDN\$2,250,000 in the property exploration work commitment expenditures over a five-year period. On October 7, 2010, the Company and Medallion agreed to postpone CDN\$50,000 cash payment to no later than July 14, 2011. In addition, six new concessions staked by Medallion were also added to the Eden Lake property. Subsequent to June 30, 2011, Medallion dropped the option agreement and returned the property to the Company.

Recent Updates

In December 2009, Medallion completed a helicopter-borne high-intensity electromagnetic geophysical survey flown over the Eden Lake REE property, and in February 2010 Medallion received the basic data and initial interpretation.

| | Eden Lake Project |
|---------------------------------------|--------------------------|
| Mineral property costs, June 30, 2009 | \$ - |
| Acquisition costs | 1,007,251 |
| Option proceeds | (48,070) |
| Mineral property costs, June 30, 2010 | <u>959,181</u> |
| Option proceeds | (44,123) |
| Mineral property costs, June 30, 2011 | <u>\$ 915,058</u> |

Nuiklavik Property (Labrador, Canada)

The Company does not currently consider this property to be a material property of the Company. This property is an exploration stage property and is without known reserves, as defined in SEC Industry Guide 7.

Location and Ownership

On January 6, 2010, the Company acquired from Altius Minerals Corp. (“Altius”) a 100 percent interest in 584 mineral claims with REE potential located in central Labrador, Canada for a payment of 200,000 shares (issued on January 12, 2010).

Altius will retain a total gross overriding royalty of 2 percent on the property, of which the Company may purchase 50 percent at any time for CDN\$2.5 million. The Company plans to find a partner to explore the Nuiklavik property.

Recent Updates

The Company deposited \$0.2 million with Newfoundland Exchequer as a security deposit on the fourth year exploration expenditures requirements for the same amount to be completed in 2011.

| | Nuiklavik Project |
|---------------------------------------|--------------------------|
| Mineral property costs, June 30, 2009 | \$ - |
| Acquisition costs | 725,187 |
| Mineral property costs, June 30, 2010 | <u>725,187</u> |
| Acquisition costs | 1,815 |
| Mineral property costs, June 30, 2011 | <u>\$ 727,002</u> |

ITEM 3. LEGAL PROCEEDINGS

We are not aware of any material pending or threatened litigation or of any proceedings known to be contemplated by governmental authorities which are, or would be, likely to have a material adverse effect upon us or our operations, taken as a whole. There are no material proceedings pursuant to which any of our directors, officers or affiliates or any owner of record or beneficial owner of more than 5% of our securities or any associate of any such director, officer or security holder is a party adverse to us or has a material interest adverse to us.

ITEM 4. [REMOVED AND RESERVED].

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common shares began trading on the TSX Venture Exchange ("TSX-V") (formerly the Canadian Venture Exchange) in Toronto, Ontario, Canada, on November 15, 1999 under the former name Spartacus Capital Ltd. under the symbol "SCI". The Company graduated to the Toronto Stock Exchange ("TSX") on May 27, 2011 and the current stock symbol on the TSX is "RES". Our common shares also trade, since August 18, 2010, on the NYSE Amex LLC under the symbol "REE". Our common shares began trading on the Frankfurt Stock Exchange on March 14, 2006 under the symbol "R8V.F". The Company's common shares began trading on the XETRA Exchange on April 19, 2006 under the symbol "R8V.DE". The Company's common shares began trading on the Berlin Stock Exchange on March 25, 2008 under the symbol "R8V.BE".

The following table shows the high and low sales price for our common shares on the TSX and TSX-V for the fiscal quarters indicated:

| <u>Period</u> | <u>High Cdn\$</u> | <u>Low Cdn\$</u> |
|--|-------------------|------------------|
| 2012 | | |
| First Quarter (through September 26, 2011) | \$8.88 | \$5.41 |
| 2011 | | |
| First Quarter | 9.90 | 1.96 |
| Second Quarter | 17.24 | 7.08 |
| Third Quarter | 17.85 | 9.47 |
| Fourth Quarter* | 15.92 | 8.81 |
| 2010 | | |
| First Quarter | 4.41 | 1.51 |
| Second Quarter | 4.69 | 2.84 |
| Third Quarter | 4.43 | 3.01 |
| Fourth Quarter | 3.80 | 1.94 |

* Our common shares listed for trading on the TSX on May 27, 2011.

The following table shows the high and low sales price for our common shares on the NYSE Amex for the fiscal quarters indicated:

| <u>Period</u> | <u>High US\$</u> | <u>Low US\$</u> |
|--|------------------|-----------------|
| 2012 | | |
| First Quarter (through September 26, 2011) | \$9.13 | \$5.21 |
| 2011 | | |
| First Quarter | 9.58 | 1.15 |
| Second Quarter | 17.62 | 7.02 |
| Third Quarter | 17.92 | 9.55 |
| Fourth Quarter | 16.55 | 9.00 |
| 2010 | | |
| First Quarter* | 4.17 | 1.32 |
| Second Quarter | 4.34 | 2.49 |
| Third Quarter | 4.18 | 2.80 |
| Fourth Quarter | 3.79 | 1.83 |

* Our common shares listed for trading on the NYSE Amex on August 18, 2010. Prior to August 18, 2010, prices represent bid and ask prices on the Over-the-Counter Bulletin Board and prices reflect inter-dealer prices, without retail mark-up, markdown or commission and may not necessarily represent actual transactions.

As of September 26, 2011, the closing price per share for our common shares as reported by the NYSE Amex was US\$5.98 and as reported by the TSX was CDN\$6.16.

As of September 26, 2011, we had 44,096,674 common shares issued and outstanding, held by approximately 2,260 shareholders. Many shares are registered through intermediaries, making the precise number of shareholders difficult to obtain.

Dividend Policy

The Company has not declared any dividends since incorporation and does not anticipate that it will do so in the foreseeable future. Payment of any future dividends, if any, will be at the discretion of the Board after taking into account many factors, including operating results, financial conditions and anticipated cash needs.

Repurchase of Securities

During the fiscal year ended June 30, 2011, neither the Company nor any affiliate of the Company repurchased common shares of the Company registered under Section 12 of the Securities Exchange Act of 1934, as amended.

Sales of Unregistered Securities

During the fiscal year ended June 30, 2011, the Company sold the following securities on an unregistered basis:

On December 22, 2010, the Company issued for sale 6,394,000 common shares at a price of CDN\$9.00 per common share. The 6,394,000 Shares issued include 834,000 Shares issued and sold pursuant to the over-allotment option granted to the agents by the Company, which was exercised in full by the agents. A portion of the common shares were offered in the United States to accredited investors. After commissions and offering expenses, the net proceeds were approximately CDN\$53.8 million. The common shares were not registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") or the securities laws of any state of the United States, and were offered or sold, directly or indirectly, in the United States pursuant to the exemption from such registration requirements provided under Rule 506 of Regulation D and outside the United States pursuant to the exclusion from such registration requirements provided by Rule 903 of Regulation S.

The Company also issued 3,601,964 common shares on exercise of outstanding warrants for gross proceeds of \$11,788,544, 1,537,500 common shares on exercise of outstanding options for gross proceeds of \$1,341,115, and 400,473 common shares on exercise of outstanding agent's options for gross proceeds of \$2,410,034. The common shares were not registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") or the securities laws of any state of the United States, and were offered or sold, directly or indirectly, in the United States pursuant to the exemption from such registration requirements provided under Rule 506 of Regulation D and outside the United States pursuant to the exclusion from such registration requirements provided by Rule 903 of Regulation S.

Equity Compensation Plan Information

As of June 30, 2011, we had one equity compensation plan under which our shares of common stock have been authorized for issuance to our officers, directors, employees and consultants, namely our Stock Option Plan (the "Plan"), adopted by the Board of Directors of the Company December 11, 2002, and as amended November 23, 2006, December 3, 2007, December 5, 2008, and December 7, 2009. The Plan has been approved by the shareholders of the Company.

The following summary information is presented for the Stock Option Plan as of June 30, 2011.

| | Number of Securities to be Issued Upon Exercise of Outstanding Options | Weighted Average Exercise Price of Outstanding Options | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans |
|--|---|---|---|
| Plan Category | (a) | (b) | I |
| Equity Compensation Plans Approved By Security Holders | 3,136,500 | CDN\$6.31 | 2,642,847 |
| Equity Compensation Plans Not Approved By Security Holders | Not Applicable | Not Applicable | Not Applicable |

Stock Option Plan Information

The purpose of the Plan is to allow the Company to grant options to directors, officers, employees and consultants, as an incentive to dedicate their efforts to advance the success of the Company. The granting of options is intended to align the interests of such persons with that of the shareholders.

Options will be exercisable over periods up to five years as determined by the Board of Directors of the Company and are required to have an exercise price no less than the closing market price of the Company's shares prevailing on the day that the option is granted, less a discount of up to 25%, the amount of discount varying with market price in accordance with the policies of the Exchange. Pursuant to the Plan, the Board of Directors may, from time to time, authorize the issue of options to directors, officers, employees and consultants of the Company and its subsidiaries or employees of companies providing management or consulting services to the Company or its subsidiaries. The maximum number of common shares that may be reserved for issuance is equal to that number of shares which is 20% of the issued and outstanding common shares of the Company. The number of shares that may be reserved for issuance to any one individual may not exceed 5% of the issued shares in any 12-month period or 2% if the optionee is engaged in investor relations' activities or is a consultant. The Plan contains a minimum vesting schedule allowing options to become exercisable in equal installments over an 18-month period; however, the Board of Directors may impose stricter vesting requirements to a particular stock option in its discretion.

Upon expiry of an option, or in the event an option is otherwise terminated for any reason, the number of common shares in respect of the expired or terminated option shall again be available for the purposes of the Plan. All options granted under the Plan may not have an expiry date exceeding five years from the date on which the board of directors grant and announce the granting of the option.

If the option holder ceases to be a Director of the Company or ceases to be employed by the Company (other than by reason of death), or ceases to be a consultant of the Company as the case may be, then the option granted shall expire on no later than the 90th day following the date that the option holder ceases to be a Director, ceases to be employed by the Company or ceases to be a consultant of the Company, subject to the terms and conditions set out in the Plan.

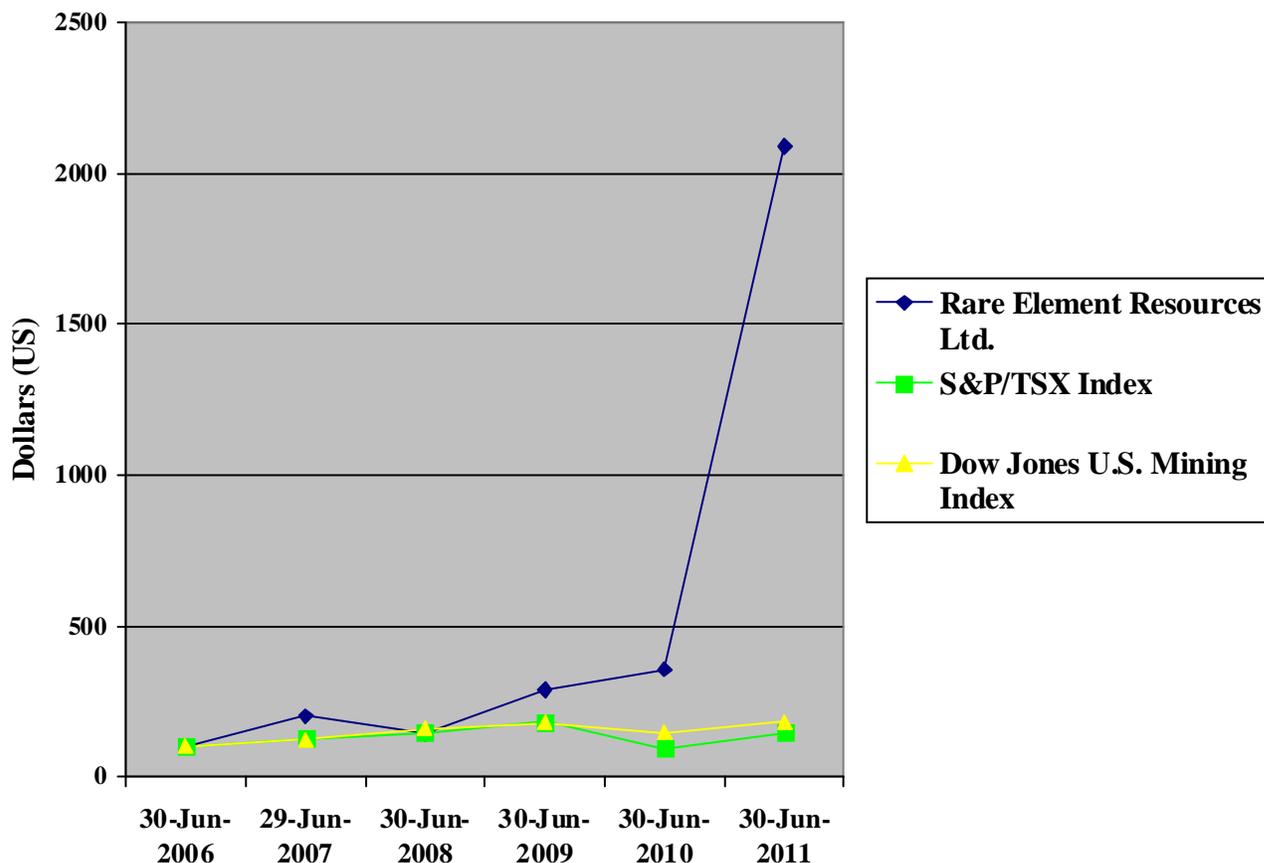
Options are non-assignable and non-transferable.

The Plan contains provisions for adjustment in the number of common shares or other property issuable on exercise of incentive stock options in the event of a share consolidation, split, reclassification or other relevant change in the common shares, or an amalgamation, merger or other relevant change in the Company's corporate structure, or any other relevant change in the Company's corporate structure, or any other relevant change in the Company's capitalization.

Stock Performance Graph

The following graph compares the yearly percentage change in the Company's cumulative total shareholder return on its Common Shares with the cumulative total return of the S&P/TSX Composite Index and the Dow Jones U.S. Mining Index, assuming the reinvestment of dividends, for the last five financial years. This performance chart assumes that \$100 was invested on June 30, 2006, in (i) the Company's Common Shares at the closing price of the Common Shares

on such date of \$0.53, as quoted on the TSX, (ii) the S&P/TSX Composite Index, and (iii) the Dow Jones U.S. Mining Index. Canadian dollar closing price quotes on the TSX are converted to US dollars using the noon exchange rate as quoted by the Bank Of Canada for the date of the closing price quote.



Data Table

| | 6/30/06 | 6/29/07 | 6/30/08 | 6/30/09 | 6/30/10 | 6/30/11 |
|------------------------------------|---------|----------|----------|----------|----------|------------|
| Rare Element Resources Ltd. | \$100 | \$203.77 | \$143.40 | \$288.68 | \$356.61 | \$2,088.69 |
| S&P/TSX Composite Index | \$100 | \$112.46 | \$122.15 | \$76.75 | \$91.58 | \$118.62 |
| Dow Jones U.S. Mining Index | \$100 | \$75.23 | \$97.01 | \$73.70 | \$108.10 | \$103.17 |

Exchange Controls

Canada has no system of exchange controls. There are no Canadian restrictions on the repatriation of capital or earnings of a Canadian public company to non-resident investors. There are no laws in Canada or exchange restrictions affecting the remittance of dividends, profits, interest, royalties and other payments to non-resident holders of Rare Element’s securities, except as discussed in “Certain Canadian Federal Income Tax Considerations for U.S. Residents” below.

Restrictions on Share Ownership by Non-Canadians: There are no limitations under the laws of Canada or in the organizing documents of Rare Element on the right of foreigners to hold or vote securities of Rare Element, except that the Investment Canada Act may require review and approval by the Minister of Industry (Canada) of certain acquisitions of “control” of Rare Element by a “non-Canadian”. The threshold for acquisitions of control is generally defined as being one-third or more of the voting shares of Rare Element. “Non-Canadian” generally means an individual who is not a Canadian citizen, or a corporation, partnership, trust or joint venture that is ultimately controlled by non-Canadians.

Certain Canadian Federal Income Tax Considerations for U.S. Residents

The following summarizes certain Canadian federal income tax consequences generally applicable under the *Income Tax Act* (Canada) and the regulations enacted thereunder (collectively, the “Canadian Tax Act”) and the Canada-United States Income Tax Convention (1980) (the “Convention”) to the holding and disposition of common shares of the Company (“Common Shares”).

Comment is restricted to holders of Common Shares each of whom, at all material times for the purposes of the Canadian Tax Act and the Convention, (i) is a resident of the United States and is not a resident of Canada, (ii) is entitled to the benefit of the Convention, (iii) holds all Common Shares solely as capital property, (iv) deals at arm’s length with and is not affiliated with Rare Element, and (v) does not use or hold and is not deemed to use or hold, any Common Shares in a business carried on in Canada, and none of whose Common Shares constitute “taxable Canadian property” as defined in the Canadian Tax Act (each such individual, a “U.S. Resident”).

Generally, a person will be considered to hold a Common Share as capital property provided that the person acquired the share as a long-term investment, is not a trader or dealer in securities, did not acquire, hold or dispose of the share in a transaction considered to be an adventure or concern in the nature of trade (i.e. speculation), and does not hold the Common Share as inventory in the course of carrying on a business. Special rules, which are not discussed below, may apply to a U.S. Resident who is an insurer that carries on business in Canada and elsewhere.

Generally, a person’s Common Shares will not constitute “taxable Canadian property” at a particular time provided that (i) the Common Shares are listed on a “designated stock exchange” (which currently includes the TSX) at that time, and (ii) neither the person nor one or more other persons with whom the first person does not deal at arm’s length, alone or in any combination, held, directly or indirectly, 25% or more of the issued shares of any class in the capital stock of Rare Element at any time in the 60 months preceding the particular time.

Certain entities that are fiscally transparent for United States federal income tax purposes (including limited liability companies) do not qualify as residents of the United States for the purposes of the Convention. A member or holder of an interest in such an entity that holds Common Shares should consult the member or holder’s own tax advisors.

This summary is based on the current provisions of the Canadian Tax Act and the Convention in effect on the date hereof, all specific proposals to amend the Canadian Tax Act and Convention publicly announced by or on behalf of the Minister of Finance (Canada) on or before the date hereof (the “Tax Proposals”), and the current published administrative and assessing policies of the Canada Revenue Agency (the “CRA”). It is assumed that all such amendments will be enacted as currently proposed, and that there will be no other material change to any applicable law or administrative policy, although no assurance can be given in these respects. Except as otherwise expressly provided, this summary does not take into account any provincial, territorial or foreign tax considerations.

This summary is of a general nature only, is not exhaustive of all possible Canadian federal income tax considerations, and is not and is not to be construed as legal or tax advice to any particular holder or prospective holder of Common Shares. Each holder or prospective holder of Common Shares is urged to consult his, her or its own tax advisors for advice with respect to the holder or prospective holder’s particular circumstances. The discussion below is qualified accordingly.

Disposition of Common Shares

A U.S. Resident who disposes of a Common Share will not thereby incur any liability for Canadian federal income tax.

Taxation of Dividends on Common Shares

A U.S. Resident who is or is deemed to be paid or credited a dividend on the U.S. Resident’s Common Shares will be subject to Canadian withholding tax equal to 15% or, if the U.S. Resident is a company that holds 10% or more of the voting stock of Rare Element, 5%, of the gross amount of the dividend. A U.S. Resident that is i) a qualifying religious, scientific, literary, educational or charitable organization and is exempt from tax in the U.S., or ii) a qualifying trust, company, organization or arrangement operated exclusively to administer or provide pension, retirement or employee benefits and is exempt from tax in the U.S. may be exempt under the Convention from Canadian withholding tax provided specific administrative procedures are complied with.

ITEM 6. SELECTED FINANCIAL DATA

Selected financial data about Rare Element for the last five years is set forth in the table below. You should read the data in the table in conjunction with the consolidated financial statements and related notes set forth in “Item 8. Financial Statements and Supplementary Data”.

Dollars and shares in thousands, except per share amounts

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|----------------|------------|------------|------------|------------|
| Operating expenses | | | | | |
| Depreciation | \$ 37,629 | 6,900 | 2,395 | 2,117 | 191 |
| Foreign exchange | \$ (3,076,508) | 56,495 | 292,358 | (88,985) | 43,589 |
| General and administrative | \$ 9,470,900 | 1,670,403 | 976,926 | 970,520 | 742,799 |
| Mineral property expenditures | \$ 8,512,347 | 2,794,231 | 590,147 | 256,618 | 160,132 |
| Total operating expenses | \$ 14,944,368 | 4,528,029 | 1,861,826 | 1,140,270 | 946,711 |
| Write-off of mineral properties and others | \$ - | - | (15,083) | - | - |
| Interest income | \$ 631,557 | 40,163 | 32,575 | 29,786 | 35,083 |
| Mark to market gain (loss) on share purchase warrants | \$ (2,345,151) | 1,695,897 | - | - | - |
| Net loss for the year | \$ 16,657,962 | 2,791,969 | 1,844,334 | 1,110,484 | 911,628 |
| Common stock data | | | | | |
| Weighted average shares outstanding | 38,585,541 | 29,429,998 | 24,072,331 | 22,972,529 | 20,412,956 |
| Net loss per share – basic and diluted | \$ 0.43 | 0.09 | 0.08 | 0.05 | 0.05 |
| Total shares outstanding at June 30 | | | | | |
| Balance sheet data at June 30 | | | | | |
| Total assets | \$ 75,483,711 | 13,410,907 | 2,424,723 | 2,374,876 | 1,205,172 |
| Property, plant and equipment – net | \$ 145,160 | 40,057 | 1,872 | 4,267 | 673 |
| Mineral properties | \$ 1,669,060 | 1,711,368 | - | - | - |
| Working capital | \$ 71,952,619 | 11,126,921 | 2,345,857 | 2,281,675 | 1,154,703 |
| Derivative liability | \$ 195,953 | 1,981,931 | - | - | - |
| Total debt | \$ 1,389,598 | 2,403,959 | 66,461 | 63,851 | 24,713 |
| Common shareholders' equity | \$ 74,094,113 | 11,006,948 | 2,358,262 | 2,311,025 | 1,180,459 |
| Cash flow data | | | | | |
| Net cash used for operating activities | \$ 6,681,244 | 3,611,202 | 1,400,993 | 624,868 | 736,549 |
| Net cash used for (provided by) investing activities | \$ 663,590 | 124,015 | - | 5,711 | 482 |
| Net cash provided by financing activities | \$ 68,196,328 | 12,861,548 | 1,463,221 | 1,817,159 | 1,394,101 |

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and related notes appearing elsewhere in this Annual Report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. See "Cautionary Note Regarding Forward-Looking Statements." Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including, but not limited to, those set forth under "Risk Factors and Uncertainties" and elsewhere in this Annual Report.

Introduction

This is Management's Discussion and Analysis ("MD&A") for Rare Element Resources Ltd. and has been prepared based on information known to management as of September 26, 2011. This MD&A is intended to help the reader understand the consolidated audited financial statements of Rare Element

Rare Element is focused on exploring and developing economic mineral projects which contain or have the potential to contain rare-earth elements with or without gold. The Company plans to explore advanced-staged exploration projects itself, and to acquire and option out earlier stage exploration projects, while keeping a retained interest. The main focus of the Company is advancing the Bear Lodge REE Project located in Wyoming, USA.

In July, 2011, the Company became a domestic issuer in the United States and transitioned from reporting according to Canadian regulations with US secondary filings, to reporting according to the US regulations with Canadian secondary filings. While this will have no impact on the value of the Company, shareholders will have to adapt to filings in the US regulation formats, including that the Company will adopt US generally accepted accounting principles ("US GAAP"), as required under SEC rules. (See "Future Accounting Pronouncements" of this MD&A.) This MD&A should be read in conjunction with the consolidated financial statements for the year ended June 30, 2011 and supporting notes.

US GAAP is similar to Canadian GAAP that Rare Element reported under up to June 30, 2011, with one material change being the accounting for mineral property expenditures. These expenditures will still be shown on a statement of such expenditures, but will be expensed in the income statement instead of being capitalized.

Currently, the United States Financial Accounting Standards Board expects to adopt IFRS in 2016 but that may change. At that time, Rare Element will adopt IFRS which is now widely used in developed countries. Under IFRS the mineral property expenditures that had been capitalized under Canadian GAAP and expensed under US GAAP would be reevaluated for capitalization under IFRS. Generally under IFRS if the expenditure is expected to provide a betterment of the asset it would be capitalized.

In conjunction with filing the year-end consolidated financial statements for June 30, 2011, Rare Element has restated certain of its prior Canadian GAAP financial statement filings for an adjustment required under US GAAP in the "US GAAP" note for the valuation of warrants issued on financings denominated in Canadian dollars, which is different from the reporting currency that Rare Element uses which is US dollars. These amendments are for non-cash adjustments and have no impact on the value of the Company during that time, or at present.

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

The Company's board of directors follows recommended corporate-governance guidelines for public companies to ensure transparency and accountability to shareholders. The board's audit committee meets with management regularly to review the consolidated financial statements, including the MD&A, and to discuss other financial, operating and internal-control matters.

All currency amounts are expressed in US dollars unless otherwise noted.

Highlights

The management team at Rare Element Resources is encouraged by the recent results of Rare Element Resources' exploration efforts and the following are the highlights of those results from June 30, 2011 and to the date of this MD&A:

- Incorporated the 2010 rare-earth-element REE drilling program results into an updated mineral resource and announced an upgraded and increased NI 43-101 compliant mineral resource estimate on June 14, 2011.
- Completed the 2010 drilling program on the Bear Lodge REE Project in November 2010. The drilling included 61 drill holes and an additional 40 large diameter core holes. The 40 large diameter core provided a bulk sample for pilot-plant testing and assays from that core provided the highest grades of REE found to date.
- Advanced a preliminary REE metallurgical recovery process in July 2010, with 80 percent estimated recoveries of rare-earth elements from the Bear Lodge deposit to produce a 42-45 percent rare-earth-oxide ("REO") concentrate.
- Completed a Preliminary Economic Assessment, in compliance with the National Instrument 43-101, which shows positive economics using 3-year trailing average prices for rare-earth concentrates.
- Collected an 8.8 ton sample of REE mineralized material and additional bulk sample material later to be used in a pilot plant test in 2011.
- Completed a 34-hole gold-focused drilling program in November 2010 on the Sundance Gold Project focusing on three main gold targets. The targets provided the highest gold grades found to date. Filing of the Company's first NI 43-101-compliant inferred mineral resource estimate reported 947,000 ounces of gold in these three deposits contained in 69.3 million metric tonnes averaging 0.42 g Au/t using a 0.15 g/t cutoff grade.
- Discovery of heavy rare earths at Whitetail Ridge, East Taylor and Carbon and high grade at East Taylor within the Bear Lodge REE Project.
- Successfully listed the Company's common shares for trading on the NYSE Amex Stock Exchange headquartered in New York, NY, as well as graduating the trading of our shares in Canada from Tier One of the TSX Venture Exchange to the TSX main trading board.
- Established an executive office in Denver, Colorado. Successfully hired various key executives, including Chief Operating Officer, Chief Financial Officer and VP of Government and Community Relations.
- Completed of two significant financings, April, 2010 and December, 2010, that combined raised gross proceeds of approximately CDN\$65 million. As of the date of this MD&A, the Company has 44.1 million common shares outstanding and approximately \$73 million of cash and no debt.

Outlook

Rare Element Resources has sufficient cash on hand to conduct its exploration and operating plans through 2012. Rare Element Resources plans to continue to advance the Bear Lodge REE Project and the Sundance Gold Project in Wyoming, USA, during 2011 including the following:

- Additional resource definition drilling to expand and upgrade the resources at the Bull Hill (aka Bull Hill SW), Whitetail Ridge, and Bull Hill NW deposits.
- Exploration drilling at the Bull Hill West, Carbon REE, and other prospective REE targets identified during the 2010 exploration program.
- Geological mapping, geochemical sampling, and geophysical surveys over selected areas in order to better delineate current target areas and identify new targets for economic REE mineralization.
- Collection of additional bulk sample mineralized material for continued pilot plant testing from a second large diameter core drilling program in select, well-mineralized areas, along with additional sampling of mineralized surface exposures in road cuts, trenches, and drill sites.
- A condemnation drilling program to ensure that the proposed low-grade stockpile and waste facility will not cover ground that is prospective for REE and/or gold mineralization.
- Environmental baseline and geotechnical studies for used in the environmental impact study ("EIS") and prefeasibility study.

- Continued metallurgical testing of the oxide, the oxide-carbonate and the low-grade stockwork mineralized material for optimization of mineral concentration and chemical concentration processes.
- Perform market testing from product produced by the pilot plant.
- Completion of a Preliminary Feasibility Study in the first quarter of 2012.
- Continue to add key personnel to develop the corporate infrastructure to support the current project development and future production operation.
- Plans to begin a limited gold-targeted drilling program to expand existing mineral resources, to search for higher grade mineralization, and to discover new deposits.

Description of Metal Markets

REE are used in hybrid-electric-vehicles (“HEV”) and all-electric vehicles, many of which contain REE-bearing nickel-metal-hydride (“Ni-MH”) batteries and REE “super” magnets within electrical motors and generators; REE are also used in computers, cellular telephones, TV screens, wind turbines, fuel cells, magnetic refrigeration technologies, compact fluorescent lights, petroleum-refining catalysts and numerous other modern specialty technologies.

The markets for REE have become more significant over the years as more of these new technologies are developed. Currently these REE markets are dominated by production from China, which produced over 95 percent of the world’s REEs in recent years. For the past eight years and most recently in the summer of 2010, China has reduced its exports of REE by 40 percent and increased related export taxes, which has significantly increased producer sales prices since that time.

The prices of REE are quoted in different forms on www.metal-pages.com. Rare-earth carbonate concentrates that contain approximately 42 percent to 45 percent REOs can be marketed or they can be separated into individual oxides or sold in small sub-groups of similar elements.

According to Metal Pages, the prices of REEs have generally increased approximately 500 percent in 2010 after a slight recovery in 2009 from depressed prices in 2008 due to worldwide economic turmoil. For example, according to Metal Pages, the prices of REE concentrates have increased from \$4,500 per ton in July 2010 to approximately \$38,000 per ton in December 2010. REO prices have increased considerably more during the first two quarters of 2011, but subsequently the prices have begun declining.

Since REE are used for many new technologies, it is estimated that their demand for REE will increase at a rate of 7 to 10 percent per year for the next 5 years and possibly longer [IMCOA, Roskill and Rare Earths Industry Stakeholders, 2011, Dudley J. Kingsnorth]. Rare-earth magnet demand using Nd, Pr, Dy and Tb, is expected to increase annually at a rate of 10-15 percent.

Risks and Uncertainties

The Company’s operations are subject to certain risks and uncertainties that may impact the Company’s financial results. For a full list of such risks and uncertainties, please see “Item 1A. Risk Factors” of this Annual Report.

Our failure to successfully address these risks and uncertainties would have a material adverse effect on our business, financial condition and/or results of operations. Consequently, the trading price of our common shares may decline and investors may lose all or part of their investment in the Company. We cannot assure you that we will successfully address these risks and uncertainties or other unknown risks and uncertainties that may affect our business.

Impairment of Long-lived Assets

The Company completed an impairment analysis as at June 30, 2011. Management concluded that no impairment charge was required because:

- there have been no significant changes in the legal factors or climate that affects the value of the properties;
- all property rights remain in good standing;
- the recent increase in prices in the REOs and gold;
- exploration results continue to be positive for both the Bear Lodge REE Project and the Sundance Gold Project;

- the REE mineral resource was recently increased;
- the Company intends to continue its exploration and development plans on its Bear Lodge REE Project and the Sundance Gold Project; and
- the Company is looking for partners for its Eden Lake and Nuuklavik Properties.

Material Financial and Operations Information

Selected Annual Financial Information under US GAAP

| | Year ended June 30, 2011 | Year ended June 30, 2010 | Year ended June 30, 2009 |
|---------------------------------------|-----------------------------|-----------------------------|-----------------------------|
| | \$ | \$ | \$ |
| Total revenues | 631,557 | 40,163 | 17,492 |
| Total expenses | 14,944,368 | 4,528,029 | 1,861,826 |
| Loss for the year | (16,657,962) | (2,791,969) | (1,844,334) |
| Loss per share – basic and diluted | (0.43) | (0.09) | (0.08) |
| Total assets | 75,483,711 | 13,410,907 | 2,424,723 |
| Total long-term financial liabilities | Nil | Nil | Nil |
| Cash dividends declared – per share | Nil | Nil | Nil |

Summary of Quarterly Results

The following is a summary of the Company's financial results for the last eight quarters under US GAAP:

| Expressed In \$ | Jun 11 Quarter | Mar 11 Quarter | Dec 10 Quarter | Sep 10 Quarter | June 10 Quarter | Mar 10 Quarter | Dec 09 Quarter | Sep 09 Quarter |
|---|--------------------|-------------------|-------------------|-------------------|--------------------|-------------------|-------------------|-------------------|
| Total revenue | 298,918 | 261,459 | 46,060 | 25,120 | 17,119 | 5,417 | 8,657 | 8,970 |
| Net (loss) income | (5,476,042) | (4,105,194) | (3,561,782) | (3,514,944) | (209,908) | 659,369 | (2,437,448) | (803,982) |
| (Loss) earnings per share – basic and diluted | (0.13) | (0.10) | (0.10) | (0.10) | (0.00) | 0.02 | (0.08) | (0.03) |
| Total assets | 75,483,711 | 76,564,497 | 69,654,992 | 13,399,162 | 13,410,907 | 6,586,152 | 6,303,781 | 6,611,459 |
| Total long-term liabilities | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| Cash dividends declared | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil |

Results of Operations

Results of Operations for the three months ended June 30, 2011 compared to the three months ended June 30, 2010

The net loss for the fourth quarter of fiscal 2011 totaled \$5,476,042 compared to loss of \$208,908 in the same period of fiscal 2010, an increase of \$5,267,134. The basic and diluted losses per share were \$0.13 in the three months ended June 30, 2011 and \$0.00 in the compared period.

Interest income totaled \$298,918 (2010 - \$17,119) for the three months ended June 30, 2011 as a result of interest earned on the funds that the Company held in financial institutions.

The total general and administrative costs were \$3,429,809 for the three months ended June 30, 2011 and \$1,662,093 for the comparable period, an increase of \$1,767,716. The major increase was the exploration expense from 2010's \$786,555 to 2011's \$1,814,014 due to the exploration work at the Bear Lodge REE Project and Sundance Gold Project. The Company also incurred more expenses such as transfer and listing fee (increased by \$192,918) as the Company completed its graduation from the TSX Venture Exchange to the TSE. The Company also had a non-cash mark-to-market loss on share purchase warrants in 2011 compared to a mark-to-market gain on share purchase warrants during the same period last year.

Results of Operations for the year ended June 30, 2011 compared to the year ended June 30, 2010

The net loss for the year ended June 30, 2011, totaled \$16,657,962 compared to loss of \$2,791,969 for the same period in 2010. The basic and diluted losses per share were \$0.43 and \$0.09, respectively.

Interest income was \$631,557 for the year ended June 30, 2011 and \$40,163 for the same period in 2010 as a result of interest earned on the funds that the Company held in financial institutions.

Excluding the non-cash stock-based compensation of \$7,414,364 in 2011 and \$524,497 in 2010, amortization expenses of \$37,629 in 2011 and \$6,900 in 2010, the foreign exchange (gain) loss of (\$3,076,508) in 2011 and \$56,495 in 2010, total general and administrative costs were \$10,568,883 for the year ended June 30, 2011 and \$3,940,137 for the same period in 2010. The significant increase in the expenses was due to the exploration expense during 2011 of \$8,512,347 compared to \$2,794,231 in 2010. Other operating expenses such as transfer and listing fees also increased from 2010's \$72,263 to 2011's \$447,966 due to listing on the NYSE Amex and the TSE. The Company also had a non-cash mark-to-market loss on share purchase warrants (\$2,345,151) in 2011 compared to a mark-to-market gain on share purchase warrants (\$1,695,897) during the same period in 2010.

Results of Operations for the year ended June 30, 2010 compared to the year ended June 30, 2009

The net loss for the year ended June 30, 2010 totaled \$2,791,969 compared to loss of \$1,844,334 in the same period in 2009, an increased loss of \$947,635. The basic and diluted losses per share were \$0.09 for the year ended June 30, 2010 and (\$0.08) for the same period last year.

Interest income was \$40,163 for the year ended June 30, 2010 and \$32,575 for same period in 2009 as a result of interest earned on the funds that the Company held in financial institutions. In 2009, the Company had a \$15,083 write-off of investment.

During the year ended June 30, 2010, the Company recognized a loss on foreign exchange of \$56,495 compared to a loss of \$292,358 for the same period in 2009 as the Company held the majority of its cash in Canadian dollars until such time as payment (in US\$) is required.

Excluding the non-cash stock-based compensation expenses of \$524,497 in 2010 and \$428,350 in 2009, amortization expenses of \$6,900 in 2010 and \$2,395 in 2009, and the foreign exchange losses, total general and administrative costs were \$1,145,906 for the year ended June 30, 2010 and \$548,576 for the year ended June 30, 2009. The operating expenses increased by \$597,330. The increase was mostly due to: (a) increase in investor relations and shareholders' communication by \$143,102 and corporate development expenses by \$41,366 because the Company was actively keeping the shareholders and potential investors informed about the Company's progress; (b) accounting and administration fees increased by \$74,748, audit and legal fees increased by \$80,901, and transfer and listing fees increased by \$54,722 as a result of the Company closing three financings during the year ended June 30, 2010, filing its initial registration statement on Form 20-F, getting listed on NYSE AMEX and acquiring new mineral properties; (c) management fees increased by \$82,480 and consulting fees increased by \$38,297 due to the Company being more active during the year ended June 30, 2010.

During the year ended June 30, 2010, the Company expensed a total of \$2,794,231 in exploration costs on its properties, of which \$2,724,518 was spent on the Bear Lodge REE property, \$69,713 was spent on the Sundance Gold project. The Company capitalized \$959,181 acquiring costs on the Eden Lake property and \$725,187 acquisition costs on the Nuiklavik property. As of June 30, 2010, the Company had incurred a total of \$4,334,041 (2009 = \$1,609,496) on exploration work at Bear Lodge; \$69,713 (2009 = \$nil) on exploration work at Sundance; \$27,000 (2009 = \$nil) on acquisition costs at Sundance; \$959,181 (2009 = \$nil) on acquisition at Eden Lake; and \$725,187 (2009 = \$nil) on acquisition at Nuiklavik.

The Company also recognized a mark-to-market gain of \$1,695,897 on the share purchase warrants during the year ended June 30, 2010 compared to \$nil during the same period in 2009.

The Company announced the results of an updated National Instrument 43-101- compliant mineral resource estimate of REE contained in the Bull Hill Southwest deposit in May 2010. Refer to the "REE Exploration Activities" section and the Company's website, www.rareelementresources.com for additional information.

Liquidity and Capital Resources

Liquidity and Capital Resources for the year ended June 30, 2011

The Company's working capital as at June 30, 2011 was \$71,952,619 (2010 - \$11,126,921). As at June 30, 2011, cash totaled \$72,311,970, an increase of \$60,851,494 from \$11,460,476 as at June 30, 2010.

On December 22, 2010, the Company closed a short-form prospectus offering for gross proceeds of CDN\$57,546,000. The financing consisted of 6,394,000 common shares at a price of CDN\$9.00 per share. The Company paid CDN\$3,452,760 (\$3,417,304) cash commission and issued 383,640 broker's warrants. Each broker's warrant excisable into one common share of the Company at an exercise price of CDN\$9.00 per share until December 22, 2012. A total of \$3,911,083 was incurred for share issue costs, including the cash commission paid.

In addition, during the year ended June 30, 2011, 3,601,964 warrants, 1,537,500 options, and 400,473 agent's options and warrants were exercised for gross proceeds of \$15,539,693.

The Company spent \$207,293 on marketable securities, \$1,815 on mineral properties, \$311,750 on additional reclamation bond, and \$142,732 on purchase of equipment. The Company also spent \$6,681,244 on its operating activities.

Management estimates that the current cash position and future cash flows from warrants and options and potential financing will be sufficient for the Company to carry out its anticipated exploration and operating plans through 2012.

There may be circumstances where, for sound business reasons, a reallocation of funds may be necessary in order for the Company to achieve its stated business objectives.

Financings

The Company has financed its operations through funds raised in public/private placements of common shares and common shares issued to settle debts. In addition, the Company has raised funds through the exercise of warrants issued in the private placements and the exercise of stock options.

| Fiscal Year | Nature of Share Issuance | Number of Securities | Gross Amount |
|---------------------------------|---------------------------------|-----------------------------|---------------------|
| 2012 through September 26, 2011 | Exercise of Options | 20,000 | \$56,509 |
| Year Ended June 30, 2011 | Short-form prospectus | 6,394,000 | \$56,567,718 |
| | Exercise of Warrants | 3,601,964 | \$11,788,544 |
| | Exercise of Options | 1,537,500 | \$1,341,115 |
| | Exercise of Agent's Options | 400,473 | \$2,410,034 |
| Year Ended June 30, 2010 | Private Placement of Units | 4,731,501 | \$13,269,456 |
| | Exercise of Warrants | 144,500 | \$141,610 |
| | Exercise of Options | 482,000 | \$290,194 |
| Year Ended June 30, 2009 | Private Placement of Units | 2,000,000 | \$1,333,050 |
| | Exercise of Options | 398,000 | \$140,950 |

On December 22, 2010, the Company closed a short-form prospectus offering for gross proceeds of CDN\$57,546,000. The financing consisted of 6,394,000 common shares at a price of CDN\$9.00 per share. The Company paid CDN \$3,452,760 (\$3,417,304) cash commission and issued 383,640 broker's warrants. Each broker's warrant excisable into one common share of the Company at an exercise price of CDN \$9.00 per share until December 22, 2012. A total of \$3,911,083 was incurred for share issue costs, including the cash commission paid.

On April 13, 2010, the Company closed a short-form Canadian prospectus offering and concurrent US private placement of CDN\$8,860,253. The financing consisted of 2,531,501 units of the Company at a price of CDN\$3.50 per unit. Each unit consists of one common share and one-half of one transferable common share purchase warrant. Each warrant is exercisable into one common share until April 13, 2012, at a price of CDN\$4.75. The Company paid CDN\$531,615 cash commission to the agents and issued 151,890 agents' options exercisable into one agents' unit at a

price of CDN\$3.50 until April 13, 2012. Each agent's unit consists of one common share and one-half of one transferable common share purchase warrant with the same terms as the private placement warrants.

On September 21, 2009, the Company completed a non-brokered CDN\$3,000,000 private placement financing consisting of 1,000,000 units. Each unit was priced at CDN\$3.00 and consisted of one common share and one common share purchase warrant. Each warrant will allow the holder to purchase one additional common share for a period of 18 months from the closing date for additional consideration of CDN\$4.25. There were no insiders participating in this offering and no commission paid.

On July 24, 2009, the Company completed a non-brokered CDN\$1,800,000 private placement financing consisting of 1,200,000 units at a price of CDN\$1.50 per unit. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant is exercisable into one common share for a period of 18 months from the closing date at a price of CDN\$2.10. No insiders participated in this offering and no commissions were paid.

On May 27, 2009, the Company completed a non-brokered private placement financing for CDN\$1,500,000. The offering consisted of 2,000,000 units at CDN\$0.75 per unit. Each unit comprised one common share and one-half of a nontransferable share-purchase warrant. Each whole warrant is exercisable into a common share of the Company at CDN\$1.00 until November 27, 2010. Two insiders participated in this offering for CDN\$71,250. No commissions were paid.

On November 5, 2007, the Company completed a non-brokered private placement financing for CDN\$1,075,000. The offering consisted of 1,075,000 units at CDN\$1.00 per unit. Each unit comprised one common share and one-half of a nontransferable share-purchase warrant. Each whole warrant was exercisable into a common share of the Company at CDN\$1.35 until May 5, 2009. All the warrants expired unexercised.

Capital Expenditures

| Fiscal Year | Capital Expenditures | Purpose |
|--------------------------|-----------------------------|--------------------|
| Year ended June 30, 2011 | \$1,815 | Mineral properties |
| | \$142,732 | Equipment Purchase |
| | \$311,750 | Reclamation Bond |
| Year Ended June 30, 2010 | \$27,000 | Mineral properties |
| | \$45,085 | Equipment Purchase |
| | \$100,000 | Reclamation Bond |
| Year Ended June 30, 2009 | \$nil | Equipment Purchase |

Disclosure of Outstanding Share Data

The authorized share capital of the Company consists of an unlimited number of common shares without par value.

| | No. of Common Shares Issued & Outstanding | Share Capital Amount |
|--------------------|---|----------------------|
| June 30, 2010 | 32,142,737 | \$19,014,540 |
| June 30, 2011 | 44,076,674 | \$91,357,438 |
| September 26, 2011 | 44,096,674 | \$91,459,269 |

As at June 30, 2011, the Company had 3,136,500 stock options outstanding with exercise prices ranging from CDN\$0.55 to CDN\$15.16 expiring from January 10, 2012 to June 17, 2016. During the year ended June 30, 2011, a total of 1,537,500 options were exercised at weighted average exercise price of CDN\$0.87 for gross proceeds of \$1,341,115. A fair value of \$985,524 was recognized on these exercised options. Subsequent to June 30, 2011, 90,000 options at CDN\$9.95 and 310,000 options at CDN\$8.49 were granted while 20,000 options were exercised for gross proceeds of CDN\$54,200. If all the remaining outstanding options were exercised, the Company's available cash would increase by CDN\$23,355,780.

During the year ended June 30, 2011, 324,528 agents' options and the related 75,945 warrants ranging from CDN\$3.50 and CDN\$9.00 were exercised for proceeds of \$2,410,034. A fair value of \$1,389,580 was recognized on these exercised agents' options and a fair value of \$970,083 was recognized on the warrants associated with the agents' options. During the same period, 3,601,964 warrants ranging from CDN\$1.00 and CDN\$4.75 were exercised for proceeds of \$11,788,544.

As at June 30, 2011, the Company had 119,287 warrants at CDN\$4.75 and 211,002 agents' options at CDN\$9.00 outstanding expiring on April 13, 2012 and December 22, 2012, respectively. If all the remaining outstanding warrants and agents' warrants were exercised, the Company's available cash would increase by CDN\$2,465,631.

As of date of this MD&A, there were 44,096,674 common shares issued and outstanding and 47,953,463 common shares outstanding on a diluted basis.

The deficit totaled \$26,770,730 as at June 30, 2011 (2010 - \$10,112,768). The increase is the result of the net loss and comprehensive loss of \$16,657,962 for the year ended June 30, 2011.

Off-Balance Sheet Arrangements

The Company has no Off-Balance Sheet Arrangements.

Contractual Obligations

The table below lists the Company's contractual obligations as of June 30, 2011.

| | Total | Less than One year | One to Three years | Three to Five years | More than Five years |
|-------------------------------------|------------------|--------------------|--------------------|---------------------|----------------------|
| Long-Term Debt Obligations | - | - | - | - | - |
| Capital (Finance) Lease Obligations | - | - | - | - | - |
| Operating Lease Obligations | \$468,300 | \$88,980 | \$280,980 | \$98,340 | - |
| Purchase Obligations | \$200,000 | \$200,000 | - | - | - |
| Other LT Liabilities | - | - | - | - | \$210,825 |
| Total | \$879,125 | \$288,980 | \$280,980 | \$98,340 | \$210,825 |

Environmental Provisions

An environmental provision of \$100,540 was recognised in the year ended June 30, 2011 for the Company's current obligations to reclaim areas used for exploring the Bear Lodge Property.

Potential Environmental Contingency

The Company's mining and exploration activities are subject to various federal, provincial and state laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations. The ultimate amount of reclamation and other future site restoration costs to be incurred is uncertain.

Transactions with Related Parties

During the year ended June 30, 2011:

- a) \$230,000 (2010 - \$185,936; 2009 - \$103,456) was charged for management fees by an officer and director and bonus paid to an officer of the Company. As at June 30, 2011, \$Nil (2010 - \$Nil) was owed to the officer.

- b) \$281,777 (2010 - \$208,222; 2009 - \$114,286) was charged by a private company controlled by a director and officer of the Company for accounting, management fees and rent. As at June 30, 2011, \$73,959 (2010 - \$12,023) was owed to this private company.

Related party transactions were in the normal course of operations and are measured at the fair value amount as determined by management. The amounts owed bear no interest and are unsecured with no repayment terms.

Financial Instruments

The Company measures the fair value of financial assets and liabilities based on US GAAP guidance which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

The Company classifies financial assets and liabilities as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities depending on their nature. Financial assets and financial liabilities are recognized at fair value on their initial recognition, except for those arising from certain related party transactions which are accounted for at the transferor's carrying amount or exchange amount.

Financial assets and liabilities classified as held-for-trading are measured at fair value, with gains and losses recognized in net income (loss). Financial assets classified as held-to-maturity, loans and receivables, and financial liabilities other than those classified as held-for-trading are measured at amortized cost, using the effective interest method of amortization. Financial assets classified as available-for-sale are measured at fair value, with unrealized gains and losses being recognized as other comprehensive income (loss) until realized, or if an unrealized loss is considered other than temporary, the unrealized loss is recorded in income (loss).

Financial instruments, including cash and cash equivalents, accounts receivable, reclamation bonding, accounts payable and accrued liabilities are carried at cost, which management believes approximate the recognized fair value due to the short term nature of these instruments. Marketable securities are classified as available-for-sale, with unrealized gains and losses being recognized in other comprehensive income (loss).

The following table presents information about financial instruments recognized at fair value on a recurring basis as of June 30, 2011, and indicates the fair value hierarchy of the valuation techniques the Company utilized to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and included situations where there is little, if any, market activity for the asset.

| | Level 1 | Level 2 |
|---------------------------|---------------|---------------|
| <u>Assets</u> | | |
| Cash and cash equivalents | \$ 44,479,314 | \$ 27,832,656 |
| Marketable securities | 254,722 | - |
| Reclamation bonding | 422,283 | - |
| Total | \$ 45,156,319 | \$ 27,832,656 |
| <u>Liabilities</u> | | |
| Derivative liabilities | | \$ 195,953 |

Derivative liabilities which are comprised of share purchase warrants not listed on a public exchanges are valued using the Black Scholes valuation model. The valuation model requires a variety of inputs, including strike price, contractual terms, market prices, measure of volatility and interest rate. Because the inputs are derived from observable market data, derivative liabilities are classified within Level 2 of the fair value hierarchy.

The Company's financial instruments have been designated as follows:

- Held-for-trading: cash and cash equivalents, reclamation bond and derivative liabilities
- Available-for-sale: marketable securities
- Loans and receivables: amounts receivable
- Other financial liabilities: accounts payable, accrued liabilities, due to related parties and ARO

Concentration of credit risk

The financial instrument which potentially subjects the Company to concentration of credit risk is cash and cash equivalents and reclamation bonding. The Company maintains cash and cash equivalents in bank accounts and investment that, at times, may exceed federally insured limits. As of June 30, 2011 and 2010, the Company has exceeded the federally insured limit. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risks on its cash in bank accounts.

Management of Capital Risk

The Company manages its cash and cash equivalents, common shares, stock options and warrants as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares and, acquire or dispose of assets.

In order to maximize ongoing exploration efforts, the Company does not pay out dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with short term maturities, selected with regards to the expected timing of expenditures from continuing operations.

The Company expects its current capital resources will be sufficient to carry its exploration plans and operations through 2012.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure. Accounts payable and accrued liabilities are due within the current operating period.

Interest rate risk

The Company's interest revenue earned on cash and on short term investments is exposed to interest rate risk. The Company does not enter into derivative contracts to manage this risk, and the Company's exposure to interest rate is very low as the Company has limited short term investments. The Company limits its exposure to interest rate risk as it invests only in short term investments at major Canadian financial institutions.

Currency risk

The Company's property interests in the United States is subject to foreign currency fluctuations which may adversely affect the Company's financial position, results of operations and cash flows. The Company is affected by changes in exchange rates between the Canadian dollar and US dollar. The Company does not invest in derivatives to mitigate these risks.

Significant Accounting Judgments and Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Actual results could differ from those estimates. The amounts which involve significant estimates include asset retirement obligations and stock-based compensation.

Critical Accounting Policies

Management is required to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On a regular basis, we evaluate our estimates and assumptions. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Mineral property acquisition costs

The cost of acquiring mineral properties are capitalized and will be amortized over their estimated useful lives following the commencement of production or expensed if it is determined that the mineral property has no future economic value or the properties are sold or abandoned.

Cost includes cash consideration and the fair market value of shares issued on the acquisition of mineral properties. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at such time as the payments are made.

The recoverable amounts for mineral properties is dependent upon the existence of economically recoverable reserves; the acquisition and maintenance of appropriate permits, licenses and rights; the ability of the Company to obtain financing to complete the exploration and development of the properties; and upon future profitable production or alternatively upon the Company's ability to recover its spent costs from the sale of its interests. The amounts recorded as mineral properties reflect actual costs incurred and are not intended to express present or future values.

The capitalized amounts may be written down if potential future cash flows, including potential sales proceeds, related to the property are estimated to be less than the carrying value of the property. Management of the Company reviews the carrying value of each mineral property interest quarterly, and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Reductions in the carrying value of each property would be recorded to the extent the carrying value of the investment exceeds the estimated future net cash flows.

Exploration and development costs

Exploration costs are expensed as incurred. When it is determined that a mining deposit can be economically and legally extracted or produced based on established proven and probable reserves, further exploration and development costs related to such reserves incurred after such determination will be capitalized. The establishment of proven and probable reserves is based on results of final feasibility studies which indicate whether a property is economically feasible. Upon commencement of commercial production, capitalized costs will be transferred to the appropriate asset category and amortized over their estimated useful lives. Capitalized costs, net of salvage values, relating to a deposit which is abandoned or considered uneconomic for the foreseeable future, will be written off.

Foreign currency translation

The Company's functional and reporting currency is the US Dollar. The Company's Canadian operations are considered to be integrated with foreign currency transactions translated into US Dollars as follows:

- monetary assets and liabilities at the rates of exchange prevailing at the balance sheet dates;
- other assets and liabilities and equity accounts at the applicable historical exchange rates;
- revenues and expenses at the average rates of exchange for the period, and;
- gains and losses arising from the conversion of foreign-currency balances and transactions are reported in income as they occur.

Stock-based compensation

The Company accounts for share-based compensation under the provisions of ASC 718, "Compensation Stock Compensation". Under the fair value recognition provisions, stock-based compensation expense is measured at the grant date for all stock-based awards to employees and directors and is recognized as an expense over the requisite

service period, which is generally the vesting period. The Black-Scholes option valuation model is used to calculate fair value.

The Company accounts for stock compensation arrangements with non-employees in accordance with ASC 718 which require that such equity instruments are recorded at their fair value on the measurement date. The measurement of stock-based compensation is subject to periodic adjustment as the underlying equity instruments vest. Non-employee stock-based compensation charges are amortized over the vesting period on a straight-line basis. For stock options granted to non-employees, the fair value of the stock options is estimated using a Black-Scholes valuation model.

Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made.

The associated asset retirement costs are capitalized as part of the carrying amount of long lived assets. The liability is accreted over the estimated time period until settlement of the obligation and asset is depreciated over the estimated remaining useful life of the asset. Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease in the carrying amount of the liability and the related capitalized asset retirement cost.

Changes in Accounting Policies

These consolidated financial statements for the year ended June 30, 2011 have been prepared in accordance with US GAAP. Prior to July 1, 2010, the Company reported its consolidated financial statements using Canadian generally accepted accounting principles (“Canadian GAAP”). Material variations in the accounting principles, practices and methods used in preparing the prior periods’ consolidated financial statements in accordance with Canadian GAAP and their impacts on the prior periods’ consolidated financial statement are reconciled below.

Mineral property exploration costs

Under Canadian GAAP, exploration costs can be capitalized, although these costs would be subject to impairment testing. Under US GAAP, only the costs of acquiring properties and mineral rights are capitalized. As a result, as at June 30, 2010, \$4,403,727 exploration costs capitalized under Canadian GAAP were expensed in US GAAP, reducing the mineral property costs and increasing the deficit.

Share purchase warrants

For Canadian GAAP purposes, all of the Company’s outstanding share purchase warrants are classified and accounted for as equity on the Company’s financial statements. U.S. GAAP, in accordance with EITF 07-5, currently requires share purchase warrants with an exercise price denominated in a currency other than the Company’s functional currency be classified and accounted for as a financial liability and, accordingly, to be measured for financial reporting purposes at their current fair value. All fluctuations in fair value are recorded in current operations. As a result of applying this interpretation, the Company has restated its pro-forma June 30, 2010 U.S. GAAP net earnings to reflect the mark-to-market impact related to fair valuation of these warrants as at June 30, 2010. The net effect of the restatement is to reduce net loss in fiscal 2010 by an amount of \$1,695,897 arising from the recognition of a mark-to-market gain on the share purchase warrants. This non-cash restatement has no effect on the Company’s operations, cash flow, or liquidity, and has been applied a prospective basis with no effect on comparative years.

In accordance with the implementation guidance, the Company’s pro-forma deficit under U.S. GAAP has been increased by \$333,741 at July 1, 2009, representative of the fair value of the Company’s liability associated with common share purchase warrants outstanding at that date.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Market risk. Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk, and other price risk.

Interest rate risk. The Company's cash and cash equivalents consist of cash held in bank accounts and guaranteed investment certificates that earn interest at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values as of June 30, 2011. Future cash flows from interest income on cash and cash equivalents will be affected by interest rate fluctuations. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

Foreign currency risk. The Company is exposed to foreign currency risk as monetary financial instruments are denominated in Canadian Dollars. The Company has not entered into any foreign currency contracts to mitigate this risk.

Other price risk. Other price risk is the risk that the fair or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign exchange risk. The Company is not exposed to significant other price risk.

Net loss and other comprehensive loss for the year ended June 30, 2011 could have varied if the Canadian Dollar to US Dollar foreign exchange rate varied by reasonably possible amounts from their actual balance sheet date values.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following Consolidated Financial Statements of Rare Element Resources Ltd., Report of Independent Registered Chartered Accountants are filed as part of this Item 8 and are included in this Annual Report filed on Form 10-K.

Supplementary Data

For the required supplementary data, please see the section heading “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Summary of Quarterly Results” above.

Financial Statements

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CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

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REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

To the Shareholders of Rare Element Resources Ltd

We have audited the accompanying consolidated financial statements of Rare Element Resources Ltd and its subsidiaries ("the Company"), which comprise the consolidated balance sheets as at June 30, 2011 and 2010, and the consolidated statements of operations and deficit, comprehensive loss and cash flows for each of the years in the three-year period ended June 30, 2011, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with generally accepted accounting principles in the United States of America and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Rare Element Resources Ltd and its subsidiaries as at June 30, 2011 and 2010 and their financial performance and their cash flows for each of the years in the three-year period ended June 30, 2011 in accordance with generally accepted accounting principles in the United States of America.

Other

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of June 30, 2011, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 23, 2011 expressed an unqualified opinion on the Company's internal control over financial reporting.



INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

Vancouver, Canada
September 23, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Rare Element Resources Ltd:

We have audited Rare Element Resources Ltd (the "Company")'s internal control over financial reporting as of June 30, 2011, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Rare Element Resources maintained, in all material respects, effective internal control over financial reporting as of June 30, 2011 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Rare Element Resources as of June 30, 2011 and 2010, and the related consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for each of the years in the three-year period ended June 30, 2011, and our report dated September 23, 2011 expressed an unqualified opinion on those consolidated financial statements.



INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

Vancouver, Canada
September 23, 2011

RARE ELEMENT RESOURCES LTD.
(an exploration stage company)
CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30
(Expressed in US Dollars)

| | Notes | 2011 | 2010 |
|---|-------|----------------------|----------------------|
| ASSETS | | | |
| CURRENT | | | |
| Cash and cash equivalents | | \$ 72,311,970 | \$ 11,460,476 |
| Marketable securities | 3 | 53,238 | - |
| Accounts receivable | | 327,281 | 17,054 |
| Prepaid expenses | | 353,235 | 71,419 |
| Total Current Assets | | 73,045,724 | 11,548,949 |
| Equipment | 6 | 145,160 | 40,057 |
| Mineral properties | 4 | 1,669,060 | 1,711,368 |
| Marketable securities | 3 | 201,484 | - |
| Reclamation bonding | 7 | 422,283 | 110,533 |
| TOTAL ASSETS | | \$ 75,483,711 | \$ 13,410,907 |
| LIABILITIES | | | |
| CURRENT | | | |
| Accounts payable and accrued liabilities | | \$ 1,019,146 | \$ 410,005 |
| Due to related parties | 11 | 73,959 | 12,023 |
| Total Current Liabilities | | 1,093,105 | 422,028 |
| Asset retirement obligation | 9 | 100,540 | - |
| Derivative liability | 8 | 195,953 | 1,981,931 |
| TOTAL LIABILITIES | | 1,389,598 | 2,403,959 |
| SHAREHOLDERS' EQUITY | | | |
| SHARE CAPITAL | 10 | 91,357,438 | 19,014,540 |
| ADDITIONAL PAID-IN CAPITAL | 10 | 9,504,099 | 2,105,176 |
| ACCUMULATED OTHER COMPREHENSIVE LOSS | | 3,306 | - |
| DEFICIT | | (26,770,730) | (10,112,768) |
| TOTAL SHAREHOLDERS' EQUITY | | 74,094,113 | 11,006,948 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | \$ 75,483,711 | \$ 13,410,907 |
| Nature of operations | 1 | | |
| Commitments and contingencies | 13 | | |

APPROVED BY THE BOARD OF DIRECTORS:

“Donald E. Ranta”

Donald E. Ranta

“Mark T. Brown”

Mark T. Brown

See accompanying notes to consolidated financial statements.

RARE ELEMENT RESOURCES LTD.
(an exploration stage company)
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Expressed in US Dollars)

| | Notes | Cumulative amounts from the beginning of the exploration stage on June 3, 1999 to June 30, 2011 | Year ended June 30, 2011 | Year ended June 30, 2010 | Year ended June 30, 2009 |
|---|-------|---|-----------------------------|-----------------------------|-----------------------------|
| EXPENSES | | | | | |
| Audit and legal | | \$ 634,783 | \$ 190,588 | \$ 107,884 | \$ 26,983 |
| Amortization | | 49,232 | 37,629 | 6,900 | 2,395 |
| Consulting | | 166,917 | 128,620 | 38,297 | - |
| Corporate development | | 278,828 | 80,806 | 119,694 | 78,328 |
| Exploration expense | 5 | 12,971,538 | 8,512,347 | 2,794,231 | 590,147 |
| Foreign exchange | | (2,790,800) | (3,076,508) | 56,495 | 292,358 |
| Investor relations and shareholder communications | | 1,441,413 | 391,634 | 262,231 | 119,129 |
| Management, accounting and secretarial | 11 | 1,846,346 | 517,874 | 367,627 | 210,399 |
| Office expenses | | 497,976 | 164,255 | 115,340 | 40,892 |
| Salaries and wages | | 281,419 | 21,560 | - | - |
| Stock-based compensation | | 9,148,860 | 7,414,364 | 524,497 | 428,350 |
| Transfer and listing fees | | 648,964 | 447,966 | 72,263 | 17,541 |
| Travel | | 373,174 | 113,233 | 62,570 | 55,304 |
| TOTAL EXPENSES | | <u>25,548,650</u> | <u>14,944,368</u> | <u>4,528,029</u> | <u>1,861,826</u> |
| OTHER ITEMS | | | | | |
| Interest income | | (810,943) | (631,557) | (40,163) | (32,575) |
| Write-off of mineral properties and others | | 1,050,028 | - | - | 15,083 |
| Mark to market gain (loss) on share purchase warrants | 8 | 982,995 | 2,345,151 | (1,695,897) | - |
| TOTAL OTHER ITEMS | | <u>1,222,080</u> | <u>1,713,594</u> | <u>(1,736,060)</u> | <u>(17,492)</u> |
| NET LOSS FOR THE PERIOD | | <u>\$ 26,770,730</u> | <u>\$16,657,962</u> | <u>\$ 2,791,969</u> | <u>\$ 1,844,334</u> |
| OTHER COMPREHENSIVE INCOME/LOSS | | | | | |
| Unrealized gain on marketable securities | 3 | \$ (3,306) | \$ (3,306) | \$ - | \$ - |
| NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD | | <u>\$ 26,767,424</u> | <u>\$16,654,656</u> | <u>\$ 2,791,969</u> | <u>\$ 1,844,334</u> |
| LOSS PER SHARE - BASIC AND DILUTED | | | <u>\$ 0.43</u> | <u>\$ 0.09</u> | <u>\$ 0.08</u> |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | | | <u>38,585,541</u> | <u>29,429,998</u> | <u>24,072,331</u> |

See accompanying notes to consolidated financial statements.

RARE ELEMENT RESOURCES LTD.
(an exploration stage company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in US Dollars)

| | Cumulative amounts from the beginning of the exploration stage on June 3, 1999 to June 30, 2011 | Year ended June 30, 2011 | Year ended June 30, 2010 | Year ended June 30, 2009 |
|--|---|-----------------------------|--------------------------------|--------------------------------|
| CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | | | | |
| Net loss for the period | \$ (26,770,730) | \$ (16,657,962) | \$ (2,791,969) | \$ (1,844,334) |
| Items not affected by cash: | | | | |
| Amortization | 49,232 | 37,629 | 6,900 | 2,395 |
| Asset retirement obligation | 100,540 | 100,540 | - | - |
| Fair value of warrants received pursuant to the sale of mineral properties | (15,083) | - | - | - |
| Mark to market gain (loss) on share purchase warrants | 982,995 | 2,345,151 | (1,695,897) | - |
| Write-off of mineral properties and others | 16,625 | - | - | 15,083 |
| Stock-based compensation | 9,148,860 | 7,414,364 | 524,497 | 428,350 |
| Interest income accrued | (291,521) | (276,325) | (1,568) | (13,628) |
| Changes in non-cash working capital | | | | |
| Accounts receivable | 18,666 | (33,902) | 34,709 | 36,626 |
| Prepaid expenses | (364,756) | (281,816) | (43,441) | (1,095) |
| Accounts payable and accrued liabilities | 799,764 | 609,141 | 353,313 | (18,902) |
| Due to/from related party | 44,772 | 61,936 | 2,254 | (5,488) |
| Total cash (used in) operating activities | <u>(16,280,636)</u> | <u>(6,681,244)</u> | <u>(3,611,202)</u> | <u>(1,400,993)</u> |
| INVESTING ACTIVITIES | | | | |
| Marketable securities acquired | (207,293) | (207,293) | - | - |
| Mineral property costs | (28,815) | (1,815) | (27,000) | - |
| Reclamation bonding | (421,750) | (311,750) | (100,000) | - |
| Purchase of equipment | (194,392) | (142,732) | (45,085) | - |
| Payments received for sale/option of mineral properties | 279,486 | - | 48,070 | - |
| Total cash (used in) investing activities | <u>(572,764)</u> | <u>(663,590)</u> | <u>(124,015)</u> | <u>-</u> |
| FINANCING ACTIVITIES | | | | |
| Advance of promissory note | 110,737 | - | - | - |
| Repayment of promissory note | (129,286) | - | - | - |
| Cash received for common shares | 93,753,579 | 72,107,411 | 13,701,260 | 1,474,000 |
| Share issue costs | (4,788,458) | (3,911,083) | (839,712) | (10,779) |
| Total cash provided by financing activities | <u>88,946,572</u> | <u>68,196,328</u> | <u>12,861,548</u> | <u>1,463,221</u> |
| Cash acquired in capital transaction | <u>218,798</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Increase in cash and cash equivalents | 72,311,970 | 60,851,494 | 9,126,331 | 62,228 |
| Cash and cash equivalents - beginning of period | <u>-</u> | <u>11,460,476</u> | <u>2,334,145</u> | <u>2,271,917</u> |
| Cash and cash equivalents - end of period | <u>\$ 72,311,970</u> | <u>\$ 72,311,970</u> | <u>\$ 11,460,476</u> | <u>\$ 2,334,145</u> |

See accompanying notes to consolidated financial statements.

RARE ELEMENT RESOURCES LTD.
(an exploration stage company)
CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY
(Expressed in US Dollars)

| | Notes | Number of Shares | Amount | Additional Paid-in Capital | Accumulated Other Comprehensive Loss | Deficit | Total |
|---|-------|---------------------|---------------|-------------------------------|---|----------------|---------------|
| Balance, inception June 3, 1999 | | - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Shares issued: | | | | | | | |
| For seed shares | 10c | 1,000,000 | 67,640 | - | - | - | 67,640 |
| For initial public offering | 10c | 1,500,000 | 152,063 | - | - | - | 152,063 |
| For private placements | 10b | 10,199,887 | 3,401,606 | 627,442 | - | - | 4,029,048 |
| For capital transaction | 10d | 6,977,501 | 117,305 | - | - | - | 117,305 |
| For debt | 10e | 375,235 | 83,521 | - | - | - | 83,521 |
| Share issue costs | | - | (48,625) | - | - | - | (48,625) |
| Exercise of options | | 1,644,500 | 488,885 | - | - | - | 488,885 |
| Fair value of options | | - | 333,953 | (333,953) | - | - | - |
| Exercise of warrants | | 4,567,613 | 1,634,088 | - | - | - | 1,634,088 |
| Capital transaction adjustments | | - | 1,611,396 | - | - | - | 1,611,396 |
| Stock-based compensation | | - | - | 1,209,999 | - | - | 1,209,999 |
| Net loss since inception | | - | - | - | - | (6,987,058) | (6,987,058) |
| Balance, June 30, 2009 | | 26,264,736 | 7,841,832 | 1,503,488 | - | (6,987,058) | 2,358,262 |
| Transitional adjustment for Issue 07-5 | | - | - | - | - | (333,741) | (333,741) |
| Shares issued: | | | | | | | |
| For private placement | 10b | 2,200,000 | 2,996,863 | - | - | - | 2,996,863 |
| For short-form prospectus | 10b | 2,531,501 | 6,870,511 | - | - | - | 6,870,511 |
| For mineral property acquisition | 10f | 520,000 | 1,732,438 | - | - | - | 1,732,438 |
| Share issue costs | | - | (1,150,700) | 310,988 | - | - | (839,712) |
| Exercise of options | 10g | 482,000 | 290,194 | - | - | - | 290,194 |
| Fair value of options | | - | 233,797 | (233,797) | - | - | - |
| Exercise of warrants | 10i | 144,500 | 141,610 | - | - | - | 141,610 |
| Fair value of warrants | | - | 57,995 | - | - | - | 57,995 |
| Stock-based compensation | 10h | - | - | 524,497 | - | - | 524,497 |
| Net loss for the period | | - | - | - | - | (2,791,969) | (2,791,969) |
| Balance, June 30, 2010 | | 32,142,737 | 19,014,540 | 2,105,176 | - | (10,112,768) | 11,006,948 |
| Shares issued: | | | | | | | |
| For short-form prospectus | 10b | 6,394,000 | 56,567,718 | - | - | - | 56,567,718 |
| Share issue costs | | - | (6,270,746) | - | - | - | (6,270,746) |
| Exercise of options | 10g | 1,537,500 | 1,341,115 | - | - | - | 1,341,115 |
| Fair value of options | | - | 985,524 | (985,524) | - | - | - |
| Exercise of Agents' options & warrants | 10j | 400,473 | 2,410,034 | - | - | - | 2,410,034 |
| Fair value of Agents' options & warrants | | - | 1,389,580 | 970,083 | - | - | 2,359,663 |
| Exercise of warrants | 10i | 3,601,964 | 11,788,544 | - | - | - | 11,788,544 |
| Fair value of warrants | | - | 4,131,129 | - | - | - | 4,131,129 |
| Stock-based compensation | 10h | - | - | 7,414,364 | - | - | 7,414,364 |
| Unrealized loss on available for sale investments | | - | - | - | 3,306 | - | 3,306 |
| Net loss for the period | | - | - | - | - | (16,657,962) | (16,657,962) |
| Balance, June 30, 2011 | | 44,076,674 | \$ 91,357,438 | \$ 9,504,099 | \$ 3,306 | \$(26,770,730) | \$ 74,094,113 |

See accompanying notes to consolidated financial statements.

RARE ELEMENT RESOURCES LTD.
(an exploration stage company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010
(Expressed in US Dollars)

1. NATURE OF OPERATIONS

Rare Element Resources Ltd. ("Rare Element" or "the Company") was incorporated under the laws of the Province of British Columbia on June 3, 1999.

The Company is in the process of exploring and evaluating its mineral property interests and has not yet determined whether its mineral property interests contain mineral reserves that are economically recoverable. The Company's continuing operations and the underlying value and recoverability of the amounts shown for mineral property interests are entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of the mineral property interests, obtaining the necessary permits to mine, and on future profitable production or proceeds from the disposition of the mineral property interests. To date, the Company has no revenue and has an accumulated operating deficit of \$26,770,730.

Management of the Company is of the opinion that sufficient financing will be obtained from external financing and further share issuances to meet the Company's obligations. At June 30, 2011, the Company had working capital of \$71,952,619, which is sufficient to fund operations for a period greater than twelve months.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and principles of consolidation

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles of the United States of America ("US GAAP") and are inclusive of the accounts of the Company and Rare Element Holdings Ltd. (formerly Paso Rico Resources Ltd.) ("Holdings"), together with those of Holdings' wholly-owned subsidiary, Rare Element Resources, Inc. (formerly Paso Rico (USA), Inc.).

Use of estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates. The amounts which involve significant estimates include asset retirement obligations, stock-based compensation, derivative liabilities, and impairments.

Mineral property acquisition costs

The cost of acquiring mineral properties are capitalized and will be amortized over their estimated useful lives following the commencement of production or expensed if it is determined that the mineral property has no future economic value or the properties are sold, impaired or abandoned.

Cost includes cash consideration and the fair market value of shares issued on the acquisition of mineral properties. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at such time as the payments are made.

The recoverable amounts for mineral properties is dependent upon the existence of economically recoverable reserves; the acquisition and maintenance of appropriate permits, licenses and rights; the ability of the Company to obtain financing to complete the exploration and development of the properties; and upon future profitable production or alternatively upon the Company's ability to recover its spent costs from the sale of its interests. The amounts recorded as mineral properties reflect actual costs incurred and are not intended to express present or future values.

RARE ELEMENT RESOURCES LTD.
(an exploration stage company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010
(Expressed in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Mineral property acquisition costs, Continued

The capitalized amounts may be written down if potential future cash flows, including potential sales proceeds, related to the property are estimated to be less than the carrying value of the property. Management of the Company reviews the carrying value of each mineral property interest quarterly, and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Reductions in the carrying value of each property would be recorded to the extent the carrying value of the investment exceeds the estimated future net cash flows.

Exploration and development costs

Exploration costs are expensed as incurred. When it is determined that a mining deposit can be economically and legally extracted or produced based on established proven and probable reserves, further exploration and development costs related to such reserves incurred after such determination will be capitalized. The establishment of proven and probable reserves is based on results of final feasibility studies which indicate whether a property is economically feasible. Upon commencement of commercial production, capitalized costs will be transferred to the appropriate asset category and amortized over their estimated useful lives. Capitalized costs, net of salvage values, relating to a deposit which is abandoned or considered uneconomic for the foreseeable future, will be written off.

Foreign currency translation

The Company's functional and reporting currency is the US Dollar. The Company's Canadian operations are considered to be integrated with foreign currency transactions translated into US Dollars as follows:

- monetary assets and liabilities at the rates of exchange prevailing at the balance sheet dates;
- other assets and liabilities and equity accounts at the applicable historical exchange rates;
- revenues and expenses at the average rates of exchange for the period, and;
- gains and losses arising from the conversion of foreign-currency balances and transactions are reported in income as they occur.

Cash and cash equivalents

Provided that the instruments are readily convertible at the balance sheet date into cash without penalty at their carrying value, the Company considers its highly liquid investments, typically with Canadian Chartered banks and brokerage firms, to be cash equivalents. The Company maintains its cash and cash equivalents in bank deposit accounts which exceed federally insured limits. At June 30, 2011, the Company had its cash and cash equivalents with three financial institutions. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents and holds no asset backed commercial paper.

Amortization

The Company provides for amortization on its computer equipment at 55%, furniture at 20% and geological equipment at 30% declining balance (one-half of the rate is taken in the year of acquisition and disposition).

Income taxes

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under the asset and liability method, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized if it is more likely than not that some portion or all of the deferred tax asset will not be recognized.

RARE ELEMENT RESOURCES LTD.
(an exploration stage company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010
(Expressed in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Loss per share

The loss per share is computed using the weighted average number of shares outstanding during the period. To calculate diluted loss per share, the Company uses the treasury stock method and the if-converted method. Diluted loss per share is not presented as the effect on the basic loss per share would be anti-dilutive.

Stock-based compensation

The Company accounts for share-based compensation under the provisions of ASC 718, "Compensation Stock Compensation". Under the fair value recognition provisions, stock-based compensation expense is measured at the grant date for all stock-based awards to employees and directors and is recognized as an expense over the requisite service period, which is generally the vesting period. The Black-Scholes option valuation model is used to calculate fair value.

The Company accounts for stock compensation arrangements with non-employees in accordance with ASC 718 which requires that such equity instruments are recorded at their fair value on the measurement date. The measurement of stock-based compensation is subject to periodic adjustment as the underlying equity instruments vest. Non-employee stock-based compensation charges are amortized over the vesting period on a straight-line basis. For stock options granted to non-employees, the fair value of the stock options is estimated using a Black-Scholes valuation model.

Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made.

The associated asset retirement costs are capitalized as part of the carrying amount of long lived assets. The liability is accreted over the estimated time period until settlement of the obligation and asset is depreciated over the estimated remaining useful life of the asset. Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease in the carrying amount of the liability and the related capitalized asset retirement cost.

Comparative figures

Certain of the prior period's figures have been reclassified to conform with the current period's financial statement presentation.

Reclamation Bonds

The Company maintains cash deposits, as required by regulatory bodies as assurance for the funding of reclamation costs. These funds are restricted to that purpose and are not available to the Company until the reclamation obligations have been fulfilled. Reclamation deposits are designated as held for trading, are recorded at fair value and are classified as non-current assets.

Share Capital

Common shares issued for non-monetary consideration are recorded at the fair market value based upon the trading price of the Company's shares on the Toronto Stock Exchange on the date of the issuance of shares.

RARE ELEMENT RESOURCES LTD.
(an exploration stage company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010
(Expressed in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Marketable Securities

Marketable securities include the Company's investments in shares of public companies. These investments have been categorized as available-for-sale financial instruments and are carried at fair value. Adjustments to fair value are recorded in other comprehensive income unless there is a loss in value that is other than temporary, in which case the adjustment to fair value is included in income and not reversed on future fair value changes.

Financial instruments

The Company's financial instruments consist of cash and cash equivalents, marketable securities, accounts receivable, reclamation bonding, and accounts payable and accrued liabilities. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from its financial instruments. The fair values of these financial instruments approximate their carrying values unless otherwise noted. The Company has its cash primarily in bank guaranteed deposit certificates or in commercial bank and brokerage firms in Vancouver, British Columbia, Canada.

Fair value of financial assets and liabilities

The Company measures the fair value of financial assets and liabilities based on US GAAP guidance which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

The Company classifies financial assets and liabilities as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities depending on their nature. Financial assets and financial liabilities are recognized at fair value on their initial recognition, except for those arising from certain related party transactions which are accounted for at the transferor's carrying amount or exchange amount.

Financial assets and liabilities classified as held-for-trading are measured at fair value, with gains and losses recognized in net income (loss). Financial assets classified as held-to-maturity, loans and receivables, and financial liabilities other than those classified as held-for-trading are measured at amortized cost, using the effective interest method of amortization. Financial assets classified as available-for-sale are measured at fair value, with unrealized gains and losses being recognized as other comprehensive income (loss) until realized, or if an unrealized loss is considered other than temporary, the unrealized loss is recorded in income (loss).

Financial instruments, including cash and cash equivalents, accounts receivable, reclamation bonding, accounts payable and accrued liabilities are carried at cost, which management believes approximate the recognized fair value due to the short term nature of these instruments. Marketable securities are classified as available-for-sale, with unrealized gains and losses being recognized in other comprehensive income (loss).

The following table presents information about financial instruments recognized at fair value on a recurring basis as of June 30, 2011, and indicates the fair value hierarchy of the valuation techniques the Company utilized to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and included situations where there is little, if any, market activity for the asset.

RARE ELEMENT RESOURCES LTD.
(an exploration stage company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010
(Expressed in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Fair value of financial assets and liabilities (continued)

| | Level 1 | Level 2 |
|---------------------------|---------------|---------------|
| <u>Assets</u> | | |
| Cash and cash equivalents | \$ 44,479,314 | \$ 27,832,656 |
| Marketable securities | 254,722 | - |
| Reclamation bonding | 422,283 | - |
| Total | \$ 45,156,319 | \$ 27,832,656 |
| <u>Liabilities</u> | | |
| Derivative liabilities | - | \$ 195,953 |

Derivative liabilities which are comprised of share purchase warrants not listed on a public exchanges are valued using the Black Scholes valuation model. The valuation model requires a variety of inputs, including strike price, contractual terms, market prices, measure of volatility and interest rate. Because the inputs are derived from observable market data, derivative liabilities are classified within Level 2 of the fair value hierarchy.

The Company's financial instruments have been designated as follows:

- Held-for-trading: cash and cash equivalents, reclamation bond and derivative liabilities
- Available-for-sale: marketable securities
- Loans and receivables: amounts receivable
- Other financial liabilities: accounts payable, accrued liabilities, due to related parties and ARO

Concentration of credit risk

The financial instrument which potentially subjects the Company to concentration of credit risk is cash and cash equivalents and reclamation bonding. The Company maintains cash and cash equivalents in bank accounts and investment that, at times, may exceed federally insured limits. As of June 30, 2011 and 2010, the Company has exceeded the federally insured limit. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risks on its cash in bank accounts.

Management of capital risk

The Company manages its cash and cash equivalents, common shares, stock options and warrants as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares and, acquire or dispose of assets.

In order to maximize ongoing exploration efforts, the Company does not pay out dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with no maturities or short term maturities, selected with regards to the expected timing of expenditures from continuing operations.

The Company expects its current capital resources will be sufficient to carry its exploration plans and operations through 2012.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure. Accounts payable and accrued liabilities are due within the current operating period.

Interest rate risk

The Company's interest revenue earned on cash and on short term investments is exposed to interest rate risk. The Company does not enter into hedging contracts to manage this risk, and the Company's exposure to interest rate is very low as the Company has term investments with maturity dates within a year. The Company limits its exposure to interest rate risk as it invests only in short term investments at major Canadian financial institutions.

Currency risk

The Company's property interests in the United States are subject to foreign currency fluctuations which may adversely affect the Company's financial position, results of operations and cash flows. The Company is affected by changes in exchange rates between the Canadian dollar and US dollar. The Company does not invest in derivatives to mitigate these risks.

3. MARKETABLE SECURITIES

Marketable securities consist of investments in equity securities of companies over which the Company does not have control or significant influence. Marketable securities are designated as available-for-sale and valued at fair value. \$3,306 (2010 – \$nil) of unrealized gains due to period end revaluation to fair value was recorded as other comprehensive income.

4. MINERAL PROPERTIES

The amounts shown represent acquisition costs, and do not necessarily represent present or future values as these are entirely dependent upon the economic recovery of future ore reserves. A summary of current property interests is as follows:

Bear Lodge Property, Wyoming, USA

The Company, through its wholly-owned subsidiary, Rare Element Resources, Inc., holds a 100% interest in a group of unpatented mineral claims and one leased state section, together known as the Bear Lodge Property which has two exploration projects: the rare-earth elements ("REE") project known as the "Bear Lodge REE Project" and the gold project known as the "Sundance Gold Project". The property is situated in the Bear Lodge Mountains of Crook County, in northeast Wyoming. These claims were, in part, acquired from Freeport-McMoRan Copper & Gold ("Freeport") by way of a "Mineral Lease and Option for Deed". Certain claims and a portion of a defined area of influence surrounding the claims were subject to a production royalty of 2% of Net Smelter Returns ("NSR") royalty payable to Freeport. On June 30, 2009, the Company re-purchased the NSR for \$50,000.

Sundance Gold Project, Wyoming, USA

On June 1, 2006, Rare Element Resources, Inc. and Newmont North America Exploration Limited ("Newmont"), a subsidiary of Newmont Mining Corporation, signed an agreement to establish a gold-exploration venture on the Company's Bear Lodge, Wyoming property ("Venture"). Under the agreement, Newmont had the right to earn a 65% participating interest in the Bear Lodge property, excluding any rights to the REE and uranium, but including rights to gold and other metals, by spending \$5 million on property exploration.

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4. MINERAL PROPERTIES, Continued

On May 12, 2010, Newmont terminated its option and the Company maintains its 100% interest in the mineral potential of the entire property. In addition, 327 contiguous claims wholly-owned by Newmont outside the venture were transferred to the Company. In consideration for transferring its claims, Newmont was granted a right-of-first-refusal on all claims sold or disposed, excluding those containing REE, and a 0.5% NSR royalty, for precious and base metals only, on the claims transferred to the Company by Newmont. This agreement honors an arrangement between Newmont and Bronco Creek Exploration Company ("Bronco Creek") on Newmont's formerly wholly owned claims; Bronco Creek will continue to receive minor payments and will retain a 0.05% NSR royalty on these claims.

The total property comprises 494 unpatented mineral claims located on land administered by the U.S. Forest Service and a 640-acre Wyoming state lease for a total of approximately 16 square miles. There is a sliding scale royalty on certain state lease land due to the State of Wyoming if ore is mined from the state section.

Eden Lake Property, Manitoba, Canada

On November 30, 2009, the Company acquired 100% of the Eden Lake REE project located in the province of Manitoba, Canada for a payment of 300,000 common shares (Note 10f). The underlying owner, Strider Resources Limited, retains a 3% NSR with the Company having the right to buy 50% of the NSR at anytime for \$1.5 million CDN.

Finders' fees of 20,000 common shares were issued to two parties for this acquisition. The common shares issued on the acquisition are subject to trading restrictions over an 18-month period.

On February 23, 2010, the Company granted Medallion Resources Ltd. ("Medallion") an option to acquire a 65% interest in a joint venture to explore and develop the property. The terms of the agreement require Medallion to pay a total of \$1,450,000 CDN in cash (\$50,000 CDN received), issue an aggregate of 1,800,000 shares (200,000 shares were received), and complete \$2,250,000 CDN in property exploration work commitment expenditures over a five-year period. Medallion may buy 50% of the 3% NSR at anytime for \$1.5 million CDN. On October 7, 2010, the Company and Medallion agreed to postpone the \$50,000 cash payment to no later than the first anniversary of the agreement. In addition, six new concessions staked by Medallion were also added to the Eden Lake property. Subsequently, Medallion dropped the option and returned the property to the Company.

Medallion was the operator of the exploration program during the option period.

Nuiklavik Property, Labrador, Canada

On January 6, 2010, the Company acquired from Altius Minerals Corp. ("Altius") a 100% interest in 584 mineral claims located in central Labrador, Canada for a payment of 200,000 shares (Note 10f).

Altius will retain a total gross overriding royalty of 2% on the property, of which the Company may purchase 50% at any time for \$2,500,000 CDN.

The Company deposited \$203,659 with the Newfoundland government as a security deposit on the fourth year exploration expenditures requirements in order to maintain the property in good standing.

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4. MINERAL PROPERTIES, Continued

| | Bear Lodge REE Property | Sundance Gold Property | Eden Lake Property | Nuiklavik Property | Total |
|---------------------------------------|-------------------------------|------------------------------|-----------------------|-----------------------|--------------|
| Mineral property costs, June 30, 2009 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Acquisition costs | - | 27,000 | 1,007,251 | 725,187 | 1,759,438 |
| Option proceeds | - | - | (48,070) | - | (48,070) |
| Mineral property costs, June 30, 2010 | - | 27,000 | 959,181 | 725,187 | 1,711,368 |
| Acquisition costs | - | - | - | 1,815 | 1,815 |
| Fair value of shares received | - | - | (44,123) | - | (44,123) |
| Mineral property costs, June 30, 2011 | \$ - | \$ 27,000 | \$ 915,058 | \$ 727,002 | \$ 1,669,060 |

5. EXPLORATION EXPENSE

| | Period from June 3, 1999 (inception) to June 30, 2011 | Year ended June 30, 2011 | Year ended June 30, 2010 |
|---|--|-----------------------------|-----------------------------|
| Bear Lodge REE property | | | |
| Assays | \$ 917,154 | \$ 636,169 | \$ 251,038 |
| Drilling | 4,804,096 | 2,878,469 | 1,190,955 |
| Engineering consulting | 852,562 | 721,355 | 131,207 |
| Environmental costs | 385,911 | 373,408 | 12,503 |
| Geochemistry | 149,515 | 75,443 | 74,072 |
| Geological consulting | 2,002,917 | 993,406 | 570,752 |
| Land & claims | 155,671 | 138,560 | 17,111 |
| Metallurgical testing | 965,717 | 504,309 | 306,378 |
| Overhead expenses | 198,603 | 150,548 | 34,531 |
| Resource estimation | 111,485 | 64,007 | 47,478 |
| Travel expenses | 149,760 | 107,228 | 18,114 |
| Wages | 176,777 | 77,043 | - |
| Others | 391,185 | 207,394 | 70,379 |
| Subtotal - Bear Lodge REE property | 11,261,353 | 6,927,339 | 2,724,518 |
| Sundance Gold property | | | |
| Assays | 132,346 | 132,346 | - |
| Drilling | 467,520 | 463,372 | 4,148 |
| Geological consulting | 394,812 | 341,559 | 53,253 |
| Others | 247,713 | 235,401 | 12,312 |
| Subtotal - Sundance Gold property | 1,242,391 | 1,172,678 | 69,713 |
| Pre-feasibility Study | 412,330 | 412,330 | - |
| Property investigation costs | 55,464 | - | - |
| Total exploration expense | \$ 12,971,538 | \$ 8,512,347 | \$ 2,794,231 |

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6. EQUIPMENT

| | June 30, 2011 | | | June 30, 2010 | | |
|----------------------|-------------------|-----------------------------|-------------------|------------------|-----------------------------|----------------------|
| | Cost | Accumulated amortization | Net book value | Cost | Accumulated amortization | Net book value |
| Computer equipment | \$ 45,913 | \$ 12,626 | \$ 33,287 | \$ - | \$ - | \$ - |
| Furniture | 44,824 | 4,482 | 40,342 | - | - | - |
| Geological equipment | 97,080 | 25,549 | 71,531 | 45,085 | 5,028 | 40,057 |
| | <u>\$ 187,817</u> | <u>\$ 42,657</u> | <u>\$ 145,160</u> | <u>\$ 45,085</u> | <u>\$ 5,028</u> | <u>\$ 40,057</u> |

7. RECLAMATION BONDING

On July 23, 2004, \$10,000 was transferred to the Wyoming Department of Environmental Quality for the bond required to reclaim the ground disturbed during its exploration programs at the Bear Lodge Property. The Company must complete certain reclamation work for these funds to be released, but may leave the bond in place for future exploration programs, even if such work is completed.

In August 2009, an additional \$100,000 bond was set up for the benefit of the Company in respect to future reclamation work at the Bear Lodge Property.

In August 2010, the Company increased its reclamation bonding to \$420,000 by depositing with Wyoming regulatory authorities an additional \$310,000 in the name of Rare Element Resources, Inc.

As of June 30, 2011, total interest of \$2,283 was received on these bonds.

8. DERIVATIVE LIABILITY

Share purchase warrants

In accordance with EITF 07-5 "Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock", US GAAP requires share purchase warrants with an exercise price denominated in a currency other than the Company's functional currency be classified and accounted for as a financial liability and fair valued. As a result of applying this interpretation, the Company has recorded the mark-to-market impacts related to fair valuation of these warrants in the net loss and reflected the fair value as a derivative liability.

During the year ended June 30, 2011, the Company recognized a mark to market loss of \$2,345,151 (2010 – a mark to market gain of \$1,695,897).

9. ASSET RETIREMENT OBLIGATION

An environmental provision of \$100,540 was recognised in the year ended June 30, 2011 (2010 – \$nil), in respect of the Company's current obligations to reclaim areas used for exploring the Bear Lodge Property.

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10. SHARE CAPITAL AND ADDITIONAL PAID-IN CAPITAL

a. **Authorized** – unlimited number of common shares without par value.

b. **Issuance of shares in private placements and short-form prospectus**

Fiscal 2011:

On December 22, 2010, the Company closed the short-form prospectus offering of \$57,546,000 CDN. The financing consisted of 6,394,000 common shares at a price of \$9.00 CDN per share. The Company paid \$3,452,760 CDN (\$3,394,063) cash commission and issued 383,640 broker's warrants. Each broker's warrant is excisable into a common share of the Company at an exercise price of \$9.00 CDN per share until December 22, 2012. The fair value of \$2,359,663 was assigned to the brokers warrants based upon the Black-Scholes option pricing model.

Fiscal 2010:

On July 24, 2009, the Company completed a non-brokered private placement for \$1,800,000 CDN. The offering consisted of 1,200,000 units at \$1.50 CDN per unit. Each unit consisted of one common share and one-half of a non-transferable share-purchase warrant. A whole warrant was exercisable into a common share of the Company at \$2.10 CDN until January 24, 2011.

On September 21, 2009, the Company completed a non-brokered private placement for \$3,000,000 CDN. The offering consisted of 1,000,000 units at \$3.00 CDN per unit. Each unit consisted of one common share and one non-transferable share-purchase warrant. Each warrant was exercisable into a common share of the Company at \$4.25 CDN until March 21, 2011.

On April 13, 2010, the Company closed the short-form prospectus offering of \$8,860,253 CDN. The financing consisted of 2,531,501 units at a price of \$3.50 CDN per unit. Each unit consisted of one common share and one-half of one transferable share-purchase warrant. Each warrant is exercisable into one common share until April 13, 2012, at a price of \$4.75 CDN.

The Company paid \$531,615 CDN cash commission and issued 151,890 agents' options exercisable into one agent's unit at a price of \$3.50 CDN per until April 13, 2012. Each agent's unit consisted of one common share and one-half of one transferable share-purchase warrant with the same terms as private placement warrants.

Fiscal 2009:

On May 27, 2009, the Company completed a non-brokered private placement for \$1,500,000 CDN. The offering consisted of 2,000,000 units at \$0.75 CDN per unit. Each unit comprised one common share and one-half of a non-transferable share-purchase warrant. A whole warrant was exercisable into a common share of the Company at \$1.00 CDN until November 27, 2010.

Fiscal 2008:

On November 5, 2007, the Company completed a non-brokered private placement for \$1,075,000 CDN. The offering consisted of 1,075,000 units at \$1.00 CDN per unit. Each unit comprised one common share and one-half of a non-transferable share-purchase warrant. A whole warrant was exercisable into a common share of the Company at \$1.35 CDN until May 5, 2009.

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10. SHARE CAPITAL AND ADDITIONAL PAID-IN CAPITAL, Continued

b. Issuance of shares in private placements and short-form prospectus, Continued

Fiscal 2007:

During the year ended June 30, 2007, the Company closed a non-brokered private placement of 1,666,698 units at \$0.60 CDN per unit for gross proceeds of \$897,917 (\$1,000,021 CDN). Each unit comprised one common share and one-half of a non-transferable share purchase warrant. A whole warrant was exercisable into a common share of the Company at \$0.75 CDN per share until March 22, 2008.

Fiscal 2006:

During the year ended June 30, 2006, the Company completed a non-brokered private placement of 1,147,600 units at a price of \$0.20 CDN for gross proceeds of \$196,928 (\$229,520 CDN). Each unit comprised of one common share and one 12-month non-transferable share purchase warrant. Each share purchase warrant was exercisable into one common share at a price of \$0.30 CDN per share.

Fiscal 2005:

During the year ended June 30, 2005, the Company completed a non-brokered private placement of 1,535,000 units at a price of \$0.20 CDN for gross proceeds of \$307,000 CDN. Each unit comprised of one common share and one 18-month non-transferable share-purchase warrant. Each share purchase warrant was exercisable into one common share at a price of \$0.30 CDN per share.

Fiscal 2004:

During fiscal 2004, the Company completed a private placement financing of 1,825,589 units at \$0.22 CDN per unit in conjunction with the qualifying transaction to acquire Rare Element Resources, Inc. (formerly Paso Rico Resources Inc) and Rare Element Holdings Ltd (formerly Paso Rico Holdings Ltd). Each unit consisted of one common share and one warrant to purchase an additional common share at a price of \$0.35 CDN and expired on July 22, 2005.

The Company completed two additional financings for a total of \$152,138 (\$200,000 CDN). The first financing was for 200,000 units at a price of \$0.25 CDN per unit. Each unit consisted of one common share and one share purchase warrant which allowed the holder to purchase one common share at a price of \$0.35 CDN and expired on July 26, 2005. The second financing was for 750,000 units at a price of \$0.20 CDN per unit. Each unit consisted of one common share and one share purchase warrant which allowed the holder to purchase one common share at a price of \$0.35 CDN and expired on July 26, 2005.

c. Seed shares and initial public offering

In June 1999, the Company was incorporated and 1,000,000 common shares were issued for gross proceeds of \$67,640.

In November 1999, the Company completed an initial public offering in Canada and issued 1,500,000 common shares for net proceeds of \$152,063.

d. Capital transaction

On July 1, 2003, the Company acquired all of the outstanding common shares of Rare Element Holdings Ltd. ("Holdings"), a British Columbia private company primarily engaged in the acquisition and exploration of mineral properties, in consideration for the issuance to the shareholders of Holdings of 6,977,501 common shares of the Company. Holdings had net assets valued at \$117,305.

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10. SHARE CAPITAL AND ADDITIONAL PAID-IN CAPITAL, Continued

e. Debt settlement

During May 2002, the Company reached agreements with its major related and unrelated creditors to settle an aggregate of \$83,521 (\$112,570 CDN) in debt by the issuance of 375,235 common shares. These shares were issued in July 2003.

f. Mineral property acquisition

On November 11, 2009, the Company issued 300,000 shares at a fair value of \$944,298 on acquisition of Eden Lake property and 20,000 shares as finders' fees at a fair value of \$62,953 on that acquisition.

On January 12, 2010, the Company issued 200,000 shares at a fair value of \$725,187 on acquisition of Nuiklavik property.

g. Stock options

The Company established a 20% fixed stock option plan whereby the board of directors may from time to time grant options up to 5,779,347 common shares to individual eligible directors, officers, employees or consultants. The maximum term of any option is five years. The exercise price of an option is not less than the closing price on the last trading day preceding the grant date, less allowable discounts in accordance with the policies of the Exchange. The Board retains the discretion to impose vesting periods on any options granted. All options granted to date vest as follows: 20% vest 4 months after date of grant, 20% vest 8 months after the date of grant, 20% vest 12 months after the date of grant, 20% vest 15 months after the date of grant, and the remaining 20% vest 18 months after the date of grant.

The following table provides certain stock options disclosure for the year-ended June 30:

| | 2011 | 2010 |
|---|---------|--------|
| Stock-based compensation expense - millions | \$7.41 | \$0.52 |
| Intrinsic value of options exercised - millions | \$15.66 | \$1.05 |
| Fair value of awards vesting - millions | \$2.32 | \$0.52 |
| Cash received on option exercises - millions | \$1.34 | \$0.29 |
| Unamortized stock-based compensation expense - millions | \$7.12 | \$1.18 |

The following table summarizes the weighted-average assumptions used in determining fair values during the years ended June 30:

| | 2011 | 2010 |
|------------------------------|--------------|--------------|
| Grant date fair value | CDN\$9.13 | CDN\$2.22 |
| Grant market price | CDN\$11.44 | CDN\$2.83 |
| Ending common share price | CDN\$10.67 | CDN\$2.00 |
| Expected volatility | 109 -112% | 111 -116% |
| Expected option term - years | 5 | 5 |
| Risk-free interest rate | 2.10 - 2.36% | 2.50 - 3.06% |
| Forfeiture rate | 0% | 0% |
| Dividend yield | 0% | 0% |

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10. SHARE CAPITAL AND ADDITIONAL PAID-IN CAPITAL, Continued

g. Stock options, Continued

The following table summarizes the Company's stock option activity:

| | Number of Options | Weighted Average Exercise Price (CDN\$) | Weighted Average Fair Value (CDN\$) | Weighted Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value (CDN\$) |
|----------------------------|----------------------|---|--|---|--|
| Outstanding, June 30, 2009 | 2,798,000 | 0.71 | 0.52 | 3.71 | 2,998,350 |
| Granted | 920,000 | 2.75 | 2.22 | 4.68 | - |
| Exercised | (482,000) | 0.64 | 0.51 | 2.09 | - |
| Outstanding, June 30, 2010 | 3,236,000 | 1.30 | 0.97 | 3.36 | 2,956,170 |
| Granted | 1,438,000 | 11.77 | 9.13 | 4.67 | - |
| Exercised | (1,537,500) | 0.87 | 0.64 | 1.87 | - |
| Outstanding, June 30, 2011 | 3,136,500 | 6.31 | 4.91 | 3.67 | 15,492,845 |
| Exercisable, June 30, 2011 | 1,503,100 | 2.19 | 1.75 | 2.71 | 13,105,775 |

The following table summarizes the options outstanding and exercisable at June 30, 2011:

| Expiry Date | Options Outstanding | Options Exercisable | Exercise Price (CDN\$) | Remaining Contractual Life (Years) |
|------------------|------------------------|------------------------|------------------------------|--|
| January 10, 2012 | 100,000 | 100,000 | 0.55 | 0.53 |
| October 1, 2012 | 250,000 | 250,000 | 1.00 | 1.29 |
| January 27, 2014 | 505,500 | 505,500 | 0.58 | 2.58 |
| July 20, 2014 | 200,000 | 200,000 | 2.09 | 3.06 |
| April 19, 2015 | 184,000 | 108,000 | 3.28 | 3.81 |
| May 28, 2015* | 459,000 | 259,000 | 2.71 | 3.91 |
| January 11, 2016 | 403,000 | 80,600 | 15.16 | 4.54 |
| March 16, 2016 | 985,000 | - | 10.50 | 4.72 |
| June 17, 2016 | 50,000 | - | 9.35 | 4.97 |
| Total | 3,136,500 | 1,503,100 | | 3.67 |

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10. SHARE CAPITAL AND ADDITIONAL PAID-IN CAPITAL, Continued

h. Stock-based compensation

The fair value of stock options and warrants is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

| | 2011 | 2010 |
|-------------------------|--------------|--------------|
| Risk-free interest rate | 2.10 – 2.36% | 1.28 – 2.52% |
| Expected volatility | 110 - 113% | 116 – 137% |
| Expected dividend yield | Nil | Nil |
| Expected life in years | 1.5 – 5 | 1.5 – 5 |

During fiscal 2011, the Company recognized \$7,414,364 (2010 - \$524,497) of stock-based compensation expense for options granted to directors, officers, and consultants.

Option pricing models require the input of highly subjective assumptions, particularly as to the expected price volatility of the stock. Changes in these assumptions can materially affect fair value estimates and, therefore, it is management's view that the existing models do not necessarily provide a single reliable measure of the fair value of the Company's stock-option grants.

i. Warrants

The following table summarizes the Company's warrants activity:

| | Number of Warrants | Weighted Average Exercise Price (CDN\$) |
|----------------------------|-----------------------|---|
| Outstanding, June 30, 2009 | 1,000,000 | 1.00 |
| Granted | 2,865,751 | 4.02 |
| Exercised | (144,500) | 1.03 |
| Outstanding, June 30, 2010 | 3,721,251 | 3.32 |
| Exercised | (3,601,964) | 3.28 |
| Outstanding, June 30, 2011 | 119,287 | 4.75 |

At June 30, 2011, the following warrants were outstanding:

| Expiry Date | Number of Warrants | Exercise Price (CDN\$) | Weighted Average Remaining Contractual Life (Years) |
|----------------|-----------------------|---------------------------|---|
| April 13, 2012 | 119,287 | 4.75 | 0.79 |

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10. SHARE CAPITAL AND ADDITIONAL PAID-IN CAPITAL, Continued

j. Agents' Options and Warrants

The following table summarizes the Company's agents' options and warrants activity:

| | Number of Agents' options and warrants | Weighted Average Exercise Price (CDN\$) |
|----------------------------|--|---|
| Outstanding, June 30, 2009 | - | - |
| Issued (Note 10b) | 151,890 | 3.50 |
| Outstanding, June 30, 2010 | 151,890 | 3.50 |
| Granted (Note 10b) | 383,640 | 9.00 |
| Exercised | (324,528) | 6.43 |
| Outstanding, June 30, 2011 | 211,002 | 9.00 |

At June 30, 2011, the following agent's options and warrants were outstanding:

| Expiry Date | Number of Agents' options and warrants | Exercise Price (CDN\$) | Weighted Average Remaining Contractual Life (Years) |
|-------------------|--|---------------------------|---|
| December 22, 2012 | 211,002 | 9.00 | 1.48 |

11. RELATED PARTY TRANSACTIONS

During the year ended June 30, 2011:

- a) \$230,000 (2010 - \$185,936; 2009 - \$103,456) was charged for management fees by an officer and director and bonus paid to an officer of the Company. As at June 30, 2011, \$Nil (2010 - \$Nil) was owed to the officer.
- b) \$281,777 (2010 - \$208,222; 2009 - \$114,286) was charged by a private company controlled by a director and officer of the Company for accounting, management fees and rent. As at June 30, 2011, \$73,959 (2010 - \$12,023) was owed to this private company.

Related party transactions were in the normal course of operations and are measured at the fair value amount as determined by management. The amounts owed bear no interest and are unsecured with no repayment terms.

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12. INCOME TAX

A reconciliation of income tax recovery at statutory rates compared to reported income tax recovery is as follows:

| | 2011 | 2010 |
|--|-----------------|----------------|
| Loss for the year | \$ (16,657,963) | \$ (2,791,969) |
| Expected income tax recovery | (2,135,287) | 464 |
| Effect of foreign tax differences | (1,290,042) | (419,039) |
| Non-deductible expenses | 2,779,888 | (9,319) |
| Unrecognized benefit of non capital losses | 645,441 | 427,894 |
| Total income tax recovery | \$ - | \$ - |

The significant components of the Company's future income tax assets and liabilities are as follows:

| | 2011 | 2010 |
|---|-------------|-------------|
| Future income tax assets (liabilities): | | |
| Non-capital loss carry forwards | 1,593,700 | 1,032,800 |
| Equipment | 9,748 | 2,832 |
| Cumulative Eligible Capital | 872 | 872 |
| Share Issue Costs | 909,939 | 170,951 |
| Resources expense – USA | (115,775) | (80,895) |
| Resource expenses – Canada | (6,750) | - |
| Future income tax assets | 2,391,734 | 1,126,560 |
| Valuation allowance | (2,391,734) | (1,126,560) |
| Net future income tax assets | \$ - | \$ - |

RARE ELEMENT RESOURCES LTD.
 (an exploration stage company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2011 and 2010
(Expressed in US Dollars)

12. INCOME TAXES, Continued

The following is a schedule of the Company's aggregate non-capital losses available to reduce taxable income in Canada in future years, expiring between 2011 and 2031 as follows:

| Year of Expiration | Non-Capital Loss CDN\$ |
|--------------------|---------------------------|
| 2014 | 251,000 |
| 2015 | 206,000 |
| 2026 | 461,000 |
| 2027 | 559,000 |
| 2028 | 521,000 |
| 2029 | 578,000 |
| 2030 | 1,371,000 |
| 2031 | 2,318,000 |
| | \$6,265,000 |

The future tax benefits, if any, resulting from the application of these losses have been offset by a valuation allowance, as it cannot be considered likely that these amounts will be utilized.

The following is a schedule of the Company's aggregate non-capital losses available to reduce taxable income in the United States in future years, expiring between 2014 and 2026 as follows:

| Year of Expiration | Non-Capital Loss |
|--------------------|------------------|
| 2015 | 65,000 |
| 2016 | 87,000 |
| 2017 | 35,000 |
| 2018 | 15,000 |
| 2019 | 15,000 |
| 2020 | 15,000 |
| 2021 | 38,000 |
| 2022 | 24,000 |
| 2023 | 59,000 |
| 2024 | 117,000 |
| 2025 | 155,000 |
| 2026 | 208,000 |
| | \$ 833,000 |

The future tax benefits, if any, resulting from the application of these losses have been offset by a valuation allowance, as it cannot be considered likely that these amounts will be utilized.

RARE ELEMENT RESOURCES LTD.
(an exploration stage company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010
(Expressed in US Dollars)

13. COMMITMENTS AND CONTINGENCIES

Potential environmental contingency

The Company's mining and exploration activities are subject to various federal, provincial and state laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment, and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations. The ultimate amount of reclamation and other future site-restoration costs to be incurred for existing mining interests is uncertain.

Rent commitment

The Company signed a five-year office building lease for its US office in Lakewood, Colorado, USA. The Company is committed to pay the monthly rent instalments according to the following schedule:

| | |
|-------------------------------|----------|
| August 2011 through July 2012 | \$ 7,415 |
| August 2012 through July 2013 | \$ 7,610 |
| August 2013 through July 2014 | \$ 7,805 |
| August 2014 through July 2015 | \$ 8,000 |
| August 2015 through July 2016 | \$ 8,195 |

14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

| | 2011 | 2010 | 2009 |
|---|------------|--------------|-----------|
| Non-cash information | | | |
| Shares issued on property acquisition | \$ - | \$ 1,732,438 | \$ - |
| Fair value of securities exercised | 6,506,252 | 291,792 | 94,492 |
| Fair value of agents' options and warrants issued | 2,359,663 | 310,985 | 290,328 |
| Fair value of share received as option payment | 44,123 | - | - |
| Other items | | | |
| Interest received | \$ 350,223 | \$ 38,595 | \$ 32,575 |

15. SEGMENTED INFORMATION

The Company operates in a single reportable operating segment, being exploration and development of mineral properties.

Summarized financial information for the geographic segments the Company operates in are as follows:

| | Canada | United States | Total |
|----------------------------|---------------|---------------|---------------|
| <u>As at June 30, 2011</u> | | | |
| Assets | \$ 74,506,793 | \$ 976,918 | \$ 75,483,711 |
| <u>As at June 30, 2010</u> | | | |
| Assets | \$ 13,221,739 | \$ 189,168 | \$ 13,410,907 |

RARE ELEMENT RESOURCES LTD.
(an exploration stage company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010
(Expressed in US Dollars)

15. SEGMENTED INFORMATION, Continued

| | Canada | United States | Total |
|---|--------------|---------------|---------------|
| <u>For the year ended June 30, 2011</u> | | | |
| Losses for the year | \$ 8,057,684 | \$ 8,600,278 | \$ 16,657,962 |
| Capital expenditures | \$ 1,815 | \$ 454,482 | \$ 456,297 |
| <u>For the year ended June 30, 2010</u> | | | |
| Losses (gains) for the year | \$ (1,627) | \$ 2,793,596 | \$ 2,791,969 |
| Capital expenditures | \$ - | \$ 172,085 | \$ 172,085 |
| <u>For the year ended June 30, 2009</u> | | | |
| Losses for the year | \$ 1,239,377 | \$ 604,957 | \$ 1,844,334 |
| Capital expenditures | \$ - | \$ - | \$ - |

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures.

At the end of the period covered by this Annual Report on Form 10-K for the fiscal year ended June 30, 2011, an evaluation was carried out under the supervision of and with the participation of our management, including the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), of the effectiveness of the design and operations of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act). Based on that evaluation the CEO and the CFO have concluded that as of the end of the period covered by this annual report, our disclosure controls and procedures were effective in ensuring that: (i) information required to be disclosed by us in reports that we file or submit to the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms and (ii) material information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow for accurate and timely decisions regarding required disclosure.

The Company notes that during the period covered by this Annual Report on Form 10-K, the Company restated its financial statements due to an adjustment in its accounting for warrants in its reconciliations to United States generally accepted accounting principles (“U.S. GAAP”) in the footnotes to its financial statements for the following periods: (1) the fiscal year ended June 30, 2010 and (2) the fiscal quarters ended September 30, 2009, December 31, 2009, March 31, 2010, and June 30, 2010. As a result of the accounting oversight in U.S. GAAP, in February of 2011, the Company hired Deloitte & Touche LLP as accounting consultant to the Company to bolster the Company U.S. GAAP expertise. The Company’s management does not believe that the restatement of the accounting treatment for warrants under U.S. GAAP resulted through a material weakness in the Company’s internal control over financial reporting or as a result of the Company’s disclosure controls and procedures being ineffective, and management’s assessments as of June 30, 2011, reflects this fact.

Management’s Annual Report on Internal Control over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and Rule 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detections of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Our management assessed the effectiveness of our internal control over financial reporting as of June 30, 2011. In making this assessment, our management used the criteria set forth in the Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment, we have concluded that, as of June 30, 2011, our internal controls over financial reporting were effective based on those criteria.

The effectiveness of internal control over financial reporting as of June 30, 2011 has been audited by DeVisser Gray LLP, the independent registered public accounting firm that audited our Financial Statements included in this annual report.

Attestation Report of the Registered Public Accounting Firm.

DeVisser Gray LLP's attestation report on our internal control over financial reporting is included as part of Item 8. Financial Statements and Supplementary Data herein.

Changes in Internal Controls.

There has been no change in our internal control over financial reporting during the year ended June 30, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item will be included under the section entitled "Information on the Board of Directors and Executive Officers" in our definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the 2011 annual meeting of shareholders (the "Proxy Statement"), which information is incorporated by reference to this Annual Report on Form 10-K.

We have adopted a code of ethics that applies to all our directors, officers and employees. This code is publicly available on our website at www.rareelementresources.com and on SEDAR at www.sedar.com. Amendments to the code of ethics and any grant of a waiver from a provision of the code requiring disclosure under applicable SEC rules will be disclosed on our website.

NYSE Amex Corporate Governance

Our common shares are listed on NYSE Amex. Section 110 of the NYSE Amex Company Guide permits NYSE Amex to consider the laws, customs and practices of foreign issuers in relaxing certain NYSE Amex listing criteria, and to grant exemptions from NYSE Amex listing criteria based on these considerations. A company seeking relief under these provisions is required to provide written certification from independent local counsel that the non-complying practice is not prohibited by home country law. A description of the significant ways in which our governance practices differ from those followed by domestic companies pursuant to NYSE Amex standards is available on our website at www.rareelementresources.com.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item will be included under the section entitled "Executive Compensation" in the Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, which information is incorporated by reference to this Annual Report on Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT RELATED STOCKHOLDER MATTERS

The information required by this Item will be included under the section entitled "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, which information is incorporated by reference to this Annual Report on Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item will be included under the section entitled “Certain Relationships and Related Transactions” in the Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, which information is incorporated by reference to this Annual Report on Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item will be included under the section entitled “Principal Accountant Fees and Services” in the Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, which information is incorporated by reference to this Annual Report on Form 10-K.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Documents filed as part of this Annual Report on Form 10-K or incorporated by reference:

- (1) The consolidated financial statements are listed on the “Index to Financial Statements” in Item 8.
- (2) Financial Statement Schedules (omitted because they are either not required, are not applicable, or the required information is disclosed in the Notes to the Consolidated Financial Statements or related notes).
- (3) Reference is made to the Exhibit Index that follows the signature pages on this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RARE ELEMENT RESOURCES LTD.

By: /s/ Donald E. Ranta

Donald E. Ranta, President, Chief Executive Officer
and Director
Principal Executive Officer

Date: September 28, 2011

/s/ David P. Suleski

David P. Suleski, Chief Financial Officer

Principal Financial Officer and
Principal Accounting Officer

Date: September 28, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Per: /s/ Mark T. Brown

Mark T. Brown, Director
Date: September 28, 2011

Per: /s/ N. Norman Anderson

N. Norman Anderson, Director
Date: September 28, 2011

Per: /s/ Norman W. Burmeister

Norman W. Burmeister, Director
Date: September 28, 2011

Per: /s/ Gregory E. McKelvey

Gregory E. McKelvey, Director
Date: September 28, 2011

Per: /s/ Paul J. Schlauch

Paul J. Schlauch, Director
Date: September 28, 2011

Per: /s/ Donald E. Ranta

Donald E. Ranta, CEO and Director, Principal
Executive Officer
Date: September 28, 2011

Per: /s/ David P. Suleski

David P. Suleski, CFO, Principal Accounting and
Financial Officer
Date: September 28, 2011

INDEX TO EXHIBITS

| Exhibit Number | Description |
|----------------|--|
| 3.1 | Certificate of Incorporation (1) |
| 3.2 | Certificates of Name Change (1) |
| 3.3 | Articles and By-Laws (1) |
| 10.1 | Consulting Agreement between Rare Element and Donald E. Ranta, dated 9/1/2007 (1) |
| 10.2 | Royalty Re-Purchase Agreement between the Company and Freeport-McMoRan Corporation, dated 3/31/2009 (1) |
| 10.3 | Agreement with VMS Ventures Inc. to acquire Eden Lake REE Project, dated 10/31/2009 (1) |
| 10.4 | Letter of Intent with Medallion Resources Ltd. regarding optioning in and joint venture on the Eden Lake Property, dated 11/13/2009 (1) |
| 10.5 | Joint Venture Agreement with Newmont North America Exploration Limited regarding Bear Lodge Property, dated 6/14/2006 (1) |
| 10.6 | Agreement with Altius Resources Inc. whereby the Company acquired the Nuiklavik Property, dated 1/6/2010 (2) |
| 10.7 | Joint Venture Agreement with Medallion Resources Ltd., whereby Medallion could acquire a 65% interest in the Eden Lake Property, dated 2/17/2010 (2) |
| 10.8 | Agreement between Newmont whereby Newmont terminated its right to acquire a 65% interest in the Bear Lodge Property, dated 5/14/2010 (2) |
| 10.9 | Amendment to Medallion JV Agreement, dated 9/15/2010 (2) |
| 10.10 | Consulting Agreement between Rare Element and Donald Ranta, dated 9/1/2007; as amended by Director's Resolution dated 10/14/2009 (3) |
| 10.11 | Employment agreement with Jaye Pickarts, Chief Operating Officer |
| 10.12 | Stock Option Plan of the Company |
| 21.1 | Subsidiaries of the Company |
| 23.1 | Consent of DeVisser Gray LLP, Chartered Accountant |
| 23.2 | Consent of Alan Noble, Ore Reserves Engineering |
| 23.3 | Consent of Dr. Jeffrey Jaacks |
| 23.4 | Consent of Dr. James G. Clark, L. Geo |
| 23.5 | Consent of Jaye T. Pickarts, P.E. |
| 23.6 | Consent of Michael R. Richardson, P.E., John T. Boyd Company |
| 31.1 | Certification of the Chief Executive Officer pursuant to Rule 13a-14 of the Exchange Act |
| 31.2 | Certification of the Chief Financial Officer pursuant to Rule 13a-14 of the Exchange Act |
| 32.1 | Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

- (1) Incorporated by reference to the Company's Form 20FR as filed with the Securities Exchange Commission on November 16, 2009.
- (2) Incorporated by reference to the Company's Form 6-K, as filed with the Securities Exchange Commission on 10/27/2010.
- (3) Incorporated by reference to the Company's Form 6-K, as filed with the Securities Exchange Commission on 10/29/2010.

EMPLOYMENT AGREEMENT
BETWEEN

Rare Element Resources, Inc. and Jaye T. Pickarts

THIS EMPLOYMENT AGREEMENT ("Agreement"), dated effective as of March 1, 2011 ("Effective Date"), is by and between Rare Element Resources, Inc., a Wyoming corporation ("the Company") and Jaye Pickarts ("Pickarts"). The Company agrees to employ Pickarts and Pickarts agrees to accept such employment upon the following terms and conditions:

1. Position and Responsibilities. Pickarts shall devote Pickarts' entire business time, attention and energies to the Company's (and any affiliates) business during Pickarts' employment with the Company. Pickarts shall hold the position of Chief Operating Officer (COO) and shall report to the President and Chief Executive Officer. The job description and expectations for this position are attached to this Agreement as Exhibit A. Pickarts shall perform all duties that are reasonable and consistent with such position, as well as other duties as may be assigned by the Company. Pickarts' principal place of business shall be the Company's office, which will be located in the Denver metropolitan area of Colorado. Pickarts shall be expected to travel if it is advisable or necessary to meet the obligations of Pickarts' position.
2. Period of Employment. Pickarts shall be employed in the position set forth above as of the Effective Date and shall continue in such position until terminated by either the Company or Pickarts pursuant to Section 9 of this Agreement.
3. Compensation. Pickarts' compensation will be subject to annual review by the Company's Board of Directors (or an assigned committee).
 - 3.1. Salary. Pickarts shall be paid an annual base salary of \$220,000, commencing on the Effective Date. The salary will be paid in equal installments pursuant to the payroll procedures established by the Company. The Company reserves the right to adjust Pickarts' salary at its discretion as required by business conditions.
 - 3.2. Executive Bonus. Pickarts shall be eligible for an annual performance bonus. The performance bonus is a discretionary bonus that can be modified and is subject to review and annual approval by the CEO and/or Board of Directors.
 - 3.3. Stock Options. Pickarts shall be granted 250,000 stock options from the Company. Pickarts' stock options shall be governed by the established Company stock option policies, attached as Exhibit B and incorporated into this agreement by this reference.

4. Benefits. Pickarts shall be eligible to participate in the Company's benefit programs in accordance with the provisions of each program. The Company anticipates establishing benefits programs in the near future and Pickarts will be offered access to such benefits programs as they are established. The Company reserves the right to amend the benefits programs from time to time at its discretion. Benefit programs may include health insurance, dental insurance, life insurance, retirement plans, and paid time off. The Company will pay Pickarts' insurance premiums through a COBRA plan with Pickarts' previous employer until the Company establishes a health insurance benefit program.
5. Business Related Expenses. All approved business travel, entertainment, meals, lodging, and other directly related business expenses for which Pickarts submits receipts and a detailed summary on approved expense report forms shall be reimbursed by the Company. If the Company provides Pickarts with one or more Company credit cards, Pickarts agrees to charge only those expenses that are directly related to the Company's business activities and for which Pickarts would otherwise be reimbursed. Pickarts agrees to provide the Company with a timely and complete reporting of all expenses charged to the company credit card, along with copies of all credit card charge receipts. Further, Pickarts will be supplied with appropriate allowances for cellular phone service, internet access, computer and other similar costs.
6. Company Policies. In addition to the obligations set forth in this Agreement, Pickarts agrees to abide by all current and future policies of the Company.
7. Confidentiality. In the course of providing services to the Company, Pickarts will have access to confidential information concerning the Company and its affiliates. Pickarts agrees that he will not, either during the term of this Agreement or thereafter, divulge or utilize to the detriment of the Company and its affiliates any such confidential information. This requirement of confidentiality will not apply to information that: is or becomes publicly available other than as a result of a disclosure by Pickarts; is demonstrated to have previously been properly in Pickarts' possession or control at the time of disclosure of that confidential information to Pickarts by the Company or its representatives; or is required by law to be disclosed provided that Pickarts shall immediately notify the Company in writing of such requirement and shall limit the extent of disclosure to that which Pickarts' legal counsel advises in writing must be disclosed in order to comply. The provisions of this Article 7 shall survive the termination of this Agreement.
8. Proprietary Information. Pickarts shall not use or bring to the Company any technical information, data, trade secrets, processes, formulae, inventions or other intellectual property, which are proprietary to any person other than the Company. The provisions of this Article 8 shall survive the termination of this Agreement.

- 8.1. Obligations of Pickarts. Upon the termination of this Agreement or upon the Company's earlier request, Pickarts shall promptly deliver to the Company all documents and other tangible items comprising or referring to any confidential information of the Company or its affiliates, together with all copies, summaries and records thereof. Pickarts shall forward to the Company all electronic copies of documents comprising or referring to confidential information held by or under the Contractor's control, and thereupon delete the same.
- 8.2. Work Product. Pickarts acknowledges and agrees that all proprietary interests including all patent rights, trade secrets and confidential information in and to any product of the Company's business (the "Work Product") shall be the sole and exclusive property of the Company or such other party as the Company may from time to time designate, and Pickarts hereby assigns to the Company or to such other party as the Company may direct all such rights which it possesses or may possess or is entitled to or which vests or may vest in connection with the Work Product. Pickarts agrees to execute all such instruments, certificates or documents required by the Company to confirm such ownership and implement such assignment. The provisions of this section will survive the termination of this Agreement.
9. Termination of Employment. Either party to this Agreement may terminate Pickarts' employment with the Company for any reason whatsoever. If Pickarts elects to terminate this Agreement, Pickarts agrees to provide the Company with at least sixty (60) days' written notice in advance of the planned termination date. If Pickarts fails to provide the Company with a least sixty (60) days' written notice, Pickarts shall, at the Company's option, forfeit any and all Executive Bonus payments under Article 3.2 of this Agreement. Notwithstanding the foregoing, the Company shall have the option, in its complete discretion, to make Pickarts' termination effective at any time prior to the end of such notice period, provided the Company pays the Pickarts all compensation due and owing through the end of the notice period. Upon termination of employment, Pickarts shall be deemed to have resigned from all offices and committee memberships then held with the Company or any of its affiliates.
- 9.1. Financial Obligations for Termination with Cause. In the event the Company elects to terminate Pickarts' employment for cause during the course of this Agreement, the Company shall pay Pickarts all compensation due and owing, which includes (a) earned but unpaid salary, prorated to the date of termination; (b) earned and accrued but unpaid paid time off benefits; and (c) incurred and properly documented but unpaid business related expenses. Pickarts will be ineligible for any Executive Bonus payments.

- 9.2. Financial Obligations for Termination for Reasons other than Cause. In the event the Company elects to terminate Pickarts' employment for reasons other than cause during the course of this Agreement, the Company shall pay Pickarts all compensation due and owing, which includes (a) earned but unpaid salary, prorated to the date of termination; (b) earned and accrued but unpaid paid time off benefits; (c) incurred and properly documented but unpaid business related expenses; and (d) severance payment equal to six (6) months of salary if Pickarts has been employed by the Company for less than one year or twelve (12) months of salary if Pickarts has been employed by the Company for more than one year. Severance payments may be paid by the Company in a lump sum or in installments at the Company's discretion. Further, if the Company terminates Pickarts' employment for reasons other than cause, or Pickarts terminates his employment by giving proper notice in accordance with this Article 9, compensation shall include a pro-rated bonus based on Pickarts' Executive Bonus. Such pro-ration shall be based on the Company's good faith estimate of Pickarts' achievement and on the Company's actual results through the date of termination for the calendar year during which termination takes place. Bonus payments, if any, shall be paid after the close of the Company's fiscal year.
- 9.3. Physical and/or Mental Impairment. In the event the Company terminates Pickarts' employment for physical and/or mental impairment, Pickarts agrees that the Company's financial obligation to Pickarts is limited to that which Pickarts would otherwise receive if the Company terminated Pickarts' employment for no reason. It is Pickarts' obligation to elect and maintain any Company or personal disability and/or medical plans.
- 9.4. Return of Company Property. Pickarts shall return to Company all Company property, including, without limitation, all equipment, vehicles, keys, credit cards, company product, tangible proprietary information, documents, books, records, reports, notes, contracts, lists, computer software and hardware (and other computer-generated files and data), and copies thereof, created on any medium and furnished to, obtained by, or prepared by Pickarts in the course of or incident to Pickarts' employment.
- 9.5. Change in Control. For purposes of this Agreement, a change in control of the Company shall be deemed to have occurred if the business or businesses of the Company for which Pickarts' services are principally performed are disposed of by the Company pursuant to a partial or complete liquidation, dissolution, consolidation or merger of the Company, a sale or transfer of all or a significant portion of the Company's assets. Either Company or Pickarts may terminate this

Agreement if there is a change in control of the Company. In the event of a change in control subsequent to the Effective Date of this Agreement and termination of Pickarts' employment, Pickarts shall receive compensation equal to two years of Pickarts' annual salary to be paid in a lump sum or in installments at the Company's discretion.

10. Arbitration. Any dispute between the parties that cannot be resolved without seeking legal remedy shall be finally settled by arbitration held in Jefferson County, Colorado by one arbitrator in accordance with the rules of commercial arbitration then followed by the American Arbitration Association. The arbitration shall apply Colorado law in the resolution of all controversies, claims and disputes and shall have the right and authority to determine how his or her decision or determination as to each issue or matter in dispute may be implemented or enforced. The parties consent to the jurisdiction of the arbitrator and waive any objection to the jurisdiction of such arbitrator. The ruling of the arbitrator shall be binding on the parties and the non-prevailing party shall pay the cost of the arbitration proceeding, including reasonable attorney's fees. Notwithstanding the foregoing provisions of this section, nothing contained in this provision shall be deemed to preclude any party from bringing an action for injunctive relief in any court having jurisdiction.
11. Governing Law and Severability. This Agreement shall be governed by, and construed and interpreted in accordance with, the laws of the State of Colorado. If in any jurisdiction any provision of this Agreement or its application to any party or circumstance is restricted, prohibited, or unenforceable, that provision shall be deemed ineffective only to the extent of such restriction, prohibition, or unenforceability without invalidating the remaining provisions of this Agreement and without affecting the validity or enforceability of such provision in any other jurisdiction or its application to other parties or circumstances.
12. Tax Considerations. The personal tax consequences of any compensation or benefits paid or accruing to Pickarts under this Agreement are Pickarts' obligation. The Company will conform to all applicable tax law, codes, and regulations, including withholding and/or reporting of taxable compensation in respect to payments made to Pickarts or made on Pickarts' behalf.
13. Notices. Any notice required or permitted to be given hereunder must be in writing and shall be effective upon delivery by hand, upon verified facsimile transmission, or three (3) business days after deposit in the United States mail, postage prepaid, certified or registered, and addressed to the Company, to the attention of the current COO of the Company or to Pickarts at the address or fax number provided in this Agreement. Both parties have a mutual obligation to notify the other party in writing of any change of address or facsimile number.
14. Attorney's Fees. In the event of any default under this Agreement, all costs of enforcement shall be paid by whichever party does not substantially prevail.

Exhibit 10.12

**RARE ELEMENT RESOURCES LTD.
2002 INCENTIVE SHARE OPTION PLAN**

**THIS DOCUMENT CONSTITUTES A PROSPECTUS
COVERING SECURITIES THAT HAVE BEEN REGISTERED UNDER THE SECURITIES
ACT OF 1933**

OCTOBER 18, 2010

Additional information about this plan and its administrators should be directed to Winnie Wong, Corporate Secretary, Rare Element Resources Ltd., Suite 410 - 325 Howe St., Vancouver, British Columbia V6C 1Z7, Canada.

TO ALL PARTICIPANTS IN OUR STOCK OPTION PLAN:

Rare Element Resources Ltd. (the “**Company**”) is pleased to provide you with a summary of our 2002 Incentive Share Option Plan, as amended (the “**Plan**”). The Plan was approved by the board of directors on December 11, 2002, by the TSX Venture Exchange on July 13, 2003, and by our shareholders at the annual general and special meeting of shareholders held on December 11, 2002.

The principal purpose of the Plan is to advance the interests of our company by (i) providing eligible participants with additional incentive, (ii) encouraging stock ownership by eligible participants, (iii) increasing the proprietary interest of eligible participants in the success of our company, (iv) encouraging eligible participants to remain with our company or its subsidiaries, and (v) attracting new employees and officers.

This summary of the Plan is qualified in its entirety by reference to the full text of the Plan, a complete copy of which is available from us upon request. In the event of conflict or ambiguity of terms among the Plan, this prospectus and any other communication or representation, the Plan will prevail.

The Plan is effective until terminated by our board of directors. The Plan is not subject to the United States Employee Retirement Income Security Act of 1974.

This Prospectus relates to common shares that may be issued pursuant to the exercise of options granted to eligible participants under the Plan. We have registered the common shares issuable upon exercise of the options by filing a Form S-8 Registration Statement with the U.S. Securities and Exchange Commission under the U.S. Securities Act of 1933, as amended.

GENERAL PLAN INFORMATION

Eligibility

The Plan allows for the issuance of options to purchase common shares to any director, officer, employee or consultant of the Company or any of our associated, affiliated, controlled and subsidiary companies (an “**eligible person**”). Except as may be otherwise set out in the Plan, the granting of options is entirely discretionary.

A “**consultant**” means an individual (or a company wholly-owned by a individual) who: (i) provides ongoing consulting services to the Company or an affiliate of the Company under a written contract; (ii) possesses technical, business or management expertise of value to the Company or an affiliate of the Company; (iii) spends a significant amount of time and attention on the business and affairs of the Company or an affiliate of the Company; and (iv) has a relationship with the Company or an affiliate of the Company that enables the individual to be knowledgeable about the business and affairs of the Company.

Administration of the Plan

The Plan is currently administered by our board of directors (the “**Board**”). A committee consisting of not less than three directors may be appointed by the Board to administer the Plan. To date, no such committee has been appointed.

The Board has the power to:

- grant options;

- determine the terms, limitations, restrictions and conditions respecting the options;
- interpret the Plan and to adopt, amend and rescind administrative guidelines and other rules and regulations relating to the Plan that it shall deem advisable; and
- make all other determinations and to take all other actions in connection with the implementation and administration of the Plan as it may deem necessary or advisable.

The Board's guidelines, rules, regulations, interpretations and determinations are conclusive and binding upon the Company and all other persons.

The Plan, the grant and exercise of the options, and the issuance of any common shares upon exercise of the options issued under the Plan are subject to all applicable laws, the rules of any stock exchange on which the common shares are listed for trading, and any required regulatory approvals.

Amendment and Termination of the Plan

The Board may amend, suspend or terminate the Plan or any portion thereof at any time in accordance with applicable legislation, and subject to any required approval. No amendment, suspension or termination may alter or impair any options or any rights pursuant to the options granted previously to any participant without the consent of that participant. With the consent of the affected participants and subject to the prior approval of the relevant stock exchanges, the Board may amend or modify any outstanding option in any manner to the extent that the Board would have had the authority to initially grant the award as so modified or amended, including to change the date or dates as of which an option becomes exercisable. If the participant is an insider of the Company at the time of the proposed amendment, disinterested shareholder approval must be obtained for any reduction in the exercise price.

SECURITIES TO BE OFFERED

Amount of, and Limitations on, Securities to be Offered under the Plan

The maximum aggregate number of common shares issuable pursuant to the exercise of options granted under the Plan is 5,779,347. As of the date of this prospectus, we have registered 5,779,347 common shares for issuance under the Plan.

The maximum number of common shares which may be reserved for issuance to any one person in a 12 month period under the Plan is 5% of the common shares outstanding at the time of the grant (on a non-diluted basis) less the aggregate number of common shares reserved for issuance to that person under any other option to purchase common shares from treasury granted as a compensation or incentive mechanism.

The number of options granted to any one consultant or to any persons employed to provide investor relations activities in a 12 month period may not exceed 2% of our issued common shares, calculated at the date the option was granted.

Any common shares subject to an option which is cancelled or terminated for any reason without having been exercised, shall again be available for grants under the Plan.

Adjustments to Shares under Option

If there is a change in our outstanding common shares as a result of a stock dividend or split, recapitalization, amalgamation, consolidation, combination or exchange of shares, or other corporate change, the Board will make, subject to the prior approval of the relevant stock exchanges, appropriate

substitution or adjustment in (a) the number or kind of shares or other securities reserved for issuance pursuant to the Plan, and (b) the number and kind of shares subject to unexercised options previously granted and in the option price of those shares.

If the Company is reorganized, amalgamated with another corporation or consolidated, the Board will make such provisions for the protection of the rights of participants as the Board deems appropriate.

Option Grants

The Board has the authority to determine the limitations, restrictions and conditions governing each option granted under the Plan, and the exercise of an option, including:

- the duration of the option,
- the nature and duration of any restrictions to be imposed upon the exercise of the option or the sale or other disposition of common shares acquired upon exercise of the option, and
- the nature of any events and the duration of the period in which any participant's rights in respect of common shares acquired upon exercise of an option may be forfeited.

An eligible person may receive options more than once under the Plan and may receive separate options on any one occasion.

Option Price

The Board will establish the option price at the time each option is granted, which may not be less than the "discounted market price" of the common shares on the TSX Venture Exchange on the trading day immediately preceding the date of the grant.

The "discounted market price" means the last closing price of our common shares before the issuance of the required news release disclosing the transaction(s) pursuant to which the shares are intended to be issued, less the discount set for the below, subject to a minimum price of Cdn.\$0.10:

| Closing Price | Discount |
|--------------------------|-----------------|
| Up to Cdn.\$0.50 | 25% |
| Cdn.\$0.51 to Cdn.\$2.00 | 20% |
| Above Cdn.\$2.00 | 15% |

The option price will be subject to adjustment, as described above under the heading "Adjustments".

Option Exercise

Options granted must be exercised no later than five years after the date of grant or such lesser period as may be determined by the Board.

The exercise price of each common share purchased under an Option must be paid in full in cash or by bank draft or certified cheque at the time of exercise. Upon receipt of payment in full, the number of common shares in respect of which the option is exercised will be duly issued as fully paid and non-assessable.

Effect of Termination of Employment or Death

Unless otherwise determined by the Board, if a participant ceases to be an “eligible person” under the Plan (other than by reason of death), each option held by the participant will cease to be exercisable within 90 days after the date on which the participant ceases to be an eligible person (the “**termination date**”), except if the participant performs investor relation services, then the option will be exercisable within 30 days of ceasing to perform the investor relations services. If any portion of an option is not vested by the termination date, that portion of the option may not be exercised by the participant. These limitations apply regardless of whether the participant was dismissed with or without cause and regardless of whether the participant received compensation in respect of dismissal or is entitled to a period of notice of termination which would otherwise have permitted a greater portion of the option to vest with the participant.

Unless otherwise determined by the Board, if a participant dies, the legal representative of the participant may exercise the participant’s options within twelve months after the date of the participant’s death, but only to the extent the options were by their terms exercisable on the date of death.

Option Agreements

Each option must be confirmed by an option agreement executed by the Company and by the participant.

Vesting

Participants may exercise their options subject to the following schedule:

- (a) 20% of the shares under option (or any portion) are eligible for exercise by the participant after 4 months from date of grant;
- (b) a further 20% of the shares under option (or any portion) are eligible for exercise by the participant after 8 months from date of grant together with any unexercised portion of the option referred to in subparagraph (a) above;
- (c) a further 20% of the shares under option (or any portion) are eligible for exercise by the participant after 12 months from date of grant together with any unexercised portion of the option referred to in subparagraphs (a) and (b) above;
- (d) a further 20% of the shares under option (or any portion) are eligible for exercise by the participant after 15 months from date of grant together with any unexercised portion of the option referred to in subparagraphs (a), (b) and (c) above; and
- (e) the balance of shares under option (or any portion) are eligible for exercise by the participant after 18 months from date of grant together with any unexercised portion of the option referred to in subparagraphs (a), (b), (c) and (d) above.

If an independent arm’s length third party completes a takeover bid, or otherwise acquires, over 70% of our issued and outstanding shares, all options shall immediately become vested and may thereupon be exercised in whole or in part by the participant.

Transferability of Securities

Options are not assignable and transferable by the participant other than by will or the laws of descent and

distribution, and are exercisable during the lifetime of a participant only by the participant and after death only by the participant's legal representative.

All options and any common shares issued on the exercise of options will be legended with a four month hold period under Canadian law commencing on the date the options were granted, in addition to any other resale restriction under applicable securities laws.

RESTRICTIONS ON RESALE

United States Securities Laws

Each participant in the Plan who is a director, an officer, or a person who is in a position to control us by share ownership or otherwise is considered an "affiliate" (as defined under the U.S. Securities Act) of us, and may sell common shares acquired under the Plan in the United States only upon compliance with the provisions of the U.S. Securities Act, and the rules and regulations thereunder, including, for example, sales in compliance with Rule 144. If we cease to be a "foreign private issuer," as defined in Rule 405 of the U.S. Securities Act, each participant who is a director, an officer, or a beneficial owner of more than 10% of the common shares is also subject to Section 16 of the U.S. Securities Exchange Act of 1934, as amended, which provides, among other things, that any profit realized by any participant from any purchase and sale, or sale and purchase, of any equity security of our company within any period of less than six months is recoverable by or on behalf of us.

Canadian Securities Laws

Generally, the resale in Canada of common shares acquired under the Plan is governed by National Instrument 45-102 – *Resale of Securities* ("NI 45-102"). Under NI 45-102, any resale of the common shares acquired under the Plan is generally exempt from the prospectus requirements provided our company has been a reporting issuer in Canada for the four months immediately preceding the trade, the trade is not a distribution from the holdings of a control person, no unusual effort is made to prepare the market or to create a demand for the common shares, no extraordinary commission or consideration is paid to a person or company in respect of a trade, and, if the selling shareholder is an insider or officer of our company, the selling shareholder has no reasonable grounds to believe that our company is in default of securities legislation.

Distributions by "control persons" are, among other requirements, subject to hold periods and requirements to file reports with the securities regulatory authorities. Generally, a "control person" is a person holding a sufficient number of common shares to affect materially the control of us, or each person in a combination of persons acting in concert by virtue of an agreement, arrangement, commitment or understanding which holds in total a sufficient number of the common shares to affect materially the control of us. If a person or combination of persons holds more than 20% of our common shares, the person or combination of persons is deemed, in the absence of evidence to the contrary, to hold a sufficient number of common shares to affect materially the control of us.

Where applicable under provincial laws, the seller must also either sell the securities through a dealer registered to sell securities in the applicable province, or rely on an exemption from registration requirements.

A number of provisions contained in NI 45-102 are not applicable in certain jurisdictions of Canada. Therefore, the particular resale restrictions and conditions or exceptions (if any) relating thereto, under applicable securities laws, in certain Canadian jurisdictions, may differ materially from those described above.

THIS DOCUMENT CONTAINS ONLY GENERAL INFORMATION REGARDING THE PLAN, AND DOES NOT CONSTITUTE ANY FORM OF LEGAL ADVICE. WE SUGGEST THAT YOU CONSULT WITH YOUR OWN LEGAL ADVISOR TO ADDRESS ANY LEGAL ISSUES THAT MAY ARISE AS A RESULT OF YOUR PARTICIPATION IN THE PLAN AND YOUR PERSONAL CIRCUMSTANCES.

TAX EFFECTS OF PLAN PARTICIPATION

The following description is intended to provide basic information with respect to both the Canadian and U.S. federal income tax consequences of participation in the Plan. The following is based on Canadian and U.S. tax laws and regulations in effect on the date of the Registration Statement filed with this prospectus, which are subject to change, possibly on a retroactive basis, and does not take into account proposed changes to the U.S. Internal Revenue Code and proposed changes to the Canadian Income Tax Act which are now under consideration. The tax consequences of the Plan will not be the same for all participants but will vary depending on a number of factors, including the participant's country, province or state of residence, country of citizenship (in the case of U.S. citizens), the country where the participant is employed, and whether the common shares constitute capital property of the participant. The following summary is of a general nature only and is not intended to constitute a complete analysis of all income tax consequences, and should not be interpreted as legal or tax advice to any particular participant. Participants may also be subject to foreign, provincial, state, and local taxes in connection with the grant or exercise of options or the receipt of stock under the Plan, and the sale or other disposition of any common shares. **WE SUGGEST THAT YOU CONSULT WITH YOUR INDIVIDUAL TAX ADVISOR TO DETERMINE THE APPLICABILITY OF THE TAX ASPECTS OF PARTICIPATION IN THE PLAN TO YOUR PERSONAL TAX CIRCUMSTANCES.**

Canadian Federal Income Tax Consequences

The following is, as of the date of the Registration Statement filed with this prospectus, a summary of the principal Canadian federal income tax consequences under the *Income Tax Act* (Canada) (referred to throughout as the "Act") applicable to the holding and disposing of one or more common shares acquired by an eligible person on the exercise of options granted to the eligible person pursuant to the Plan, and to the granting and exercising of the options. The summary is based on the current provisions of the Act and the regulations thereunder in effect on the date of the Registration Statement filed with this prospectus and does not take into account any proposed amendments to the Act. In particular, it does not take into account draft legislation tabled as Bill C-47 implementing certain measures announced in the March 4, 2010 Federal Budget affecting the taxation of employee stock options. This summary does consider the current administrative policies of Canada Revenue Agency, and we assume that each administrative policy will continue to be applied and that no other relevant change to any applicable law will be made, although no assurance can be given in these respects. This summary does not take into account any applicable provincial, territorial or foreign tax laws. Comment is restricted to the case of an eligible person who is an individual and who holds his common shares as capital property and deals at arm's length with the Company and each of our associated, affiliated, controlled and subsidiary companies. We assume in this summary that such eligible person does not use or hold (and will not use or hold) and is not (and will not be) deemed to use or hold his common shares in, or in the course of carrying on, a business in Canada. We further assume that the exercise price of any option granted is not less than the fair market value of the common shares at the time the option was granted and that at the time any options are exercised, the common shares will satisfy the requirements for "prescribed shares" as set out in section 6204 of the regulations under the Act. Generally speaking, a "prescribed share" is an ordinary common share that does not have any fixed or special entitlements and cannot reasonably be expected to be

redeemed, acquired or cancelled by the corporation or a specified person, except in certain limited circumstances specified in section 6204 of the regulations.

This summary assumes that an eligible person participating in the Plan will be either a resident of Canada (referred to throughout as a “**Canadian Participant**”) or a resident of the United States (referred to throughout as an “**American Participant**”) for purposes of both the Act and the Convention Between Canada and the United States of America with Respect to Taxes on Income and on Capital, signed September 26, 1980, as amended (the “**Canada-U.S. Tax Convention**”). A Canadian Participant or an American Participant may be a director, officer or employee of the Company or any of our associated, affiliated, controlled and subsidiary companies (referred to throughout as a “**Canadian Employee**” or an “**American Employee**”, as the case may be) or a consultant (referred to throughout as a “**Canadian Consultant**” or an “**American Consultant**”, as the case may be). This summary does not specifically address the Canadian federal income tax consequences of participation in the Plan by an American Consultant. Accordingly, an American Consultant should consult his own personal tax advisor regarding the Canadian income tax implications of participating in the Plan.

Grant of option

Canadian and American Employees: No Canadian federal income tax consequences should arise as a consequence of the grant of an option to a Canadian Employee or an American Employee in respect of, in the course of, or by virtue of their employment.

Canadian Consultant: Where a Canadian Consultant receives an option under the Plan as payment for services, generally the fair market value of the option at the time of grant will be taxable as regular business income.

Expiry of option

Assuming that the adjusted cost base of an option is nil, the expiry of the option unexercised will not result in any income or loss or capital gain or loss to the holder.

Exercise of option and Acquisition of Shares

Canadian Employee: A Canadian Employee who acquires common shares in a taxation year pursuant to the exercise of an option will be deemed to have received a benefit by virtue of his employment equal to the amount by which the value of the common shares at the time of acquisition exceeds the amount paid by him for the common shares (the “**Benefit**”). The Benefit is included in the employment income of the Canadian Employee in the year the option is exercised.

The Canadian Employee will be entitled to a deduction in computing his taxable income for the year in which the Benefit is included in income, equal to one-half of the amount of the Benefit (the “**Deduction**”), provided that: (i) the exercise price of the option was not less than the fair market value of the common shares at the time the option was granted; (ii) there has not been any adjustment of the exercise price or the number of common shares to be issued on the exercise of options (to account for the payment of dividends or otherwise); (iii) the only securities acquired on the exercise of the options are common shares that are prescribed shares at the time they are acquired; and (iv) the Canadian Employee dealt at arm’s length with us and with each of our subsidiaries immediately after the grant of the options.

If the Canadian Employee receives common shares that, at the time of acquisition are listed on a designated stock exchange (which includes the Toronto Stock Exchange and the TSX Venture Exchange – Tiers 1 and 2) and, at the time of acquisition of the common shares all of the conditions for the

Deduction described above are met, the Canadian Employee may, in certain circumstances, be able to elect to defer the income inclusion of the Benefit until the year the common shares are disposed of (or the year of death or cessation of Canadian residence, if earlier). The common shares to which the election applies cannot exceed a Cdn \$100,000 annual vesting limit, calculated by reference to the fair market value of the underlying common shares at the time the options were granted to the Canadian Employee. The deferral is only available if, immediately after the grant of the options, the Canadian Employee is not a “specified shareholder” and, at the time of acquisition of the common shares, the Canadian Employee is a resident of Canada. Generally speaking, a “specified shareholder” means a person who owns directly or indirectly at least 10% of the shares of any class, together or in combination with certain other persons. An election to defer the income inclusion must be made in the prescribed form and manner before January 16 of the year following the year of acquisition of the common shares.

A Canadian Employee who exercises options and acquires common shares and elects to defer the income inclusion until the year the common shares are disposed of, will have to pay tax on the Benefit at the time of disposition of the common shares. The Benefit is calculated at the time of exercise and does not change regardless of whether the common shares increase or decrease in value during the period of deferral. If the common shares increase in value during the deferral period, a capital gain equal to the increase in value from the date the shares are acquired will be realized on the disposition and will be subject to tax as discussed below under the heading “Disposition of Shares”. If the common shares decrease in value during the period they are held, any capital loss realized at the time of disposition cannot be used to offset the Benefit included in income.

American Employee: An American Employee who is granted options in respect of employment performed in Canada while a non-resident, will be taxable on the Benefit realized when the options are exercised and the common shares acquired. Canada Revenue Agency considers that the employment services to which a Benefit relates are the services performed in the calendar year the options are granted, unless there is compelling evidence to suggest some other period is more appropriate. The American Employee will be able to take a Deduction of one-half of the Benefit if all of the conditions for the Deduction described above under the heading “Canadian Employee” are met.

Pursuant to Article XV of the Canada-U.S. Tax Convention, the Benefit realized by an American Employee that is otherwise subject to Canadian income tax will be exempt from such tax if the total Canadian remuneration (including the amount of the Benefit) for the year the options are granted is Cdn \$10,000 or less.

Cross-Border Employment: Where an employee performs employment services in both Canada and in the United States in the year options are granted to the employee, the Canada Revenue Agency considers the appropriate allocation of the Benefit to be a question of fact. The Fifth Protocol to the Canada-U.S. Tax Convention provides for an apportionment of the employment benefit between Canada and the United States in connection with the exercise of options granted while employed in one country but exercised or disposed of after moving to the other country to work for the same or related employer. The diplomatic notes state that the Benefit is generally sourced on the basis of the number of days spent in each of the employee’s principal places of employment between the grant and the date of exercise or disposition. The Canadian and U.S. competent authorities retain an overriding right to attribute income in a different manner if it is considered to be more appropriate.

Canadian Consultant: Where a Canadian consultant exercises an option, such exercise is deemed not to be a disposition of property under the Act and the adjusted cost base of the option (presumably nil in this case) gets added to the adjusted cost base of the common shares acquired.

Dividends

Canadian Participant: A Canadian Participant will be required, in computing his income, to include the amount of any taxable dividend received by him on his common shares, subject to the normal gross-up and dividend tax credit rules. An enhanced gross-up and dividend credit is available for taxable dividends that are designated by us as eligible dividends.

American Participant: Pursuant to the Canada-U.S. Tax Convention, an American Participant will generally be subject to Canadian non-resident withholding tax (referred to throughout as “**Part XIII Tax**”) equal to 15% of the gross amount of any dividend paid or credited or deemed to be paid or credited to him on his common shares, provided that the American Participant is the beneficial owner of the dividends. We will be required to withhold the applicable amount of Part XIII Tax from each dividend so paid and remit the withheld amount directly to the Receiver General of Canada for the account of the American Participant.

Disposition of Shares

Canadian Participant: A Canadian Participant who disposes of a common share, including by deemed disposition on death, will realize a capital gain (or capital loss) equal to the amount by which the actual or deemed proceeds of disposition less reasonable costs of disposition exceed (or are exceeded by) the adjusted cost base of the common share. For these purposes where the Canadian Participant is a Canadian Employee, the full amount of the Benefit in respect of the acquisition of the common share will be added to the adjusted cost base of the share. One half of the capital gain (taxable capital gain) must be included in computing the income of the Canadian Participant and is taxed at normal rates. The Canadian Participant may deduct one half of any capital loss (allowable capital loss) from taxable capital gains realized in the year of disposition. Allowable capital losses not deducted in the taxation year in which they are realized may ordinarily be carried back and deducted from taxable capital gains of any of the three preceding years or carried forward and deducted in any subsequent year, subject to detailed provisions of the Act.

American Participant: An American Participant who disposes of a common share, including by deemed disposition on death, will generally not be subject to Canadian tax on any capital gain (or be entitled to deduct any capital loss) realized on the disposition, unless the common share constitutes “taxable Canadian property” as defined for purposes of the Act. Generally, common shares will not be taxable Canadian property of an American Participant at a particular time provided that such shares are listed on a designated stock exchange (which includes the Toronto Stock Exchange and the TSX Venture Exchange – Tiers 1 and 2) unless at any time during the 60 month period ending at the particular time (i) the American Participant, persons not dealing at arm’s length with the American Participant, or any combination of them, owned 25% or more of the issued shares of any class or series of our capital stock, and (ii) more than 50% of the fair market value of the common shares was derived directly or indirectly from one, or any combination of, real or immovable property situated in Canada, Canadian resource properties, timber resource properties, and options in respect of, or interests in, any such properties . If the common shares are taxable Canadian property to an American Participant and no exemption is available under the Canada-U.S. Tax Convention, the recognition of a capital gain on the disposition of such common shares would in general be determined in the manner and subject to the tax treatment described above under “Disposition of Shares – Canadian Participant”. Pursuant to the Canada-U.S. Tax Convention, an exemption may be available from Canadian tax on the disposition of shares that are taxable Canadian property, provided that the common shares do not derive their value from real property in Canada or from rights to explore for or to exploit mineral deposits, sources and other natural resources and rights to amounts computed by reference to the amount or value of production from such resources in Canada.

Certain United States Federal Income Tax Considerations

The following is a general summary of certain U.S. federal income tax considerations applicable to a U.S. Participant (as defined below) arising from and relating to participation in the Plan.

This summary is for general information purposes only and does not purport to be a complete analysis or listing of all potential U.S. federal income tax considerations that may apply to a U.S. Participant with respect to participation in the Plan. In addition, this summary does not take into account the individual facts and circumstances of any particular U.S. Participant that may affect the U.S. federal income tax consequences of participation in the Plan, including specific tax consequences to a U.S. Participant under an applicable tax treaty. Accordingly, this summary is not intended to be, and should not be construed as, legal or U.S. federal income tax advice with respect to any U.S. Participant. In addition, this summary does not address the U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local, and foreign tax consequences to U.S. Participants relating to participation in the Plan. Each U.S. Participant should consult its own tax advisor regarding the U.S. federal, U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local, and foreign tax consequences relating to participation in the Plan.

No legal opinion from U.S. legal counsel or ruling from the Internal Revenue Service (the “**IRS**”) has been requested, or will be obtained, regarding the U.S. federal income tax consequences of participation in the Plan. This summary is not binding on the IRS, and the IRS is not precluded from taking a position that is different from, and contrary to, the positions taken in this summary. In addition, because the authorities on which this summary is based are subject to various interpretations, the IRS and the U.S. courts could disagree with one or more of the positions taken in this summary.

NOTICE PURSUANT TO IRS CIRCULAR 230: NOTHING CONTAINED IN THIS SUMMARY CONCERNING ANY U.S. FEDERAL TAX ISSUE IS INTENDED OR WRITTEN TO BE USED, AND IT CANNOT BE USED, BY A U.S. PARTICIPANT, FOR THE PURPOSE OF AVOIDING U.S. FEDERAL TAX PENALTIES UNDER THE CODE (AS DEFINED BELOW). THIS SUMMARY WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED BY THIS PROSPECTUS. EACH U.S. PARTICIPANT SHOULD SEEK U.S. FEDERAL TAX ADVICE, BASED ON SUCH U.S. PARTICIPANT’S PARTICULAR CIRCUMSTANCES, FROM AN INDEPENDENT TAX ADVISOR.

Scope of this Summary

Authorities

This summary is based on the Internal Revenue Code of 1986, as amended (the “**Code**”), Treasury Regulations (whether final, temporary, or proposed), published IRS rulings, published administrative positions of the IRS, the Convention Between Canada and the United States of America with Respect to Taxes on Income and on Capital, signed September 26, 1980, as amended (the “**Canada-U.S. Tax Convention**”), and U.S. court decisions that are applicable and, in each case, as in effect and available, as of the date of this Prospectus. Any of the authorities on which this summary is based could be changed in a material and adverse manner at any time, and any such change could be applied on a retroactive or prospective basis which could affect the U.S. federal income tax considerations described in this summary. This summary does not discuss the potential effects, whether adverse or beneficial, of any proposed legislation that, if enacted, could be applied on a retroactive or prospective basis.

U.S. Participants

For purposes of this summary, a “**U.S. Participant**” is an employee, officer, consultant, independent contractor, or director of the Company (or of any parent or subsidiary of the Company) who participates in the Plan and who is either a citizen or resident of the U.S. or a resident alien of the U.S. for purposes of the Code and the Canada-U.S. Tax Convention.

Non-U.S. Participants

For purposes of this summary, a “**non-U.S. Participant**” is an employee, officer, consultant, independent contractor, or director of the Company (or of any subsidiary of the Company) who participates in the Plan but who is not a U.S. Participant. This summary does not address the U.S. federal income tax consequences of participation in the Plan by a non-U.S. Participant. Accordingly, a non-U.S. Participant should consult its own tax advisor regarding the U.S. federal, U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local, and foreign tax consequences (including the potential application and operation of any income tax treaties) of participation in the Plan.

Certain Special Rules

The foreign earned income exclusion provisions and the foreign tax credit provisions of the Code may, under certain circumstances, reduce the U.S. federal income tax liability of a U.S. Participant with respect to participation in the Plan. U.S. Participants should consult their own tax advisor regarding the foreign earned income exclusion provisions and the foreign tax credit provisions of the Code.

Tax Consequences With Respect to Options

Options granted under the Plan are not intended to qualify as “incentive stock options” under Section 422 of the Code. Accordingly, options granted under the Plan should be treated as “non-qualified stock options”. In general, non-qualified stock options meeting certain requirements, including that the option exercise price is not less than the fair market value of the underlying common share at the date of grant, are exempt from Code Section 409A. If an option granted pursuant to the Plan is exempt from Code Section 409A the following tax consequences will apply to U.S. Participants:

- Grant. U.S. Participants will not recognize any taxable income at the time an option is granted.
- Exercise. Upon the exercise of an option, exercising U.S. Participants will recognize ordinary income in the amount by which the fair market value of the common share at the time of exercise exceeds the option exercise price. If a U.S. Participant is an employee or former employee this income will be subject to income and payroll tax withholding.
- Tax Basis of the Acquired Common Shares. If a U.S. Participant pays the exercise price in cash, the U.S. Participant’s original tax basis in the common shares received upon exercise will equal the sum of (1) the option exercise price plus (2) the amount such a U.S. Participant is required to recognize as income as a result of the exercise. If the U.S. Participant pays the exercise price by tendering other common shares, the U.S. Participant will not recognize gain or loss on the tendered common shares, but the original tax basis for an equal number of common shares acquired upon exercise of the option will be the same as the adjusted tax basis for the tendered common shares. The remaining acquired shares will

- Holding Period. The holding period for common shares acquired upon exercise of an option, for purposes of determining whether any capital gain or loss on a holder's subsequent sale is long-term or short-term, shall begin at the time of the exercise of the option (or, in the case of an officer or director who does not make the Section 83(b) election described below, on the date up to six months later when ordinary income is recognized).
- Tax Consequences to U.S. Participants if Options are Issued with an Exercise Price at Less than Fair Market Value. In order to be exempt from Code Section 409A, the exercise price of a non-qualified stock option must not be less than the fair market value (determined in accordance with applicable regulations) of a common share on the date of grant of the option. If options granted pursuant to the Plan is issued with an exercise price that is less than fair market value (determined in accordance with applicable regulations) at the date of grant, this could result in adverse tax consequences to a U.S. Participant under Section 409A of the Code, including recognition of income at the time of vesting of the option whether or not the option is exercised, and a 20% penalty tax.

We have assumed that all options were issued with an exercise price not less than the fair market value of a common share on the date of grant (without application of any discount). Discounted stock options generally are subject to tax treatment that is different than described herein. You should consult your tax advisor if you have been issued options at a discounted exercise price.

U.S. Participants Subject to Section 16(b) of the Securities Exchange Act

If a U.S. Participant is an executive officer or director subject to Section 16(b) of the Securities Exchange Act of 1934, any common shares received upon exercise of an option may be treated as restricted property for purposes of Section 83 of the Code. In that case, such U.S. Participant may be deemed to have acquired the common shares at a date up to six months after the date of exercise, and such U.S. Participant may be required to recognize (and be taxed on) ordinary income as of the later date, rather than as of the date of exercise. However, Section 83(b) of the Code allows a U.S. Participant to elect to recognize ordinary income as of the date of exercise, without regard to Section 16(b) restrictions. The U.S. Participant must make the election in the manner specified in Section 83(b) within 30 days after the common shares are paid out. If (1) the common shares paid out are treated as restricted property for purposes of Section 83 of the Code because of the application of Section 16(b) of the Securities Exchange Act of 1934 and (2) the U.S. Participant does not make a Section 83(b) election within the required time period, the U.S. Participant will recognize and be taxed on ordinary income in the amount of the fair market value of the common shares at the later date, rather than recognizing, and being taxed on, ordinary income in the amount of the fair market value of the common shares on the exercise date.

Change in Control

Depending on the terms of your award agreement and the determinations of the Board, upon a change in control of the Company, restrictions on your award may lapse, or your award may mature on an accelerated schedule. If this type of benefit, or other benefits and payments connected with your award that result from a change in control of the Company, are granted to certain individuals (such as our executive officers), the benefits and payments may be deemed to be "parachute payments" within the meaning of Section 280G of the Code. Section 280G provides that if parachute payments to an individual equal or exceed three times the individual's "base amount," the excess of the parachute payments over

one times the base amount will be subject to a 20% excise tax payable by the individual. “Base amount” is the individual’s average annual compensation over the five tax years preceding the tax year in which the change in control occurs. We urge you to consult your own tax advisor regarding your tax liability upon a change in control of the Company.

Passive Foreign Investment Company Rules

If the Company were to constitute “passive foreign investment company” under the meaning of Section 1297 of the Code (a “**PFIC**”, as defined below) for any year during a U.S. Participant’s holding period, then certain different and potentially adverse rules will effect the U.S. federal income tax consequences to a U.S. Participant resulting from participation in the Plan and the ownership and disposition of common shares. In addition, in any year in which the Company is classified as a PFIC, such participant would be required to file an annual report with the IRS containing such information as Treasury Regulations and/or other IRS guidelines may require.

PFIC Status of the Company

The Company generally will be a PFIC if, for a tax year, (a) 75% or more of the gross income of the Company for such tax year is passive income (the “**income test**”) or (b) 50% or more of the value of the Company’s assets either produce passive income or are held for the production of passive income, based on the quarterly average of the fair market value of such assets (the “**asset test**”). “**Gross income**” generally means all sales revenues less the cost of goods sold, and “passive income” generally includes, for example, dividends, interest, certain rents and royalties, certain gains from the sale of stock and securities, and certain gains from commodities transactions.

Active business gains arising from the sale of commodities generally are excluded from passive income if substantially all of a foreign corporation’s commodities are (a) stock in trade of such foreign corporation or other property of a kind which would properly be included in inventory of such foreign corporation, or property held by such foreign corporation primarily for sale to customers in the ordinary course of business, (b) property used in the trade or business of such foreign corporation that would be subject to the allowance for depreciation under Section 167 of the Code, or (c) supplies of a type regularly used or consumed by such foreign corporation in the ordinary course of its trade or business.

For purposes of the PFIC income test and asset test described above, if the Company owns, directly or indirectly, 25% or more of the total value of the outstanding shares of another corporation, the Company will be treated as if it (a) held a proportionate share of the assets of such other corporation and (b) received directly a proportionate share of the income of such other corporation. In addition, for purposes of the PFIC income test and asset test described above, “passive income” does not include any interest, dividends, rents, or royalties that are received or accrued by the Company from a “related person” (as defined in Section 954(d)(3) of the Code), to the extent such items are properly allocable to the income of such related person that is not passive income.

In addition, under certain attribution rules, if the Company is a PFIC, U.S. Participants will be deemed to own their proportionate share of any subsidiary of the Company which is also a PFIC (a “**Subsidiary PFIC**”), and will be subject to U.S. federal income tax on their proportionate share of (i) a distribution on the stock of a Subsidiary PFIC and (ii) a disposition or deemed disposition of shares of a Subsidiary PFIC, both as if such U.S. Participants directly held the shares of such Subsidiary PFIC.

The Company believes that it was classified as a PFIC during the tax year ended June 30, 2010, and based on current business plans and financial expectations, the Company expects that it will be a PFIC for the current tax year. The determination of whether any corporation was, or will be, a PFIC for a tax year

depends, in part, on the application of complex U.S. federal income tax rules, which are subject to differing interpretations. In addition, whether any corporation will be a PFIC for any tax year depends on the assets and income of such corporation over the course of each such tax year and, as a result, cannot be predicted with certainty as of the date of this Prospectus. Accordingly, there can be no assurance that the IRS will not challenge any determination made by the Company (or a Subsidiary PFIC) concerning its PFIC status or that the Company (and each Subsidiary PFIC) was not, or will not be, a PFIC for any tax year. Each U.S. Participant should consult its own tax advisor regarding the PFIC status of the Company and each Subsidiary PFIC.

Default PFIC Rules Under Section 1291 of the Code

If the Company is a PFIC, the U.S. federal income tax consequences to a U.S. Participant of the acquisition, ownership, and disposition of common shares will depend on whether such U.S. Participant makes an election to treat the Company and each Subsidiary PFIC, if any, as a “qualified electing fund” or “QEF” under Section 1295 of the Code (a “**QEF Election**”) or a mark-to-market election under Section 1296 of the Code (a “**Mark-to-Market Election**”). A U.S. Participant that does not make either a QEF Election or a Mark-to-Market Election will be referred to in this summary as a “**Non-Electing U.S. Participant.**”

A Non-Electing U.S. Participant will be subject to the rules of Section 1291 of the Code with respect to (a) any gain recognized on the sale or other taxable disposition of common shares and (b) any excess distribution received on the common shares. A distribution generally will be an “excess distribution” to the extent that such distribution (together with all other distributions received in the current tax year) exceeds 125% of the average distributions received during the three preceding tax years (or during a U.S. Participant’s holding period for the common shares, if shorter).

Under Section 1291 of the Code, any gain recognized on the sale or other taxable disposition of common shares, and any “excess distribution” received on common shares, must be ratably allocated to each day in a Non-Electing U.S. Participant’s holding period for the respective common shares. The amount of any such gain or excess distribution allocated to the tax year of disposition or distribution of the excess distribution and to years before the entity became a PFIC, if any, would be taxed as ordinary income. The amounts allocated to any other tax year would be subject to U.S. federal income tax at the highest tax rate applicable to ordinary income in each such year, and an interest charge would be imposed on the tax liability for each such year, calculated as if such tax liability had been due in each such year. A Non-Electing U.S. Participant that is not a corporation must treat any such interest paid as “personal interest,” which is not deductible.

If the Company is a PFIC for any tax year during which a Non-Electing U.S. Participant holds common shares, the Company will continue to be treated as a PFIC with respect to such Non-Electing U.S. Participant, regardless of whether the Company ceases to be a PFIC in one or more subsequent years. A Non-Electing U.S. Participant may terminate this deemed PFIC status by electing to recognize gain (which will be taxed under the rules of Section 1291 of the Code discussed above) as if such common shares were sold on the last day of the last tax year for which the Company was a PFIC.

In addition, if the Company is a PFIC, gain recognized on the sale or other taxable disposition (other than by exercise) of the options by a U.S. Participant will be subject to the default rules of Section 1291 of the Code discussed above.

QEF Election

A U.S. Participant that makes a QEF Election for the first tax year in which its holding period of participant's options or common shares begins, generally will not be subject to the rules of Section 1291 of the Code discussed above. However, a U.S. Participant that makes a QEF Election will be subject to U.S. federal income tax on such U.S. Participant's pro rata share of (a) the net capital gain of the Company and each Subsidiary PFIC, which will be taxed as long-term capital gain to such U.S. Participant, and (b) the ordinary earnings of the Company and each Subsidiary PFIC, which will be taxed as ordinary income to such U.S. Participant. Generally, "net capital gain" is the excess of (a) net long-term capital gain over (b) net short-term capital loss, and "ordinary earnings" are the excess of (a) "earnings and profits" over (b) net capital gain. A U.S. Participant that makes a QEF Election will be subject to U.S. federal income tax on such amounts for each tax year in which the Company is a PFIC, regardless of whether such amounts are actually distributed to such U.S. Participant by the Company. However, for any tax year in which the Company is a PFIC and has no net income or gain, U.S. Participants that have made a QEF Election would not have any income inclusions as a result of the QEF Election. If a U.S. Participant that made a QEF Election has an income inclusion, such a U.S. Participant may, subject to certain limitations, elect to defer payment of current U.S. federal income tax on such amounts, subject to an interest charge. If such U.S. Participant is not a corporation, any such interest paid will be treated as "personal interest," which is not deductible.

A U.S. Participant that makes a QEF Election generally (a) may receive a tax-free distribution from the Company to the extent that such distribution represents "earnings and profits" of the Company that were previously included in income by the U.S. Participant because of such QEF Election and (b) will adjust such U.S. Participant's tax basis in the common shares to reflect the amount included in income or allowed as a tax-free distribution because of such QEF Election. In addition, a U.S. Participant that makes a QEF Election generally will recognize capital gain or loss on the sale or other taxable disposition of common shares.

The procedure for making a QEF Election, and the U.S. federal income tax consequences of making a QEF Election, will depend on whether such QEF Election is timely. A QEF Election will be treated as "timely" if such QEF Election is made for the first year in the U.S. Participant's holding period for the common shares in which the Company was a PFIC. A U.S. Participant may make a timely QEF Election by filing the appropriate QEF Election documents at the time such U.S. Participant files a U.S. federal income tax return for such year.

A QEF Election will apply to the tax year for which such QEF Election is made and to all subsequent tax years, unless such QEF Election is invalidated or terminated or the IRS consents to revocation of such QEF Election. If a U.S. Participant makes a QEF Election and, in a subsequent tax year, the Company ceases to be a PFIC, the QEF Election will remain in effect (although it will not be applicable) during those tax years in which the Company is not a PFIC. Accordingly, if the Company becomes a PFIC in another subsequent tax year, the QEF Election will be effective and the U.S. Participant will be subject to the QEF rules described above during any such subsequent tax year in which the Company qualifies as a PFIC.

U.S. Participants should be aware that there can be no assurances that the Company will satisfy the record keeping requirements that apply to a QEF, or that the Company will supply U.S. Participants with the information that such U.S. Participants require to report under the QEF rules, in the event that the Company is a PFIC and a U.S. Participant wishes to make a QEF Election. Each U.S. Participant should consult its own tax advisor regarding the availability of, and procedure for making, a QEF Election.

A U.S. Participant should be aware that, under applicable Treasury Regulations a holder of an option, warrant or other right to acquire stock of a PFIC may not make a QEF Election that will apply to the option, warrant or other right or to acquire the stock. In addition, if a U.S. Participant holds an option, warrant or other right to acquire stock of a PFIC, the holding period with respect to shares of stock of the PFIC acquired upon exercise of such option, warrant or other right will include the period that the option, warrant or other right was held, which will likely preclude the ability of the U.S. Participant to make a timely QEF election after exercise of the options and receipt of the common shares. The general effect of these special rules, if applicable, is that (a) excess distributions paid on common shares, and gains recognized on the sale or other taxable disposition of options and common shares, will be spread over a U.S. Participant's entire holding period for such options and common shares (pursuant to the rules of Section 1291 of the Code discussed above) and (b) if a U.S. Participant makes a QEF Election after the exercise of the options and receipt of the common shares, that election generally will not be a timely QEF Election with respect to such common shares (and the rules of Section 1291 of the Code discussed above will continue to apply).

It appears, however, that a U.S. Participant receiving common shares of a PFIC (for example, by such U.S. Participant exercising her options) should be eligible to make an effective QEF Election as of the first day of the tax year of such U.S. Participant beginning after the receipt of such common shares if such U.S. Participant first makes a "deemed sale election" (pursuant to Sec. 1291(d)(2)) to recognize gain (which will be a taxable event under the rules of Section 1291 of the Code discussed above) as if such common shares were sold on such date at fair market value.

Each U.S. Participant should consult its own tax advisor regarding the application of the PFIC rules to the options and the common shares.

Mark-to-Market Election

A U.S. Participant may make a Mark-to-Market Election only if the common shares are marketable stock. The common shares generally will be "marketable stock" if the common shares are regularly traded on (a) a national securities exchange that is registered with the Securities and Exchange Commission, (b) the national market system established pursuant to section 11A of the Securities and Exchange Act of 1934, or (c) a foreign securities exchange that is regulated or supervised by a governmental authority of the country in which the market is located, provided that (i) such foreign exchange has trading volume, listing, financial disclosure, and other requirements and the laws of the country in which such foreign exchange is located, together with the rules of such foreign exchange, ensure that such requirements are actually enforced and (ii) the rules of such foreign exchange ensure active trading of listed stocks.

A U.S. Participant that makes a Mark-to-Market Election with respect to its common shares generally will not be subject to the rules of Section 1291 of the Code discussed above with respect to such common shares. However, if a U.S. Participant does not make a Mark-to-Market Election beginning in the first tax year of such U.S. Participant's holding period for the common shares or such U.S. Participant has not made a timely QEF Election, the rules of Section 1291 of the Code discussed above will apply to certain dispositions of, and distributions on, the common shares.

A U.S. Participant that makes a Mark-to-Market Election will include in ordinary income, for each tax year in which the Company is a PFIC, an amount equal to the excess, if any, of (a) the fair market value of the common shares, as of the close of such tax year over (b) such U.S. Participant's tax basis in such common shares. A U.S. Participant that makes a Mark-to-Market Election will be allowed a deduction in an amount equal to the excess, if any, of (i) such U.S. Participant's adjusted tax basis in the common shares, over (ii) the fair market value of such common shares (but only to the extent of the net amount of previously included income as a result of the Mark-to-Market Election for prior tax years).

A U.S. Participant that makes a Mark-to-Market Election generally also will adjust such U.S. Participant's tax basis in the common shares to reflect the amount included in gross income or allowed as a deduction because of such Mark-to-Market Election. In addition, upon a sale or other taxable disposition of common shares, a U.S. Participant that makes a Mark-to-Market Election will recognize ordinary income or ordinary loss (not to exceed the excess, if any, of (a) the amount included in ordinary income because of such Mark-to-Market Election for prior tax years over (b) the amount allowed as a deduction because of such Mark-to-Market Election for prior tax years).

A Mark-to-Market Election applies to the tax year in which such Mark-to-Market Election is made and to each subsequent tax year, unless the common shares cease to be "marketable stock" or the IRS consents to revocation of such election. Each U.S. Participant should consult its own tax advisor regarding the availability of, and procedure for making, a Mark-to-Market Election.

Although a U.S. Participant may be eligible to make a Mark-to-Market Election with respect to the common shares, no such election may be made with respect to the stock of any Subsidiary PFIC that such U.S. Participant is treated as owning because such stock is not marketable. Hence, the Mark-to-Market Election will not be effective to eliminate the interest charge described above with respect to deemed dispositions of Subsidiary PFIC stock or distributions from a Subsidiary PFIC.

Other PFIC Rules

Under Section 1291(f) of the Code, the IRS has issued proposed Treasury Regulations that, subject to certain exceptions, would cause a U.S. Participant that had not made a timely QEF Election to recognize gain (but not loss) upon certain transfers of common shares that would otherwise be tax-deferred (e.g., gifts and exchanges pursuant to corporate reorganizations). However, the specific U.S. federal income tax consequences to a U.S. Participant may vary based on the manner in which common shares are transferred.

Certain additional adverse rules will apply with respect to a U.S. Participant if the Company is a PFIC, regardless of whether such U.S. Participant makes a QEF Election. For example under Section 1298(b)(6) of the Code, a U.S. Participant that uses common shares as security for a loan will, except as may be provided in Treasury Regulations, be treated as having made a taxable disposition of such common shares.

Special rules also apply to the amount of foreign tax credit that a U.S. Participant may claim on a distribution from a PFIC. Subject to such special rules, foreign taxes paid with respect to any distribution in respect of stock in a PFIC are generally eligible for the foreign tax credit. The rules relating to distributions by a PFIC and their eligibility for the foreign tax credit are complicated, and a U.S. Participant should consult with their own tax advisor regarding the availability of the foreign tax credit with respect to distributions by a PFIC.

The PFIC rules are complex, and each U.S. Participant should consult its own tax advisor regarding the PFIC rules and how the PFIC rules may affect the U.S. federal income tax consequences of the acquisition, ownership, and disposition of common shares.

Ownership and Disposition of Common Shares

The following discussion is subject to the rules described above under the heading "Passive Foreign Investment Company Rules."

Distributions on Common Shares

Subject to the PFIC rules discussed above, a U.S. Participant that receives a distribution, including a constructive distribution, with respect to a common share will be required to include the amount of such distribution in gross income as a dividend (without reduction for any Canadian income tax withheld from such distribution) to the extent of the current or accumulated “earnings and profits” of the Company, as computed for U.S. federal income tax purposes. A dividend generally will be taxed to a U.S. Participant at ordinary income tax rates. To the extent that a distribution exceeds the current and accumulated “earnings and profits” of the Company, such distribution will be treated first as a tax-free return of capital to the extent of a U.S. Participant's tax basis in the common share and thereafter as gain from the sale or exchange of such common share. (See “Sale or Other Taxable Disposition of Common Shares” below). However, the Company may not maintain the calculations of earnings and profits in accordance with U.S. federal income tax principles, and each U.S. Participant should therefore assume that any distribution by the Company with respect to the common shares will constitute ordinary dividend income. Dividends received on common share generally will not be eligible for the “dividends received deduction”. In addition, the Company does not anticipate that its distributions will be eligible for the preferential tax rates applicable to long-term capital gains. The dividend rules are complex, and each U.S. Participant should consult its own tax advisor regarding the application of such rules.

Sale or Other Taxable Disposition of Common Shares

Subject to the PFIC rules discussed above, upon the sale or other taxable disposition of common shares, a U.S. Participant generally will recognize capital gain or loss in an amount equal to the difference between the amount of cash plus the fair market value of any property received and such U.S. Participant's tax basis in such common shares sold or otherwise disposed of. Subject to the PFIC rules discussed above, gain or loss recognized on such sale or other disposition generally will be long-term capital gain or loss if, at the time of the sale or other disposition, the common shares have been held for more than one year.

Preferential tax rates apply to long-term capital gain of a U.S. Participant that is an individual, estate, or trust. There are currently no preferential tax rates for long-term capital gain of a U.S. Participant that is a corporation. Deductions for capital losses are subject to significant limitations under the Code.

Additional Considerations

Receipt of Foreign Currency

The amount of any distribution paid to a U.S. Participant in foreign currency, or on the sale, exchange or other taxable disposition of common shares, generally will be equal to the U.S. dollar value of such foreign currency based on the exchange rate applicable on the date of receipt (regardless of whether such foreign currency is converted into U.S. dollars at that time). If the foreign currency received is not converted into U.S. dollars on the date of receipt, a U.S. Participant will have a basis in the foreign currency equal to its U.S. dollar value on the date of receipt. Any U.S. Participant who receives payment in foreign currency and engages in a subsequent conversion or other disposition of the foreign currency may have a foreign currency exchange gain or loss that would be treated as ordinary income or loss, and generally will be U.S. source income or loss for foreign tax credit purposes. Each U.S. Participant should consult its own U.S. tax advisor regarding the U.S. federal income tax consequences of receiving, owning, and disposing of foreign currency.

Foreign Tax Credit

Subject to the PFIC rules discussed above, U.S. Participant who pays (whether directly or through withholding) Canadian income tax with respect to dividends paid on the common shares generally will be entitled, at the election of such U.S. Participant, to receive either a deduction or a credit for such Canadian income tax paid. Generally, a credit will reduce a U.S. Participant's U.S. federal income tax liability on a dollar-for-dollar basis, whereas a deduction will reduce a U.S. Participant's income subject to U.S. federal income tax. This election is made on a year-by-year basis and applies to all foreign taxes paid (whether directly or through withholding) by a U.S. Participant during a year.

Complex limitations apply to the foreign tax credit, including the general limitation that the credit cannot exceed the proportionate share of a U.S. Participant's U.S. federal income tax liability that such U.S. Participant's "foreign source" taxable income bears to such U.S. Participant's worldwide taxable income. In applying this limitation, a U.S. Participant's various items of income and deduction must be classified, under complex rules, as either "foreign source" or "U.S. source." Generally, dividends paid by a foreign corporation should be treated as foreign source for this purpose, and gains recognized on the sale of stock of a foreign corporation by a U.S. Participant should be treated as U.S. source for this purpose, except as otherwise provided in an applicable income tax treaty, and if an election is properly made under the Code. However, the amount of a distribution with respect to the common shares that is treated as a "dividend" may be lower for U.S. federal income tax purposes than it is for Canadian federal income tax purposes, resulting in a reduced foreign tax credit allowance to a U.S. Participant. In addition, this limitation is calculated separately with respect to specific categories of income. The foreign tax credit rules are complex, and each U.S. Participant should consult its own tax advisor regarding the foreign tax credit rules.

Backup Withholding and Information Reporting

Under U.S. federal income tax law and Treasury regulations, certain categories of U.S. Participants must file information returns with respect to their investment in, or involvement in, a foreign corporation. For example, recently enacted legislation generally imposes new U.S. return disclosure obligations (and related penalties) on U.S. Participants that hold certain specified foreign financial assets in excess of \$50,000. The definition of specified foreign financial assets includes not only financial accounts maintained in foreign financial institutions, but also, unless held in accounts maintained by a financial institution, any stock or security issued by a non-U.S. person, any financial instrument or contract held for investment that has an issuer or counterparty other than a U.S. person and any interest in a foreign entity. U.S. Participants may be subject to these reporting requirements unless their options or common shares are held in an account at a domestic financial institution. Penalties for failure to file certain of these information returns are substantial. U.S. Participants should consult with their own tax advisors regarding the requirements of filing information returns, and, if applicable, filing obligations relating to a Mark-to-Market or QEF Election.

Payments made within the U.S., or by a U.S. payor or U.S. middleman, of dividends on, and proceeds arising from the sale or other taxable disposition of, common shares generally will be subject to information reporting and backup withholding tax, at the rate of 28% (and increasing to 31% for payments made after December 31, 2010), if a U.S. Participant (a) fails to furnish such U.S. Participant's correct U.S. taxpayer identification number (generally on Form W-9), (b) furnishes an incorrect U.S. taxpayer identification number, (c) is notified by the IRS that such U.S. Participant has previously failed to properly report items subject to backup withholding tax, or (d) fails to certify, under penalty of perjury, that such U.S. Participant has furnished its correct U.S. taxpayer identification number and that the IRS

has not notified such U.S. Participant that it is subject to backup withholding tax. However, certain exempt persons generally are excluded from these information reporting and backup withholding rules. Any amounts withheld under the U.S. backup withholding tax rules will be allowed as a credit against a U.S. Participant's U.S. federal income tax liability, if any, or will be refunded, if such U.S. Participant furnishes required information to the IRS in a timely manner. Each U.S. Participant should consult its own tax advisor regarding the information reporting and backup withholding rules.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents filed by us with United States Securities and Exchange Commission are hereby incorporated by reference in this prospectus and are available for inspection from us, without charge, upon written or oral request:

- (a) our registration statement on Form 20-F (File No. 000-53834) filed with the Securities and Exchange Commission on November 17, 2009, as amended on December 22, 2009 and January 14, 2010;
- (b) all other reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, since the end of the fiscal year covered by the amended Registration Statement incorporated by reference herein pursuant to (a) above;
- (c) the description of our common shares contained in our amended registration statement incorporated by reference herein pursuant to (a) above, including any amendment or report for the purpose of updating such description; and
- (d) future reports filed by us with the Securities and Exchange Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of Securities Exchange Act of 1934, as amended, are incorporated by reference into the Registration Statement on Form S-8 to which this prospectus relates and into this prospectus.

We will provide without charge to each person to whom a copy of this prospectus is delivered, upon written or oral request by any such person, a copy of any or all of the documents incorporated herein by reference (other than exhibits, unless such exhibits are not otherwise publicly available for inspection). In addition, we will provide you, without charge and upon your oral or written request, with a copy of any report, proxy statement or other communication distributed to shareholders. Requests for such copies and for any additional information on the Plan and its administrators should be directed Winnie Wong, Corporate Secretary, Rare Element Resources Ltd., Suite 410 - 325 Howe St., Vancouver, British Columbia V6C 1Z7, Canada Ph: (604) 687-3520.

Exhibit 21

List of Subsidiaries

Rare Element Holdings Ltd., a British Columbia corporation, 100% owned by Rare Element Resources Ltd.

Rare Element Resources, Inc., a Wyoming corporation, 100% owned by Rare Element Holdings Ltd.

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the registration statement on Form S-8 (No. 333-170022 of Rare Element Resources Ltd. (the "Company") of our reports dated September 23, 2011, with respect to the consolidated balance sheets of the Company as of June 30, 2011 and 2010, and the consolidated statements of operations and deficit, comprehensive loss and cash flows of the Company for each of the years in the three-year period ended June 30, 2011, and the effectiveness of internal control over financial reporting of the Company, which reports appear in the June 30, 2011 annual report on Form 10-K of the Company.

De Visser Gray LLP

Vancouver, Canada
September 28, 2011

Exhibit 23.2

Consent of Expert

Reference is made to the Annual Report of Rare Element Resources Ltd. (the “*Company*”) on Form 10-K filed with the Securities and Exchange Commission on September 28, 2011 (the “*Annual Report*”).

I hereby consent to the references to my name and to Ore Reserves Engineering under the heading “Item 2. Description of Properties” in the Annual Report and to that summary information contained under the headings “Item 2. Description of Properties – Bear Lodge Property, Northeastern Wyoming, USA – Bear Lodge REE Project” and “Item 2. Description of Properties – Bear Lodge Property, Northeastern Wyoming, USA – Sundance Gold Project” in the Annual Report of which I am named as having reviewed or that is derived from information I am named as having prepared or supervised and the incorporation therein of such references to the Company’s registration statement on Form S-8 (File No. 333-170022).

/s/ Alan C. Noble

Alan C. Noble, P.E.

Principal Engineer of Ore Reserves Engineering

September 28, 2011

Exhibit 23.3

Consent of Expert

Reference is made to the Annual Report of Rare Element Resources Ltd. (the “*Company*”) on Form 10-K filed with the Securities and Exchange Commission on September 28, 2011 (the “*Annual Report*”).

I hereby consent to the references to my name under the heading “Item 2. Description of Properties” in the Annual Report and to that summary information contained under the headings “Item 2. Description of Properties – Bear Lodge Property, Northeastern Wyoming, USA – Bear Lodge REE Project” and “Item 2. Description of Properties – Bear Lodge Property, Northeastern Wyoming, USA – Sundance Project” in the Annual Report of which I am named as having reviewed or that is derived from information I am named as having prepared or supervised and the incorporation therein of such references to the Company’s registration statement on Form S-8 (File No. 333-170022).

/s/ Dr. Jeffrey Jaacks
Dr. Jeffrey Jaacks

September 28, 2011

Exhibit 23.4

Consent of Expert

Reference is made to the Annual Report of Rare Element Resources Ltd. (the “**Company**”) on Form 10-K filed with the Securities and Exchange Commission on September 28, 2011 (the “**Annual Report**”).

I hereby consent to the references to my name under the heading “Item 2. Description of Properties” in the Annual Report and to that summary information contained under the headings “Item 2. Description of Properties – Bear Lodge Property, Northeastern Wyoming, USA – Bear Lodge REE Project” and “Item 2. Description of Properties – Bear Lodge Property, Northeastern Wyoming, USA – Sundance Gold Project” in the Annual Report of which I am named as having reviewed or that is derived from information I am named as having prepared or supervised and the incorporation therein of such references to the Company’s registration statement on Form S-8 (File No. 333-170022).

/s/ Dr. James G. Clark

Dr. James G. Clark, L. Geo.

Vice President of Exploration of Rare Element Resources Ltd.

September 28, 2011

Exhibit 23.5

Consent of Expert

Reference is made to the Annual Report of Rare Element Resources Ltd. (the “*Company*”) on Form 10-K filed with the Securities and Exchange Commission on September 28, 2011 (the “*Annual Report*”).

I hereby consent to the references to my name under the heading “Item 2. Description of Properties” in the Annual Report and to that summary information contained under the heading “Item 2. Description of Properties – Bear Lodge Property, Northeastern Wyoming, USA – Bear Lodge REE Project” in the Annual Report of which I am named as having reviewed or that is derived from information I am named as having prepared or supervised and the incorporation therein of such references to the Company’s registration statement on Form S-8 (File No. 333-170022).

/s/ Jaye T. Pickarts

Jaye T. Pickarts, P.E.

Chief Operating Officer of Rare Element Resources Ltd.

September 28, 2011

Exhibit 23.6

Consent of Expert

Reference is made to the Annual Report of Rare Element Resources Ltd. (the “*Company*”) on Form 10-K filed with the Securities and Exchange Commission on September 28, 2011 (the “*Annual Report*”).

I hereby consent to the references to my name and to John T. Boyd Company under the heading “Item 2. Description of Properties” in the Annual Report and to that summary information contained under the heading “Item 2. Description of Properties – Bear Lodge Property, Northeastern Wyoming, USA – Bear Lodge REE Project” in the Annual Report of which I am named as having reviewed or that is derived from information I am named as having prepared or supervised and the incorporation therein of such references to the Company’s registration statement on Form S-8 (File No. 333-170022).

/s/ Michael R. Richardson

Michael R. Richardson, P.E. of John T. Boyd Company

September 28, 2011

CERTIFICATIONS

I, Donald E. Ranta, certify that:

1. I have reviewed this annual report on Form 10-K of Rare Element Resources Ltd.:
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 28, 2011

/s/ Donald E. Ranta
Donald E. Ranta
President, Chief Executive Officer and Director
(Principal Executive Officer)

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code), the undersigned officer of Rare Element Resources Ltd. (the "Company") does hereby certify with respect to the Annual Report of the Company on Form 10-K for the period ended June 30, 2011 (the "Report") that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 28, 2011

/s/ David P. Suleski
David P. Suleski
Chief Financial Officer
(Principal Financial and Accounting Officer)

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code) and is not being filed as part of the Report or as a separate disclosure document.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code), the undersigned officer of Rare Element Resources Ltd. (the "Company") does hereby certify with respect to the Annual Report of the Company on Form 10-K for the period ended June 30, 2011 (the "Report") that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 28, 2011

/s/ Donald E. Ranta

Donald E. Ranta
President, Chief Executive Officer and Director
(Principal Executive Officer)

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code) and is not being filed as part of the Report or as a separate disclosure document.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code), the undersigned officer of Rare Element Resources Ltd. (the "Company") does hereby certify with respect to the Annual Report of the Company on Form 10-K for the period ended June 30, 2011 (the "Report") that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 28, 2011

/s/ David P. Suleski
David P. Suleski
Chief Financial Officer
(Principal Financial and Accounting Officer)

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code) and is not being filed as part of the Report or as a separate disclosure document.