RARE ELEMENT RESOURCES LTD
Form 10-KT
March 18, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

OR

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

For the transition period from July 1, 2012 to December 31, 2012

Commission file number: 001-34852

RARE ELEMENT RESOURCES LTD.

(Exact Name of Registrant as Specified in our Charter)

British Columbia	**N/A**
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
225 Union Blvd., Suite 250 **Lakewood, Colorado**	**80228**
(Address of Principal Executive Offices)	(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 MKT**

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 o Nox

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 o Nox

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 xNo o

Indicate by check mark whether the Registrant has submitted electronically and posted on our 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 xNo o

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. o

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 o Accelerated Filer x Non-Accelerated Filer o Smaller Reporting Company o

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

As of June 30, 2012, the aggregate market value of the registrant s voting common shares held by non-affiliates of the registrant was $215,234,222 based upon the closing sale price of the common shares as reported by the NYSE MKT.

The number of shares of the Registrant s Common Stock outstanding as of March 15, 2013 was 44,949,869

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 2013 Annual General Meeting of Shareholders are incorporated by reference to Part III of this Transition Report on Form 10-K.

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PRELIMINARY NOTES

As used in this Transition Report on Form 10-K (Transition Report), references to Rare Element , the Company, w our, or us mean Rare Element Resources Ltd., our predecessors and consolidated subsidiaries, or any one or more of them, as the context requires. Rare Element is focused on advancing its Bear Lodge rare earth element project (the Bear Lodge REE Project) which is located on the Bear Lodge Property, along with the Company s Sundance Gold Project, and is near the town of Sundance in the state of Wyoming (See Part I. Item 1. Description of Business).

Change in Fiscal Year End

On September 7, 2012, the Company s board of directors approved a change in our fiscal year end from June 30 to December 31, with the change to the calendar year reporting cycle beginning January 1, 2013. Consequently, we are filing this Transition Report on Form 10-K for the six-month transition period ended December 31, 2012. The intent of the change was to align the reporting of our financial results more closely with our peers. References in this report to fiscal 2012, fiscal 2011 and fiscal 2010 indicate the twelve month periods ended June 30, 2012, 2011 and 2010, respectively.

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 began preparing and filing our Annual Reports on Form 10-K beginning with the fiscal year ended June 30, 2011. Prior to June 30, 2011, our Annual Reports were filed on Form 20-F.

Currency

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

In this Transition Report, unless otherwise specified, all dollar amounts are expressed in thousands of United States Dollars ($ or US$). If necessary, we may disclose certain information in Canadian Dollars (CDN$).

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Transition Report contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended, and within the meaning of applicable Canadian securities law, with respect to our business prospects, plans, objectives, goals, strategies, future events, capital expenditures and exploration and development efforts. Words such as, but not limited to, anticipates, expects, intends, forecasts, plans, believes, seeks, estimates, may, will, and similar expressions (i and grammatical variations) tend to identify 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 Transition Report.

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 o stating that certain actions, events or results may , could , would , might or will be taken, occur or be achieved) statements of historical fact and may be forward-looking statements. Forward-looking statements in this Transition Report, include, but are not limited to:

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The progress, potential and uncertainties of our 2013 rare-earth drill program and metallurgical testing at the Bear Lodge REE Project;

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Our ability to obtain the necessary permits for the drill programs, future project development and for mining and processing operations;

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Expectations regarding the ability to raise capital and to continue exploration and development plans at our Bear Lodge REE Project;

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Plans outlined under the section heading Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations - Outlook ; and

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Expectations as to the marketability and prices of our produced product.

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:

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risks related to our history of losses and need for additional financing;

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risks associated with our lack of history of producing metals from our mineral properties;

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risks associated with numerous uncertainties that could affect the profitability or feasibility of the Bear Lodge Property;

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risks associated with the exploration, development, permitting and operations of our Bear Lodge Property;

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risks associated with increased costs affecting our financial condition;

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risks associated with fluctuations in demand for, and price of, rare earth products;

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risks associated with an extremely volatile rare earth industry;

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risks associated with an increase in global supply or predatory pricing and dumping by our competitors, including China;

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risks associated with the establishment of new uses and markets of rare earth products;

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risks associated with a shortage of equipment and supplies;

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risks associated with mining and resource exploration being an inherently dangerous activity;

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risks associated with operating in the resource industry, which is highly speculative;

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risks associated with resource estimates;

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risks associated with our lack of insurance for our operations;

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risks associated with mineral operations being subject to market forces outside of our control;

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risks associated with the permitting, licensing and approval processes for our operations;

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risks associated with the governmental and environmental regulations;

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risks associated with future legislation regarding the mining industry and climate change;

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risks associated with our land reclamation requirements;

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risks related to proposed legislation;

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risks related to competition in the mining and rare earth elements industries;

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risks related to foreign currency fluctuations;

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risks related to our dependence on key personnel;

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risks related to the potential difficulty of attracting and retaining qualified personnel;

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risks related to our executive officers and directors being engaged in other businesses;

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risks related to title in our properties;

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risks related to enforcement of civil liabilities in the United States;

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risks related to our securities; and

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risks associated with tax consequences to U.S. shareholders.

This list is not exhaustive of the factors that may affect our 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 Transition Report. 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 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 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 Transition Report by the foregoing cautionary statements.**

GLOSSARY OF TERMS

Conversion Factors and Abbreviations

All units in this Transition Report are stated in metric measurements unless otherwise noted. For ease of reference, the following conversion factors are provided:

To Convert Imperial Measurement Units	To Metric Measurement Units	Multiply by
Acres	Hectares	0.4047
Feet	Meters	0.3048
Miles	Kilometers	1.6093
Tons (short)	Tonnes	0.9071
Gallons	Liters	3.7850
Ounces (troy)	Grams	31.103
Ounces (troy) per ton (short)	Grams per tonne	34.286

We report our mineralized material under two separate standards to meet the requirements for reporting in both Canada and the United States. Canadian reporting requirements for disclosure of mineral properties are governed by National Instrument 43-101 (NI 43-101). The definitions in NI 43-101 are adopted from those given by the Canadian Institute of Mining, Metallurgy and Petroleum (CIM). United States reporting requirements for disclosure of mineral properties are governed by the Securities and Exchange Commission (SEC) Industry Guide 7. These reporting standards have similar goals in terms of conveying an appropriate level of confidence in the disclosures being reported, but embody differing approaches and definitions.

We estimate and report our mineralized material according to the definitions set forth in NI 43-101 and modify them as appropriate to conform to SEC Industry Guide 7 for reporting in the United States. The definitions for each reporting standard are presented below with supplementary explanation and descriptions of the similarities and differences.

NI-43-101 Definitions

Mineral Reserve	The term Mineral Reserve refers to the economically mineable part of a Measured or Indicated Mineral Resource demonstrated by at least a preliminary feasibility study. The study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A Mineral Reserve includes diluting materials and allowances for losses that may occur when the material is mined.
Proven Mineral Reserve	The term Proven Mineral Reserve refers to the economically mineable part of a Measured Mineral Resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified.
Probable Mineral Reserve	The term Probable Mineral Reserve refers to the economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified.

Mineral Resource	The term Mineral Resource refers to a concentration or occurrence of diamonds, natural solid inorganic material, or natural solid fossilized organic material including base and precious metals, coal, rare earth elements and industrial minerals in or on the earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge.
Measured Mineral Resource	The term Measured Mineral Resource refers to that part of a Mineral Resource for which quantity, grade or quality, densities, shape and physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters, to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.
Indicated Mineral Resource	The term Indicated Mineral Resource refers to that part of a Mineral Resource for which quantity, grade or quality, densities, shape and physical characteristics can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.
Inferred Mineral Resource	The term Inferred Mineral Resource refers to that part of a Mineral Resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.
Qualified Person [(1)]	The term Qualified Person refers to an individual who is an engineer or geoscientist with at least five years of experience in mineral exploration, mine development or operation or mineral project assessment, or any combination of these, has experience relevant to the subject matter of the mineral project and the technical report and is a member in good standing of a professional association.

SEC Industry Guide 7 Definitions

Reserve	The term Reserve refers to that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Reserves must be supported by a feasibility study [(2)] done to bankable standards that demonstrates the economic extraction. (bankable standards implies that the confidence attached to the costs and achievements developed in the study is sufficient for the project to be eligible for external debt financing.) A reserve includes adjustments to the in-situ tonnes and grade to include diluting materials and allowances for losses that might occur when the material is mined.

Proven Reserve	The term Proven Reserve refers to reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well-defined that size, shape depth and mineral content of reserves are well-established.
Probable Reserve	The term Probable Reserve refers to reserves for which quantity and grade and/or quality are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling, and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation.
Mineralized Material (3)	The term Mineralized Material refers to material that is not included in the reserve as it does not meet all of the criteria for adequate demonstration for economic or legal extraction.
Non-Reserves	The term Non-Reserves refers to mineralized material that is not included in the reserve as it does not meet all of the criteria for adequate demonstration for economic or legal extraction.
Exploration Stage	An Exploration Stage prospect is one which is not in either the development or production stage.
Development Stage	A Development Stage project is one which is undergoing preparation of an established commercially mineable deposit for ore extraction but which is not yet in production. This stage occurs after completion of a feasibility study.
Production Stage	A Production Stage project is actively engaged in the process of extraction and beneficiation of Mineral Reserves to produce a marketable metal or mineral product.

(1) Industry Guide 7 does not require designation of Qualified Person.

(2) For Industry Guide 7 purposes, the feasibility study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified.

(3) This category is substantially equivalent to the combined categories of Measured Mineral Resource and Indicated Mineral Resource specified in NI 43-101.

Additional Definitions

assay- a measure of the valuable mineral content

bastnasite - a mixed-lanthanide fluoro-carbonate mineral (Ln F CO3) that currently provides the bulk of the world's supply of the light REEs. Bastnasite and monazite are the two most common sources of cerium and other REEs. Bastnasite is found in carbonatites, igneous carbonate rocks that melt at unusually low temperatures

cerium (Ce) a soft, silvery, ductile metal which easily oxidizes in air. Cerium is the most abundant of the REEs, and is found in a number of minerals, including monazite and bastnasite. Cerium has two relatively stable oxidation states, enabling both the storage of oxygen and its widespread use in catalytic converters. Cerium is also widely used in glass polish

concentrate - a mineral processing product that generally describes the material that is produced after crushing and grinding ore, effecting significant separation of gangue (waste) minerals from the desired metal and/or metal minerals, and discarding the waste minerals. The resulting "concentrate" of minerals typically has an order of magnitude higher content of minerals than the beginning ore material

critical rare earth elements (CREE) the company considers CREEs to include Y and the rare earth elements of Nd, Pr, Eu, Tb and Dy which are of the projected to have the greatest future demand, price growth and supply risk

cut-off grade- when determining economically viable Mineral Reserves, the lowest grade of mineralized material that qualifies as ore, i.e. that can be mined and processed at a profit

definitive feasibility study (DFS) - a comprehensive study of a mineral deposit in which all geological, engineering, legal, operating, economic, social, environmental and other relevant factors are considered in sufficient detail that it could reasonably serve as the basis for a final decision by a financial institution to finance the development of the deposit for mineral production

dysprosium (Dy) - a soft metallic element of the lanthanide series. Dy has a high melting point and absorbs neutrons well and is therefore used to help control nuclear reactions and is also used in laser materials and as a neutron absorber in nuclear control rods

europium (Eu) - a very rare metallic element that is the softest member of the lanthanide series. It is used in making color television tubes and lasers and as a neutron absorber in nuclear research. It is desirable due to its photon emission. Excitation of the europium atom, by absorption of electrons or by UV radiation, results in changes in energy levels that create a visible emission. Almost all practical uses of europium utilize this luminescent behavior

fault- a surface or zone of rock fracture along which there has been displacement

formation- a distinct layer of sedimentary rock of similar composition

gadolinium (Gd) - a malleable, ductile metallic element of the lanthanide series that has seven natural isotopes and 11 artificial isotopes. Two of the natural isotopes, Gd 155 and Gd 157, are the best known neutron absorbers. Gd is used to improve the heat and corrosion resistance of iron, chromium, and various alloys and in medicine as a contrast medium for magnetic resonance imaging and as a radioisotope in bone mineral analysis

geochemical- the distribution and amounts of the chemical elements in minerals, ores, rocks, solids, water, and the atmosphere

geophysical- the mechanical, electrical, gravitational and magnetic properties of the earth's crust

geophysical surveys- a survey method used primarily in the mining industry as an exploration tool, applying the methods of physics and engineering to the earth's surface

grade- quantity of metal per unit weight of host rock

heavy rare earth elements (HREEs) defined as the elements Tb, Dy, Ho, Er, Tm, Yb, Lu and Y

host rock- the rock in which a mineral or an ore body may be contained

lanthanum (La) - the first member of the Lanthanide series. Lanthanum is a strategically important rare earth element due to its use in fluid bed cracking catalysts, FCCs, which are used in the production of transportation and aircraft fuel. Lanthanum is also used in fuel cells and batteries

life-of-mine- a term commonly used to refer to the likely term of a mining operation and normally determined by dividing the tonnes of Mineral Reserve by the annual rate of mining and processing

mineral- a naturally occurring inorganic crystalline material having a definite chemical composition

mineralization- a natural accumulation or concentration in rocks or soil of one or more potentially economic minerals, also the process by which minerals are introduced or concentrated in a rock

monazite - a reddish-brown phosphate mineral. Monazite minerals are typically accompanied by concentrations of uranium and thorium. This has historically limited the processing of monazite, however this mineral is becoming more attractive because it typically has elevated concentrations of mid-to heavy rare earth elements

National Instrument 43-101 (NI 43-101)- standards of disclosure for mineral projects prescribed by the Canadian Securities Administrators

neodymium (Nd) - a metallic element of the lanthanide series, occurring principally in monazite. Nd is a key constituent of NdFeB permanent magnets and an additive to capacitor dielectrics. NdFeB magnets maximize the power/weight ratio, and are found in a large variety of motors, generators, sensors and hard disk drives. Capacitors containing Nd are found in cellular telephones, computers and nearly all other electronic devices. A minor application of Nd is in lasers

open pit- surface mining in which the ore is extracted from a pit or quarry, the geometry of the pit may vary with the characteristics of the ore body

ore- mineral bearing rock that can be mined and treated profitably under current or immediately foreseeable economic conditions

ore body- a mostly solid and fairly continuous mass of mineralization estimated to be economically mineable

ore grade- the average weight of the valuable metal or mineral contained in a specific weight of ore, i.e. grams per tonne of ore

oxide- rare earth bearing ore which results from the oxidation of near surface sulfide ore

preliminary economic assessment (PEA) - a study that includes an economic analysis of the potential viability of Mineral Resources taken at an early stage of the project prior to the completion of a preliminary feasibility study

praseodymium (Pr) - comprises about 4% of the lanthanide content of bastnasite and has a few specific applications, based mainly on its optical properties. It is a common coloring pigment, and is used in photographic filters, airport signal lenses, and welder's glasses. Because it chemically and magnetically is so similar to its neighbors neodymium and lanthanum, it is typically found in small amounts in applications where neodymium and lanthanum are popular, such as NdFeB magnets and catalysts. These latter applications are actually the largest uses for praseodymium because the magnet and catalyst markets are so large. Thus praseodymium plays an important role, in extending the availability of the more popular neodymium and lanthanum

preliminary feasibility study or **pre-feasibility study (PFS)**- each mean a comprehensive study of the viability of a mineral project that has advanced to a stage where the mining method, in the case of underground mining, or the pit configuration in the case of an open pit, has been established and an effective method of mineral processing has been determined, and includes a financial analysis based on reasonable assumptions of technical, engineering, legal, operating, economic, social, and environmental factors and the evaluation of other relevant factors which are sufficient for a qualified person, acting reasonably, to determine if all or part of the Mineral Resource may be classified as a Mineral Reserve

rare earth element (REE) a group of metallic elements with unique properties: chemical, catalytic, magnetic, metallurgical and phosphorescent

rare earth oxide (REO) the oxide form of rare earth elements

RC (reverse circulation) drilling- a drilling method using a tri-cone bit, during which rock cuttings are pushed from the bottom of the drill hole to the surface through an outer tube, by liquid and/or air pressure moving through an inner tube

recovery - the percentage of contained metal actually extracted from ore in the course of processing such ore

samarium (Sm) - predominantly used to produce Sm cobalt magnets. Although these magnets are slightly less powerful than NdFeB magnets at room temperature, Sm cobalt magnets can be used over a wider range of temperatures and are less susceptible to corrosion

sampling and analytical variance/precision- an estimate of the total error induced by sampling, sample preparation and analysis

strike- the direction or trend that a structural surface, e.g. a bedding or fault plane, takes as it intersects the horizontal

strip- to remove overburden in order to expose ore

sulfide- a mineral including sulfur and iron as well as other elements; metallic sulfur-bearing mineral often associated with REE mineralization

tailings- fine ground wet waste material produced from ore after economically recoverable metals or minerals have been extracted

total rare earth oxide (TREO) refers to the sum total of REEs present in a deposit

vein- a thin, sheet-like crosscutting body of hydrothermal mineralization, principally quartz

PART I

ITEM 1. DESCRIPTION OF BUSINESS

CORPORATE BACKGROUND

Rare Element was incorporated under the laws of the Province of British Columbia, Canada, on June 3, 1999 as Spartacus Capital Inc., which underwent a name change to Rare Element Resources Ltd. on July 25, 2003. 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 maintain a corporate website at www.rareelementresources.com.

Originally organized as a venture capital pool company whose activities were focused on the identification and completion of a qualifying transaction as required by the rules of the TSX Venture Exchange (TSX-V), we transitioned to a venture company on July 25, 2003, coincident with the completion of a reverse takeover (RTO) acquisition of Rare Element Holdings Ltd. (the qualifying transaction) 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., a Wyoming corporation, is the 100% interest in a group of unpatented mining claims and one leased state section, together known as the Bear Lodge Property.

Effective October 8, 1999, we completed our initial public offering of 1,500,000 common shares at CDN$0.20 per share, raising CDN$300,000. The common shares began trading on the TSX-V in Canada on November 15, 1999 under the symbol SCI. On December 20, 2004, our authorized share capital was changed from 100,000,000 common shares to an unlimited number of common shares without par value. Our common shares began trading on the NYSE MKT on August 18, 2010 under the symbol REE. On May 27, 2011, we graduated from a listing on the TSX-V to the Toronto Stock Exchange (TSX) and trade there under the symbol RES. As of December 31, 2012, there were 44,949,869 common shares issued and outstanding.

SUBSIDIARIES

We have one wholly-owned subsidiary, incorporated under the laws of British Columbia, Canada, on July 12, 1996 under the name Rare Element Holdings Ltd. That subsidiary has one wholly-owned subsidiary, Rare Element Resources, Inc., incorporated on August 21, 1997 in the state of Wyoming, USA.

DESCRIPTION OF BUSINESS

Rare Element is focused on advancing the Bear Lodge REE Project located near the town of Sundance in northeastern Wyoming on the Bear Lodge Property. The Bear Lodge REE Project contains a large disseminated REE deposit which is the second highest grade known REE deposit in North America and one of the highest grade known Eu deposits in the world. In addition, the Bear Lodge REE Project has an encouraging distribution of the remaining CREEs. At present, we are undertaking advanced engineering and technical studies while working towards obtaining the necessary permits that will enable us to develop the Bear Lodge REE Project with the intent of commencing commercial production in 2016.

In addition, the Bear Lodge REE Project has excellent mining infrastructure including good road structure. A reliable source of power is located 64 kilometers from the nearest railhead and has the required production supplies and materials readily available. In addition, skilled labor exists due to the surrounding coal mines, and the Bear Lodge REE Project has favorable community acceptance in one of the top ranked mining jurisdictions, recently ranked by the Fraser Institute and Behre Dolbear.

Further description of the Bear Lodge REE Project and the Bear Lodge Property is included under the section heading Item 2. Properties in this Transition Report.

RECENT CORPORATE DEVELOPMENTS

Accomplishments in 2012

During 2012, additional drilling was completed at the Bear Lodge REE Project which expanded the HREE-enrichment zones. These HREE-enrichment zones support the full district mix of those elements considered CREEs. The Company completed a PFS, continued significant mineral resource and process studies and made advances in optimization of the REE concentration process. The PFS showed a pre-tax net present value of $1.3 billion for the portion of the project as delineated in early 2012 which was based on the three-year average prices from 2009 to 2011. That resource was expanded and upgraded with additional drilling during 2012, with the updated results expected in the second quarter of 2013. The geological team expanded the areas on the property that are enriched in HREEs. Metallurgical testing was conducted on samples to support a future DFS.

Plans for 2013

We plan to continue to advance the Bear Lodge REE Project during 2013, including the following:

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Complete a land exchange with the Wyoming State Lands Office for the acquisition of facility property adjacent to the Bull Hill Mine.

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Additional resource definition drilling to expand and upgrade the Mineral Reserve and Mineral Resources at the Whitetail Ridge deposit.

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Exploration drilling at the Bull Hill West, Carbon REE, Taylor REE, and other prospective REE and HREE targets identified during the 2012 exploration programs.

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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.

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Collection of supplemental bulk sample mineralized material for research and development activities focused on optimization of the project flowsheet.

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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.

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Conduct DFS level pilot plant program.

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Perform market testing from product produced by the pilot plant.

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Commencement of a Definitive Feasibility Study mid-year 2013.

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Continue with the formal National Environmental Policy Act EIS process in 2013.

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Submit the mine permit application to the Land Quality Division of the Wyoming Department of Environmental Quality in the 4th quarter of fiscal 2013.

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Submit permit application to the United States Nuclear Regulatory Commission for a source materials license.

TRENDS AND DESCRIPTION OF THE REE MARKET

Uses for REE products

REEs are used in hybrid-electric-vehicles and all-electric vehicles, many of which contain REE-bearing nickel-metal-hydride batteries and REE super magnets within electrical motors and generators; REEs 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. Prices of REEs are affected by the supply and demand fundamentals of the market.

Trends affecting supplies of REE products

REE supply markets continue to be dominated by production from China, which produced an estimated 90% of the global REE production in 2012. For the past eight years and most recently in the summer of 2010, China has reduced its exports of REEs by 40 percent and increased related export taxes, which has significantly increased REE prices beginning in 2010 and then falling significantly during 2012. Global supply is expected to be approximately in balance in 2012 and 2013 due to steady Chinese exports of about 30,000 tonnes per year and supply additions from new mines outside of China ramping up production during 2013. Chinese production is expected to increase at a rate of five percent per year from 2013 to 2015 to approximately match their expected demand increases during the same period.

As a result of increased investment in the REE industry outside of China, there are several new and refurbished REE projects about to begin producing REE products. New production has begun to ramp up beginning in 2013 and is expected continue through 2014. This new production may have a negative impact on the pricing of some REE products, especially the LREEs of La and Ce. According to the Industrial Minerals Company of Australia (IMCOA) report dated November 2012 (the IMCOA Report), REE total supply is forecasted to increase from 110,000 tonnes in

2012 to 180,000 tonnes in 2016.

Trends affecting demand of REE products

The global economy plays a key role in the continuation and pace of increased demand. If the global economy experiences a prolonged period of slow growth, then the expected increase in REE product demand may not increase at the pace expected. Based on the IMCOA Report, REE total demand is forecasted to increase from 115,000 tonnes in 2012 to 162,500 tonnes in 2016.

Since REEs are used for many new technologies, it is forecasted that the demand for REE will increase at a rate of eight to 10 percent per year for the next five to 10 years and possibly longer. REE magnet demand using Nd, Pr, Dy, Sm and Tb is expected to increase annually at a rate of 10% to 15%.

Trends affecting prices of REE products

The prices of REEs are quoted in different forms, including REE carbonate concentrates that contain approximately 42 percent to 45 percent TREOs, which can be marketed and sold in such form. Although there is a market for REE carbonate concentrates the marketability of those concentrates depends on the types of impurities left in the concentrates. These REE concentrates are more commonly separated into individual REE oxides or groups of similar REE oxides that can be sold or can be tolled for further refinement.

According to www.metal-pages.com (Metal Pages), the prices of REEs increased approximately 2,000 to 3,000 percent, depending on the element, from July 2010 to August 2011, and then prices began decreasing through the end of 2011 and continued to decrease through 2012. REE prices have remained flat during the first few months of 2013 due primarily to the Chinese holiday and reluctance from the Chinese to sell at lower prices. La and Ce decreased from highs exceeding $150 per kilogram in mid-2011 to less than about $10 per kilogram for 99.9% oxide

currently.

Supply and demand factors for REE products that could positively impact REE prices:

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the use of Nd, Pr, Tb and Dy 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;

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the use of La and Ce for NiMH batteries that are utilized in hybrid and electric vehicles;

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the use of Eu, Tb and Y in the production of compact fluorescent light bulbs;

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the use of high-strength NdFeB magnets in the miniaturization of electronic products;

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the use of La in fluid cracking catalysts by refineries processing lower quality crude oil that consumes greater quantities of the catalysts;

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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;

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China is consolidating its REE industry and closing small, inefficient and polluting REE producers;

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the stockpiling of certain REE products and increases in export taxes by China;

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the use of Ce in glass, ceramics, glass polishing, and advanced water filtration applications; and

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continued research and commercialization of new applications for REE products.

Supply and demand factors for REE products that could negatively impact REE prices:

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the potential for oversupply of certain REEs due to new production or increased exports by China;

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the potential substitution of other materials for high priced REEs;

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the potential for recycling high priced REEs;

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static or lower global growth reducing demand for REEs; and

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potential by-product REE production may increase supply irrespective of normal economic analysis of production costs.

The feasibility of the Bear Lodge REE Project and our ability to raise additional funds in order to complete our plans to develop the project may be impacted by future prices of REEs. The marketability of our common shares and our ability to raise other sources of financing will be dependent on the prices of REEs. If the global demand for REEs decreases, it could adversely impact our ability to obtain financing at reasonable terms in order to fund the exploration and future development of our mineral property.

SEASONALITY

Seasonality in the state of Wyoming is not a material factor to our operations for the Bear Lodge Property. Snowfall in the winter can limit our access to the Bear Lodge Property and our ability to drill from approximately November through June, but it is not a material issue for us at this time.

COMPETITION

The industry in which we operate 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 involving companies having substantially greater financial resources, staff and facilities than we do. As a result, we may have difficulty acquiring attractive exploration properties and exploring and developing the Bear Lodge Property.

We also compete with other mining and exploration companies in our efforts to hire and retain 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. As a result, we may have difficulty attracting or retaining key personnel or outside technical resources.

China accounts for approximately 90% of REE production. While REE projects exist outside of China, actual production is currently insignificant. Further, even though several large mines outside of China are expected to be in production soon, 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, the Company may not be able to compete effectively against current and future competitors.

ENVIRONMENTAL REGULATION

Our exploration activities are subject to extensive and costly environmental laws and regulations under various federal, state, county 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 we hold interests which are unknown to us at present and which have been caused by previous owners 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 our ability to continue operations or undertake new operations.

Our Bear Lodge Property in Wyoming is 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. We operate under permits granted by these two agencies and have established surety bonds to ensure environmental reclamation of areas disturbed. As of December 31, 2012, the Company had surety bonds totaling $430,000.

MINERALS EXPLORATION REGULATION

Mining operations and exploration and development activities are subject to various national, state, county 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. The Company believes that it is 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 notices of violations relating to the Company with respect to the foregoing laws and regulations.

Compliance with these laws and regulations may impose substantial costs on the Company and will subject it to significant potential liabilities. Changes in these laws or 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 REGULATIONS

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. During the six-month period ended December 31, 2012, our Bear Lodge Property was 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 December 31, 2012, we had 21 full-time employees of which 14 were directly engaged in exploration and evaluation activities. None of our employees are covered by collective bargaining agreements.

AVAILABLE INFORMATION

We make available, free of charge, on or through our Internet website, at www.rareelementresources.com, our annual reports on Form 10-K, our Transition Report on Form 10-K, our quarterly reports on Form 10-Q and our 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. Our Internet website and the information contained therein or connected thereto are not intended to be, and are not, incorporated into this Transition Report.

Our filings can also be viewed at our corporate offices, located at 225 Union Blvd., Suite 250, Lakewood, CO 80228. Our 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 our reports filed on SEDAR by accessing its website at www.sedar.com.

ITEM 1A. RISK FACTORS

The following sets forth certain risks and uncertainties that could have a material adverse effect on our business, financial condition and/or results of operations and the trading price of our common shares, which may decline, and investors may lose all or part of their investment. Additional risks and uncertainties that we do not presently know or that we currently deem immaterial also may impair our business operations. We cannot assure you that we will successfully address these risks. In addition, other unknown risks exist that may affect our business.

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

For the six-month period ended December 31, 2012, our net loss was $15.4 million. Our accumulated deficit at December 31, 2012 was $77.2 million. At December 31, 2012, our cash position was $40.1 million, of which $25.0 million was considered cash and cash equivalents and $15.1 million was held as short-term investments. Our working capital position was $37.0 million. We have not commenced commercial production at the Bear Lodge Property. Therefore, we have no revenues from operations, and we anticipate we will have no operating revenues until we place the Bear Lodge Property into production. Our Bear Lodge REE Project is currently in the exploration stage as defined under U.S. GAAP.

We do not have sufficient funds to complete feasibility studies, permitting, development and construction at the Bear Lodge REE Project. We will be required to raise additional funding through equity sales, asset sales in the form of joint venture relationships, debt instruments or find alternative means of funding. Failure to obtain sufficient financing may result in the delay or indefinite postponement of feasibility studies, development or production at our Bear Lodge REE Project. 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 and the economic attractiveness of our Bear

Lodge Property.

We are an exploration stage company and have no history producing mineral products from our properties. Any future revenues and profits are uncertain.

We have no history of mining or refining any mineral products and our Bear Lodge Property is not currently producing. There can be no assurance that the Bear Lodge REE Project or any properties that we may acquire in the future will be successfully placed into production, produce minerals in commercial quantities or otherwise generate operating earnings. Advancing properties from the exploration stage into development and commercial production requires significant capital and time and will be subject to further feasibility studies, permitting requirements and construction of the mine, processing plants, roads and related works and infrastructure. We will continue to incur losses until our mining activities successfully reach commercial production levels and generate sufficient revenue to fund continuing operations. There is no certainty that we will produce revenue from any source, operate profitably or provide a return on investment in the future. If we are unable to generate revenues or profits, our shareholders might not be able to realize returns on their investment in our common shares.

The planned development of our Bear Lodge REE Project involves numerous uncertainties that could affect the feasibility or profitability of such project.

Mine development projects typically require a number of years and significant expenditures during the exploration

and development phases before production is possible. Exploration and development projects are subject to the completion of successful feasibility studies and environmental and socioeconomic assessments, the issuance of necessary governmental permits and the receipt of adequate financing. The economic feasibility of exploration and development projects is based on many factors such as:

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completion of definitive feasibility studies to further verify Mineral Reserves and Mineral Resources and commercial viability;

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the timing and cost, which can be considerable, of further exploration, preparing feasibility studies, permitting and construction of infrastructure, mining and processing facilities;

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securing a commercially viable sales outlet for our products;

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the availability and costs of drill equipment, skilled labor and mining and processing equipment, if required;

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the availability and cost of appropriate processing and/or refining arrangements, if required;

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compliance with environmental and other governmental approval and permit requirements;

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the availability of funds to finance exploration, development and construction activities, as warranted;

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negotiating sales or off-take contracts for our planned production;

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future REE and gold prices;

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potential opposition from non-governmental organizations, environmental groups or local groups or inhabitants which may delay or prevent development activities;

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potential increases in exploration, construction and operating costs due to changes in the cost of fuel, power, materials and supplies; and

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potential shortages of mineral processing, construction and other facilities related supplies.

It is common in exploration programs and, if warranted, development, construction and mine start-up, to experience unexpected problems and delays. Accordingly, our activities may not result in profitable mining operations and we may not succeed in establishing mining operations or profitably producing REE products at our Bear Lodge REE Project.

Our growth depends on the exploration, permitting, development and operation of our Bear Lodge REE Project, which is our only rare earth project.

Our only rare earth exploration project at this time is our Bear Lodge REE Project. Our continued viability is based on successfully implementing our strategy, including completion of a DFS, permitting and construction of a mine and processing facilities in an expected timeframe. If we are unable to implement our strategy or in the event of the deterioration or destruction of any part of our Bear Lodge Property, this could significantly hinder our ability to maintain a sustainable or profitable business.

Increased costs could affect our ability to bring our projects into production and, once in production, to be profitable.

We have estimated the capital costs required to bring the Bear Lodge REE Project into commercial production in our PFS. Our actual costs may be higher than we presently anticipate, which could make it more difficult to finance the project or to successfully establish mining operations at the Bear Lodge REE Project.

We anticipate that our future operating costs at the Bear Lodge REE Project 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, in response to the physical shape and location of the ore body. In addition, costs are affected by the price of commodities such as oil, gas, acid, steel, rubber and electricity. Such commodities are at times subject to volatile price movements, including increases that could make production less profitable or not profitable at all. A material increase in costs could also impact our ability to commence or maintain future development or mining operations.

We may be adversely affected by fluctuations in demand for, and prices of, rare earth products.

Because our primary focus currently is the advancement of the Bear Lodge REE Project, changes in demand for, and the market price of, REE products could significantly affect our ability to develop and finance the Bear Lodge REE Project and eventually attain commercial production and profitability. The value and price of our common shares

may be adversely affected by declines in the prices of REE products. REE product prices may fluctuate and are affected by numerous factors beyond our control such as interest rates, exchange rates, inflation or deflation, fluctuation in the relative value of the U.S. dollar against foreign currencies on the world market, global and regional supply and demand for REE products, and the political and economic conditions of countries that produce REE.

As a result of the global economic crisis, REE prices declined by approximately 50% between 2008 and the end of the third quarter of 2009. Although REE prices increased during 2010 and most of 2011, they