

RARE ELEMENT RESOURCES LTD  
Form 10-Q  
August 04, 2017

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**x**

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

**For the quarterly period ended June 30, 2017**

**OR**

**o**

**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 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.)

**P.O. Box 271049**

**Littleton, Colorado**

(Address of principal executive offices)

**80122**

(Zip Code)

**(720) 278-2460**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes  No

Number of issuer's common shares outstanding as of August 2, 2017: 52,941,880

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## REPORTING CURRENCY, FINANCIAL AND OTHER INFORMATION

All amounts in this report are expressed in thousands of United States ( U.S. ) dollars, unless otherwise indicated.

Financial information is presented in accordance with accounting principles generally accepted in the United States ( U.S. GAAP ).

References to Rare Element, the Company, we, our, and us mean Rare Element Resources Ltd., our predecessors, consolidated subsidiaries, or any one or more of them, as the context requires.

### **Cautionary Note Regarding Forward-Looking Statements**

This Quarterly Report on Form 10-Q contains forward-looking information within the meaning of Canadian securities legislation and forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 (collectively, forward-looking statements ). Any statements that express or involve discussions with respect to business prospects, predictions, expectations, beliefs, plans, intentions, projections, objectives, strategies, assumptions, future events, performance or exploration and development efforts using words or phrases (including negative and grammatical variations) such as, but not limited to, expects, anticipates, plans, estimates, forecasts, projects, believes, seeks, 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. Although we believe that our plans, intentions and expectations reflected in these forward-looking statements are reasonable, we cannot be certain that these plans, intentions or expectations will be achieved. Actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements contained in this Quarterly Report. Forward-looking statements in this Quarterly Report include, but are not limited to, statements regarding the following:

the limited cash resources and working capital available to the Company and our ability to continue operations for the next 12 months, after the filing date of this Quarterly Report, as a going concern;

the possible deregistration of our common shares under the Exchange Act and/or listing of our common shares on another securities exchange;

the potential liquidation or sale of part or all of the Company's assets and the possible loss by investors of part or all of their investment;

anticipated losses in the operation of our business going forward;

the narrowed focus or suspension of the Company's near-term operational and permitting activities;

the pursuit of potential financing, joint ventures and other strategic alternatives;

expectations regarding the ability to raise capital or secure strategic or joint venture partners and to continue development plans at our Bear Lodge REE Project or exploration of our Sundance Gold Project (together, the "Projects");

future expenditures in compliance with environmental and other laws and regulations;

expectations regarding the global supply and demand for rare earth elements ("REE"), including the potential impact of the Chinese-dominated market;

the timing and potential conclusions of a future Feasibility Study ("FS") on the Bear Lodge REE Project;

our ability and the timing to obtain the necessary permits and licenses, including environmental, project development, mining, beneficiation and processing operations permits;

our ability and timing to exercise our right to purchase certain non-mineral lands for stockpile storage and processing operations;

the estimated capital costs required to bring the Bear Lodge REE Project into commercial production and the estimated life-of-mine costs, including sustaining capital;

expectations as to the marketability and prices of our future rare earth product(s); and



our potential status as a “passive foreign investment company” under U.S. tax laws.

Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors that could cause actual events or results to differ materially from our expectations, either expressed or implied, and include, among other, the factors referenced in the Risk Factors section of our Annual Report on Form 10-K for the period ended December 31, 2016, including, without limitation, risks associated with:

our ability to obtain additional financial resources on acceptable terms or at all, in order to (i) maintain our assets, (ii) conduct our Projects’ activities and (iii) maintain our general and administrative expenditures at acceptable levels;

whether we deregister our common shares under the Exchange Act and/or list our common shares on another securities exchange;

depressed and volatile mineral markets, including fluctuations in demand for, and prices of, rare earth products and gold;

our lack of production from our mineral properties;

our history of losses and numerous uncertainties that could affect the profitability or feasibility of our Projects;

the potential outcome of future feasibility studies that may indicate that the Projects’ economics are less favorable than previously expected;

our ability to resume our currently suspended federal and state permitting efforts for the Bear Lodge REE Project in a timely and cost effective manner;

the permitting, exploration, development and operation of our Projects;

increased costs affecting our financial condition;

establishing adequate distribution channels to place our future suite of products;

competition in the mining, rare earth and gold industries, including an increase in global supplies or predatory pricing and dumping by our competitors;

technological advancements, substitutes, and the establishment of new uses and markets for rare earth products;

the specific product(s) from the Bear Lodge REE Project potentially having a limited number of customers, which could limit our bargaining power, product pricing, and profitability;

our proprietary, patent-pending, rare earth processing technology encountering infringement, unforeseen problems, or unexpected costs in deployment or scaling up to commercial application;

mineral reserve and mineral resource estimation;

the permitting, licensing and regulatory approval processes for our planned operations;

opposition to any of our Projects from third parties;

continued compliance with current environmental regulations and the possibility of new legislation, environmental regulations or permit requirements adverse to the mining industry, including measures regarding reclamation, water protection, land use and climate change;

our dependence on and the potential difficulty of attracting and retaining key personnel, consultants and qualified management;

any shortage of equipment and supplies;

mining and resource exploration, development and recovery being a potentially hazardous activity;

operating in the resource industry, which can be highly speculative and subject to market forces outside of our control;

title to our properties or mining claims;

insurance for our operations that could become unavailable, unaffordable or commercially unreasonable or exclude from coverage certain risks to our business;

negative impacts to our business or operations from market factors;

our land reclamation and remediation requirements;

information technology system disruptions, damage or failures;

effects of proposed legislation on the mining industry and our business;

our executive officers, directors and consultants being engaged in other businesses;

costs associated with any unforeseen litigation;

enforcement of civil liabilities in the United States and elsewhere;

our common shares continuing not to pay cash dividends;

our securities, including in relation to both company performance and general security market conditions;

the OTCQB standards and the “penny stock” rules and the impact on trading volume and liquidity due to our listing on the OTCQB marketplace;

tax consequences to U.S. shareholders related to our potential status as a “passive foreign investment company”; and

other factors, many of which are beyond our control.

This list is not exhaustive of the factors that might affect our forward-looking statements. Although we have 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, possibly materially, from those anticipated, believed, estimated or expected. We caution 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, we disclaim any obligation to revise or update 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. **We qualify all of the forward-looking statements contained in this Quarterly Report on Form 10-Q by the foregoing cautionary statements.** We advise you to carefully review the reports and documents we file from time to time with the U.S. Securities and Exchange Commission (the SEC), particularly our Annual Report on Form 10-K. The reports and documents filed by us with the SEC are available at [www.sec.gov](http://www.sec.gov).



**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****RARE ELEMENT RESOURCES LTD.  
CONSOLIDATED BALANCE SHEETS**

(Expressed in thousands of U.S. dollars, except shares outstanding)

|  | <b>June 30, 2017</b><br>(unaudited) | <b>December 31,</b><br><b>2016</b><br>(audited) |
|--|-------------------------------------|---|
| <b>ASSETS:</b>   |                                     |   |
| <b>CURRENT ASSETS</b>  |                                     |   |
|  | \$                                  | \$  |
| Cash and cash equivalents  | 342                                 | 927   |
| Prepaid expenses and other   | 100                                 | 81  |
| <b>Total Current Assets</b>  | <b>442</b>                          | <b>1,008</b>                                    |
| Equipment, net   | 96                                  | 106   |
| Investment in land   | 600                                 | 600   |
|  | \$                                  | \$  |
| <b>Total Assets</b>  | <b>1,138</b>                        | <b>1,714</b>                                    |
| <b>LIABILITIES:</b>  |                                     |   |
| <b>CURRENT LIABILITIES</b>   |                                     |   |
|  | \$                                  | \$  |
| Accounts payable and accrued liabilities   | 39                                  | 65  |
| Asset retirement obligation, current portion   |                                     | 152   |
| <b>Total Current Liabilities</b>   | <b>39</b>                           | <b>217</b>                                      |
| Asset retirement obligation, non-current portion                                       | 241                                 | 205   |
| Repurchase option  | 600                                 | 600   |
| <b>Total Liabilities</b>   | <b>880</b>                          | <b>1,022</b>                                    |
| <b>Commitments and Contingencies</b>   |                                     |   |
| <b>SHAREHOLDERS' EQUITY:</b>   |                                     |   |
| Common shares, no par value - unlimited shares authorized; shares outstanding June 30, | 103,640                             | 103,640   |

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2017 and December 31, 2016 - 52,941,880

|   |           |           |
|---|-----------|-----------|
| Additional paid in capital                        | 23,657    | 23,626    |
| Accumulated deficit                               | (127,039) | (126,574) |
| <b>Total Shareholders' Equity</b>                 | 258       | 692       |
|   | \$        | \$        |
| <b>Total Liabilities and Shareholders' Equity</b> | 1,138     | 1,714     |

See accompanying notes to consolidated interim financial statements



**RARE ELEMENT RESOURCES LTD.**  
**CONSOLIDATED UNAUDITED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
(Expressed in thousands of U.S. dollars, except share and per share amounts)

|  | <b>Three Months Ended June 30,</b> |                   | <b>Six Months Ended June 30,</b> |                   |
|--|------------------------------------|-------------------|----------------------------------|-------------------|
|  | <b>2017</b>                        | <b>2016</b>       | <b>2017</b>                      | <b>2016</b>       |
| <b>Operating expenses:</b>                                   |                                    |                   |                                  |                   |
| Exploration and evaluation                                   | \$ (2)                             | \$ (35)           | \$ (20)                          | \$ (162)          |
| Corporate administration                                     | (295)                              | (363)             | (573)                            | (2,110)           |
| Asset retirement obligation<br>revision                      | 116                                |                   | 116                              |                   |
| Depreciation   | (5)                                | (10)              | (10)                             | (23)              |
| Total operating expenses                                     | (186)                              | (408)             | (487)                            | (2,295)           |
| <b>Non-operating<br/>income/(expenses):</b>                  |                                    |                   |                                  |                   |
| Interest income  |                                    |                   |                                  | 1                 |
| Gain on currency translation                                 | 21                                 |                   | 22                               | 17                |
| Gain/(loss) on sale of<br>equipment                          |                                    | (26)              |                                  | 7                 |
| Total non-operating<br>income/(expenses)                     | 21                                 | (26)              | 22                               | 25                |
| <b>Net loss</b>  | <b>\$ (165)</b>                    | <b>\$ (434)</b>   | <b>\$ (465)</b>                  | <b>\$ (2,270)</b> |
| <b>LOSS PER SHARE -<br/>BASIC AND DILUTED</b>                | <b>\$ (0.00)</b>                   | <b>\$ (0.01)</b>  | <b>\$ (0.01)</b>                 | <b>\$ (0.04)</b>  |
| <b>WEIGHTED AVERAGE<br/>NUMBER OF<br/>SHARES OUTSTANDING</b> | <b>52,941,880</b>                  | <b>52,941,880</b> | <b>52,941,880</b>                | <b>52,941,880</b> |

See accompanying notes to consolidated interim financial statements



**RARE ELEMENT RESOURCES LTD.**  
**CONSOLIDATED UNAUDITED STATEMENTS OF CASH FLOWS**  
(Expressed in thousands of U.S. dollars)  
**For the six months ended**

|  | <b>2017</b>   | <b>June 30,</b> | <b>2016</b>     |
|--|---------------|-----------------|-----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |               |                 |                 |
| Net loss for the period  | \$ (465)      |                 | \$ (2,270)      |
| <b>Adjustments to reconcile net loss for the period to net cash and cash equivalents used in operating activities:</b> |               |                 |                 |
| Depreciation   | 10            |                 | 23              |
| Gain on sale of equipment  |               |                 | (7)             |
| Asset retirement obligation revision   | (116)         |                 |                 |
| Stock-based compensation   | 31            |                 | 56              |
|  | (540)         |                 | (2,198)         |
| <b>Changes in working capital</b>  |               |                 |                 |
| Prepaid expenses and other   | (19)          |                 | 110             |
| Accounts payable and accrued liabilities   | (26)          |                 | (853)           |
| <b>Net cash and cash equivalents used in operating activities</b>  | <b>(585)</b>  |                 | <b>(2,941)</b>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |               |                 |                 |
| Proceeds from sale of equipment  |               |                 | 89              |
| <b>Net cash and cash equivalents provided by investing activities</b>  |               |                 | <b>89</b>       |
| <b>Decrease in cash and cash equivalents</b>   | <b>(585)</b>  |                 | <b>(2,852)</b>  |
| <b>Cash and cash equivalents - beginning of the period</b>   | <b>927</b>    |                 | <b>3,881</b>    |
| <b>Cash and cash equivalents - end of the period</b>   | <b>\$ 342</b> |                 | <b>\$ 1,029</b> |

See accompanying notes to consolidated interim financial statements



1.

## NATURE OF OPERATIONS

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

Rare Element has historically been focused on advancing the Bear Lodge REE Project and the Sundance Gold Project both located near the town of Sundance in northeast Wyoming. The Bear Lodge REE Project consists of several large disseminated REE deposits and a proposed hydrometallurgical plant to be located near Upton, Wyoming. The Sundance Gold Project contains an inferred mineral resource primarily composed of three main gold targets within the area of the Bear Lodge property. Because of the more recent focus on the REE deposit's potential and volatile economic conditions for gold, no drilling or exploration on the Sundance Gold Project has been conducted since the end of 2011.

The Company previously announced extensive cost cutting measures and the placement of the Bear Lodge REE Project on care-and-maintenance to enable us to move the Bear Lodge REE Project forward when market conditions improve. In the interim, we have been and will be continuing to pursue potential financings and strategic alternatives such as off-take agreements, joint ventures and the potential sale of various assets, including all or part of the Bear Lodge REE Project and/or the Sundance Gold Project. We continue to pursue opportunities to further reduce corporate and administration costs.

More recently, the Company has turned more of its attention to the gold potential of the Bear Lodge property. The area with gold potential is mostly separate from the known rare earth deposits, including the Bull Hill deposit. There may be, however, significant gold occurrences in some of the identified satellite rare earth deposits. Only further exploration will define the extent of overlapping occurrences, if any. The Company is seeking investment and partnership opportunities with parties interested in the Sundance Gold Project.

The financial statements have been prepared on a going concern basis, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred losses since inception and further losses are anticipated in the development of its business, raising substantial doubt about the Company's ability to continue as a going concern for the next 12 months from the filing date of these financial statements. The ability to continue as a going concern is dependent upon the Company obtaining the necessary financing to meet its obligations and pay its liabilities arising from normal business operations when they come due. Management intends to finance operating costs with existing cash on hand, asset sales, strategic alliances and potential issuances of common stock. There can be no assurance that we will be able to raise the necessary financing or complete a strategic transaction on acceptable terms or at all. In order to continue as a going concern and/or preserve shareholder value, we may have to liquidate our assets. If the Company decides to sell part or all of its assets, the sale proceeds may be less than the value at which those assets are carried on our consolidated

financial statements.

2.

## **BASIS OF PRESENTATION**

In accordance with U.S. GAAP for interim financial statements, these consolidated financial statements do not include certain information and note disclosures that are normally included in annual financial statements prepared in conformity with U.S. GAAP. Accordingly, these unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements as of December 31, 2016, which were included in our Annual Report on Form 10-K for the year ended December 31, 2016. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (which are of a normal, recurring nature) necessary to present fairly in all material respects our financial position as of June 30, 2017, and the results of our operations for the three and six months ended June 30, 2017 and 2016 and cash flows for the six months ended June 30, 2017 and 2016 in conformity with U.S. GAAP. Interim results of operations for the three and six months ended June 30, 2017 may not be indicative of results that will be realized for the full year ending December 31, 2017.

## 3.

**EQUIPMENT**

|                      |      | June 30, 2017            |                | December 31, 2016 |                          |                |
|----------------------|------|--------------------------|----------------|-------------------|--------------------------|----------------|
|                      | Cost | Accumulated depreciation | Net book value | Cost              | Accumulated depreciation | Net book value |
|                      | \$   | \$                       | \$             | \$                | \$                       | \$             |
| Computer equipment   | 61   | 61                       | -              | \$ 61             | \$ 61                    | \$             |
| Furniture            | 13   | 13                       | -              | 13                | 13                       |                |
| Geological equipment | 437  | 352                      | 85             | 437               | 344                      | 93             |
| Vehicles             | 87   | 76                       | 11             | 87                | 74                       | 13             |
|                      | \$   | \$                       | \$             |                   |                          |                |
|                      | 598  | 502                      | 96             | \$ 598            | \$ 492                   | \$ 106         |

## 4.

**SHAREHOLDERS EQUITY***Warrants*

Each outstanding warrant is exercisable for one of the Company's common shares and was issued to investors in connection with the registered direct offering of the Company that closed on April 29, 2015. In addition, the Company issued warrants to a placement agent in connection with the offering, under the same terms as those issued to investors. The exercise price and exercise period are outlined below:

|                                      | Investor Warrants | Placement Agent Warrants | Total Warrants | Exercise Price | Expiration Date |
|--------------------------------------|-------------------|--------------------------|----------------|----------------|-----------------|
| Financing<br>April 29, 2015 offering | 2,615,385         | 261,539                  | 2,876,924      | \$0.85         | 4/29/18         |

The value of the warrants issued to the placement agent (non-employee) for its services in connection with the April 29, 2015 offering was recorded as a cost of equity. The Company used a Black-Scholes option pricing model with

inputs including a market price of the Company's stock of \$0.72, an exercise price of \$0.85, a three-year term, volatility of 81.0%, a risk-free rate of 0.91% and no assumed dividends. The value of the warrants issued to the placement agent for its services in connection with the April 29, 2015 offering was estimated at \$91.

5.

## ADDITIONAL PAID-IN CAPITAL

### *Stock-based compensation*

As of June 30, 2017, we have 3,744,900 options outstanding and exercisable that were issued under the 10% Rolling Stock Option Plan ( RSOP ).

The fair value of each employee stock option award is estimated at the grant date using a Black-Scholes option pricing model and the price of our common shares on the date of grant. The significant assumptions used to estimate the fair value of stock options awarded during the six months ended June 30, 2017, using a Black-Scholes option pricing model are as follows:

|                           |         |
|---------------------------|---------|
| Risk-free interest rate   | 0.8%    |
| Expected volatility       | 133.37% |
| Expected dividend yield   | nil     |
| Expected term in years    | 5.0     |
| Estimated forfeiture rate | nil     |

The compensation expense recognized in our consolidated financial statements for the three months ended June 30, 2017 and 2016 for stock option awards was \$11 and \$23, respectively, and \$31 and \$56 for the six months ended June 30, 2017 and 2016, respectively. As of June 30, 2017, all outstanding stock options were vested and all related compensation expense was recognized.



The following table summarizes our stock option activity for each of the six months ended June 30, 2017 and 2016:

|   | 2017                       |  | 2016                       |  |
|---|----------------------------|--|----------------------------|--|
|   | Number of<br>Stock Options | Weighted<br>Average<br>Exercise<br>Price<br>\$ | Number of<br>Stock Options | Weighted<br>Average<br>Exercise<br>Price<br>\$ |
| Outstanding, beginning of period  | 3,694,900                  | 0.94   | 4,578,700                  | 3.99   |
| Granted   | 150,000                    | 0.15   |                            |  |
| Cancelled/Expired   | (100,000)                  | 0.04   | (1,291,300)                | 7.89   |
|   |                            | \$   |                            | \$   |
| Outstanding, end of period  | 3,744,900                  | 0.93   | 3,287,400                  | 2.70   |
|   |                            | \$   |                            | \$   |
| Exercisable, end of period  | 3,744,900                  | 0.93   | 3,023,200                  | 2.89   |
| Weighted-average fair value per share<br>of options granted during period | \$ 0.15                    |  | n/a                        |  |

## 6.

### COMMITMENTS AND CONTINGENCIES

Our commitments and contingencies include the following item:

#### *Potential environmental contingency*

Our mining and exploration activities are subject to various federal and state laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive over time. 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. We have made, and expect 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.

7.

**ASSET RETIREMENT OBLIGATION REVISION**

During the three and six months ended June 30, 2017, we reduced our asset retirement obligation by \$116 based on a revision of our previous estimate. The Wyoming Department of Environmental Quality concurred that the completed reclamation work was in compliance with its standards and the estimated amount for the remainder of the reclamation activities was \$241.

As we do not expect to incur any asset retirement obligation activities which would further reduce our obligation during the next 12 months, we have reclassified the current portion of our asset retirement obligation to long-term.

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

The following management's discussion and analysis of the consolidated financial results and condition of Rare Element Resources Ltd. (collectively, we, us, our, Rare Element or the Company) for the three and six months ended June 30, 2017, has been prepared based on information available to us as of August 4, 2017. This discussion should be read in conjunction with the unaudited Consolidated Financial Statements for the three and six months ended June 30, 2017 and notes thereto included herewith and the audited Consolidated Financial Statements of Rare Element for the year ended December 31, 2016, and the related notes thereto filed with our Annual Report on Form 10-K, which have been prepared in accordance with U.S. GAAP. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. 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 elsewhere in this report. See Cautionary Note Regarding Forward-Looking Statements.

*All currency amounts are expressed in thousands of U.S. dollars, unless otherwise noted.*

### **Introduction**

Although the Company is currently in care-and-maintenance pending further financing, we have historically been focused on advancing to production the Bear Lodge REE Project and maximizing the value of the Sundance Gold Project.

### **Outlook**

We have limited cash resources on hand, have reduced staff to one executive employee and have implemented measures to conserve our remaining cash. The Company has narrowed the focus of its activities to only the very highest priority items that we believe have the greatest potential to preserve the value of the Projects and shareholder value, including seeking capital and actively pursuing potential strategic alternatives, such as off-take agreements, joint ventures, and the potential sale of various assets and/or part or all of the Projects. The Company will additionally continue with certain limited reclamation activities in 2017 as required and appropriate.

### **Results of Operations**

**Summary**

Our consolidated net loss for the three months ended June 30, 2017 was \$165, or nil per share, as compared with our consolidated net loss of \$434, or \$0.01 per share, for the same period in 2016. Our consolidated net loss for the six months ended June 30, 2017 was \$465, or \$0.01 per share, as compared with our consolidated net loss of \$2,270, or \$0.04 per share, for the same period in 2016.

For the three months ended June 30, 2017, the decrease in consolidated net loss of \$269 from the prior period was primarily the result of a decrease in exploration and evaluation expenses of \$33 and a decrease in corporate administration expenses of \$68.

For the six months ended June 30, 2017, the decrease in consolidated net loss of \$1,805 from the prior period was primarily the result of a decrease in exploration and evaluation expenses of \$142 and a decrease in corporate administration expenses of \$1,537.

**Exploration and evaluation**

Exploration and evaluation costs were \$2 and \$20 for the three and six months ended June 30, 2017, respectively, as compared with \$35 and \$162 for the three and six months ended June 30, 2016, respectively. The variance from the prior period was the result of decreased activities on the Bear Lodge REE Project as we suspended the majority of permitting activities while continuing the work necessary to maintain our permits.

**Corporate administration**

Corporate administration costs were \$295 and \$573 for the three and six months ended June 30, 2017, as compared with \$363 and \$2,110 for the three and six months ended June 30, 2016. During the six months ended June 30, 2016, corporate administration costs included one-time expenses of \$950 incurred in placing the Bear Lodge REE Project on care-and-



maintenance and severing all but one of our full-time employees. We continue to seek opportunities to further reduce corporate overhead and administration costs.

#### **Asset retirement obligation revision**

During the three and six months ended June 30, 2017, we reduced our asset retirement obligation by \$116 based on a revision of our previous estimate. The Wyoming Department of Environmental Quality concurred that the completed reclamation work was in compliance with its standards and the estimated amount for the remainder of the reclamation activities was \$241. There were no such reductions during the three and six months ended June 30, 2016.

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

#### **Operating Activities**

Net cash used in operating activities was \$585 for the six months ended June 30, 2017, as compared with \$2,941 for the same period in 2016. The decrease of \$2,356 in cash used is primarily the result of decreased spending on exploration and evaluation activities and corporate administration expenses, partially offset by timing in vendor payments affecting accounts payable.

#### **Investing Activities**

Net cash provided by investing activities was nil for the six months ended June 30, 2017, as compared with \$89 for the six months ended June 30, 2016. The cash received in the 2016 period was related to the sale of small equipment and office furniture.

### **Liquidity and Capital Resources**

At June 30, 2017, our total current assets were \$442, as compared with \$1,008 as of December 31, 2016, which is a decrease of \$566. The decrease in total current assets is primarily due to a decrease in the combination of cash and

cash equivalents in the amount of \$585 due to funding operations, including an increase in prepaid expenses. Our working capital as at June 30, 2017 was \$403, as compared with \$791 at December 31, 2016. The decrease in working capital is primarily due to funding our operations partially offset by the non-cash asset retirement obligation revision, discussed above.

We have placed the Bear Lodge REE Project under care-and-maintenance, and all permitting activities have been suspended. Additionally, corporate cost containment measures have been implemented to preserve remaining cash balances as we pursue additional financings, asset sales and/or strategic alternatives, including joint ventures and the potential sale of all, or a portion of, the Bear Lodge REE Project and/or the Sundance Gold Project. We continue to seek further opportunities to reduce corporate overhead and administration costs.

We do not have sufficient funds to complete feasibility studies, permitting, development and construction of the Bear Lodge REE Project. Therefore, our continuation as a going concern is dependent upon our completion of a future financing, off-take agreement, joint venture, strategic transaction, or sale of various assets and/or one or both of the Projects. There is no assurance, however, that we will be successful in completing such a financing or strategic transaction. As a result, there is substantial doubt as to whether our existing cash resources and working capital are sufficient to enable us to continue our operations for the next 12 months, after the filing date of this Quarterly Report, as a going concern.

The accompanying financial statements have been prepared assuming that we will continue as a going concern. Our financial statements do not include any adjustments, however, that may result from the outcome of this uncertainty to be able to continue as a going concern. We do not have sufficient cash to fund planned operations and meet obligations for the next 12 months without securing additional funds.

If we are unable to continue as a going concern or in order to preserve shareholder value, we may have to liquidate our assets, the proceeds from which may be less than the value at which those assets are carried on our consolidated financial statements.

### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

## Contractual Obligations

During the six months ended June 30, 2017, there were no material changes to the contractual obligations disclosed in Item 7 of Part II in our December 31, 2016 Form 10-K.

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

**Market risk.** Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Our market risk is comprised of commodity price risk.

**Commodity price risk.** We are indirectly exposed to commodity price risk of rare earth products and gold, which are, in turn, influenced by the price of and demand for the end products produced with rare earth and gold mineral resources. A significant decrease in the global demand for these products may have a material adverse effect on our business. None of our mineral properties are in production, and we do not currently hold any commodity derivative positions.

## ITEM 4. CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation was carried out under the supervision of, and with the participation of the Chief Executive Officer ( CEO ) and Principal Financial Officer ( PFO ), of the effectiveness of the design and operations of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act )). Based on that evaluation, the CEO and the PFO have concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective in ensuring that (i) information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our CEO and PFO, as appropriate to allow timely decisions regarding required disclosure.

### Changes in Internal Controls



There has been no change in our internal control over financial reporting during the quarter ended June 30, 2017, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

We are not aware of any material pending or threatened litigation or of any proceedings known to be contemplated by governmental authorities that are, or would be, likely to have a material adverse effect upon us or our operations, taken as a whole.

### **ITEM 1A. RISK FACTORS**

During the three months ended June 30, 2017, there were no material changes to the risk factors disclosed in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2016 or in Item 1A of Part II of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. MINE SAFETY DISCLOSURES**

We consider health, safety and environmental stewardship to be a core value for Rare Element.



Pursuant to Section 1503(a) of the 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 under the regulation of the Federal Mine Safety and Health Administration (MSHA) under the Federal Mine Safety and Health Act of 1977 (the Mine Act). During the period ended June 30, 2017, the Company was not subject to regulation by MSHA under the Mine Act.

## ITEM 5. OTHER INFORMATION

None.

## ITEM 6. EXHIBITS

| Exhibit       | <u>Description of Exhibits</u>  |
|---------------|---|
| <u>Number</u> |   |
| 10.1+*        | <u>Fifth Amendment to Severance Compensation Agreement with Randall J. Scott, dated as of June 7, 2017</u>  |
| 31.1+         | <u>Certification of Chief Executive Officer pursuant to Rule 13a-14 promulgated under the Securities and Exchange Act of 1934, as amended</u>     |
| 31.2+         | <u>Certification of Principal Financial Officer pursuant to Rule 13a-14 promulgated under the Securities and Exchange Act of 1934, as amended</u> |
| 32.1+         | <u>Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>   |
| 32.2+         | <u>Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>                                     |
| 101.INS+      | XBRL Instance Document  |
| 101.SCH+      | XBRL Taxonomy Extension Schema Document   |
| 101.CAL+      | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF+      | XBRL Taxonomy Extension Definition Linkbase Document  |
| 101.LAB+      | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE+      | XBRL Taxonomy Extension Presentation Linkbase Document  |

+

Filed herewith.

\*

Indicates a management contract or compensatory plan or arrangement.

## SIGNATURES

Pursuant to the requirements 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/ Randall J. Scott*  
**Randall J. Scott**  
President, Chief Executive Officer and  
Director  
(Principal Executive Officer)

Date: August 4, 2017

By: */s/ Adria Hutchison*  
**Adria Hutchison**  
Principal Financial Officer

Date: August 4, 2017