

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

FORM 10-Q

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

For the quarterly period ended September 30, 2019

OR

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

For the transition period from _____ to _____

Commission file number: 001-34852



RARE ELEMENT RESOURCES 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)

80127

(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 every Interactive Data File required to be submitted 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 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 November 18, 2019: **103,766,880**

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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 and 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, development, beneficiating, separating and processing efforts using words or phrases (including negative and grammatical variations) such as, but not limited to, “expects,” “anticipates,” “plans,” “estimates,” “intends,” “forecasts,” “likely,” “projects,” “believes,” “seeks,” or stating that certain actions, events or results “may,” “could,” “would,” “should,” “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 focus of the Company’s activities through the remainder of 2019;
- the results of the pilot plant test work expected in the fourth quarter of 2019;
- the impact of the transaction with Synchron (“Synchron”), an affiliate of General Atomic Technologies Corporation, on our future development, operational and financing plans;
- our ability to resume suspended operational and permitting and licensing activities successfully;
- our ability and the timing to obtain the necessary permits and licenses, including project development, mining, beneficiating and processing permits and source material licenses;
- the confirmation and piloting of our rare earth element recovery and separation technology and the ability to use it with respect to the Bear Lodge rare earth elements project (the “Bear Lodge REE Project”);
- the cost and timing of the piloting of our rare earth element recovery and separation;
- our ability and timing to exercise our right to purchase certain non-mineral lands for waste rock storage and mineral processing operations;
- 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;
- our ability to fund anticipated losses in the operation of our business until the development, which may not occur in the foreseeable future or at all, of the Bear Lodge REE Project or the Sundance Gold Project (collectively, the “Projects”) is completed;
- the narrowed focus or suspension of the Company’s near-term operational and permitting and licensing activities;
- the pursuit of potential financing and strategic alternatives;
- expectations regarding the ability to raise capital or secure additional strategic or joint venture partners in order to advance our Projects;

- expectations regarding the support or hindrance of our objectives as a result of government policies and actions;
- future expenditures to comply with environmental and other laws and regulations;
- 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;
- the estimated operating and capital costs, including sustaining capital, associated with the separation and recovery of marketable rare earth elements using our novel technology or other processes; and
- expectations as to the marketability and prices of our future rare earth product(s).

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 those expressed or implied by the forward-looking statements including, without limitation, risks associated with:

- our ability to maintain relationships and meet our obligations with significant investors or attract future investors or strategic partners;
- our ability to obtain additional financial resources on acceptable terms or at all, in order to (i) maintain and potentially develop our assets, (ii) conduct our Projects' activities and (iii) maintain our general and administrative expenditures at appropriate levels;
- the fact that certain activities, including equity and debt financing activities, which may be undertaken by the Company may require the prior approval of Synchron and the other shareholders of the Company;
- 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, including the potential impact of the Chinese-dominated rare earth market;
- 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 licensing and permitting efforts for the Bear Lodge REE Project in a timely and cost-effective manner, or at all;
- the permitting, licensing and regulatory approval process with respect to the exploration, development and operation of our Projects;
- increased costs affecting our financial condition;
- establishing adequate distribution channels to place any future products produced by us;
- competition in the mining and rare earth industries, including an increase in global supplies or predatory pricing and dumping of rare earth products by competitors;
- technological advancements and substitutes, and the establishment of new uses and markets, for rare earth products;
- specific product(s) from the Bear Lodge REE Project, if produced in the future, potentially having a limited number of customers, which could reduce our bargaining power, product pricing, and profitability;
- our proprietary, patent-pending, rare earth processing technology encountering infringement, unforeseen problems, or unexpected costs in development, deployment or scaling up to commercial application;

- our ability to maintain our proprietary interest in our patent-pending intellectual property and related technical information licensed to third parties;
- mineral resource estimation;
- our ability to exercise our right to purchase certain non-mineral lands for waste rock storage and processing operations and the ability to acquire another location if necessary;
- opposition to development of any of our Projects from third parties;
- changes in government policies and resulting actions with respect to the rare earth industry;
- continued compliance with current environmental regulations and the possibility of new legislation, environmental regulations or licensing 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 volatile 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;
- our land reclamation and remediation requirements;
- information technology system disruptions, damage or failures;
- intellectual property or related data being subject to damage or theft;
- 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 U.S. 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 Venture Marketplace standards and the “penny stock” rules and the impact on trading volume and liquidity due to our listing on the OTCQB Venture 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 Securities and Exchange Commission (the “SEC”), particularly our Annual Report on Form 10-K for the year ended December 31, 2018. The reports and documents filed by us with the SEC are available at www.sec.gov.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

RARE ELEMENT RESOURCES LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of U.S. dollars, except shares outstanding)

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
	(unaudited)	(audited)
ASSETS:		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,070	\$ 2,523
Prepaid expenses and other	71	37
Total Current Assets	<u>1,141</u>	<u>2,560</u>
Equipment, net	57	61
Investment in land	600	600
Total Assets	<u>\$ 1,798</u>	<u>\$ 3,221</u>
LIABILITIES:		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 241	\$ 386
Total Current Liabilities	<u>241</u>	<u>386</u>
Reclamation obligation	132	132
Deferred intellectual property license income (Note 4)	472	706
Option liability (Note 4)	312	331
Repurchase option	600	600
Total Liabilities	<u>1,757</u>	<u>2,155</u>
Commitments and Contingencies		
SHAREHOLDERS' EQUITY:		
Common shares, no par value - unlimited shares authorized; shares outstanding September 30, 2019 and December 31, 2018 - 79,591,880	106,807	106,494
Additional paid in capital	23,817	23,763
Accumulated deficit	(130,583)	(129,191)
Total Shareholders' Equity	<u>41</u>	<u>1,066</u>
Total Liabilities and Shareholders' Equity	<u>\$ 1,798</u>	<u>\$ 3,221</u>

See accompanying notes to condensed consolidated interim financial statements

RARE ELEMENT RESOURCES LTD.
CONDENSED CONSOLIDATED UNAUDITED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE LOSS

(Expressed in thousands of U.S. dollars, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Operating expenses:				
Exploration and evaluation	\$ (284)	\$ (423)	\$ (738)	\$ (699)
Corporate administration	(137)	(217)	(616)	(817)
Depreciation	(1)	(3)	(4)	(11)
Total operating expenses	<u>(422)</u>	<u>(643)</u>	<u>(1,358)</u>	<u>(1,527)</u>
Non-operating income:				
Interest income	7	15	26	44
Recognized deferred income on the sale of intellectual property (Note 4)	60	64	178	193
Gain on revaluation of option liability (Note 4)	11	16	19	268
Other expense	-	-	-	(2)
Total non-operating income	<u>78</u>	<u>95</u>	<u>223</u>	<u>503</u>
Net loss	<u>\$ (344)</u>	<u>\$ (548)</u>	<u>\$ (1,135)</u>	<u>\$ (1,024)</u>
LOSS PER SHARE - BASIC AND DILUTED	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	79,591,880	79,591,880	79,591,880	79,591,880

See accompanying notes to condensed consolidated interim financial statements

RARE ELEMENT RESOURCES LTD.
CONDENSED CONSOLIDATED UNAUDITED STATEMENTS OF CASH FLOWS
(Expressed in thousands of U.S. dollars)

	For the nine months ended September 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss for the period	\$ (1,135)	\$ (1,024)
Adjustments to reconcile net loss for the period to net cash and cash equivalents used in operating activities:		
Depreciation	4	11
Gain on revaluation of option liability	(19)	(268)
Recognized deferred income on the sale of intellectual property	(178)	(193)
Stock-based compensation	54	85
	<u>(1,274)</u>	<u>(1,389)</u>
Changes in working capital		
Prepaid expenses and other	(34)	(26)
Accounts payable and accrued liabilities	(145)	184
Net cash and cash equivalents used in operating activities	<u>(1,453)</u>	<u>(1,231)</u>
Decrease in cash and cash equivalents	(1,453)	(1,231)
Cash and cash equivalents - beginning of the period	<u>2,523</u>	<u>4,360</u>
Cash and cash equivalents - end of the period	<u>\$ 1,070</u>	<u>\$ 3,129</u>

See accompanying notes to condensed consolidated interim financial statements

RARE ELEMENT RESOURCES LTD.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Expressed in thousands of U.S. dollars)

	Number of Shares	Amount	Additional Paid in Capital	Accumulated Deficit	Total
Balance, June 30, 2018	79,591,880	\$ 106,494	\$ 23,716	\$ (127,903)	\$ 2,307
Stock-based compensation	–	–	28	–	28
Net loss	–	–	–	(548)	(548)
Balance, September 30, 2018	79,591,880	\$ 106,494	\$ 23,744	\$ (128,541)	\$ 1,787
Balance, June 30, 2019	79,591,880	\$ 106,807	\$ 23,797	\$ (130,239)	\$ 365
Stock-based compensation	–	–	20	–	20
Net loss	–	–	–	(344)	(344)
Balance, September 30, 2019	79,591,880	\$ 106,807	\$ 23,817	\$ (130,583)	\$ 41
	Number of Shares	Amount	Additional Paid in Capital	Accumulated Deficit	Total
Balance, December 31, 2017	79,591,880	\$ 106,494	\$ 23,659	\$ (127,427)	\$ 2,726
Stock-based compensation	–	–	85	–	85
Net loss	–	–	–	(1,024)	(1,024)
Balance, September 30, 2018	79,591,880	\$ 106,494	\$ 23,744	\$ (128,541)	\$ 1,787
Balance, December 31, 2018	79,591,880	\$ 106,494	\$ 23,763	\$ (129,191)	\$ 1,066
Adjustment January 1, 2019 (Note 2)	–	313	–	(257)	56
Stock-based compensation	–	–	54	–	54
Net loss	–	–	–	(1,135)	(1,135)
Balance, September 30, 2019	79,591,880	\$ 106,807	\$ 23,817	\$ (130,583)	\$ 41

See accompanying notes to condensed consolidated interim financial statements.

RARE ELEMENT RESOURCES LTD.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

(all amounts stated in thousands of U.S. dollars except share and per share amounts)

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.

Following receipt of proceeds from the transaction with Synchron, in October 2017 (Note 4), the Company commenced a work plan to (i) continue the confirmation and enhancement of its proprietary technology for rare earth processing and separation through pilot plant testing (or “piloting”), (ii) develop a work plan to progress engineering work to optimize its mine plan and corresponding processing operations, and (iii) update and supplement environmental baseline data in anticipation of the potential resumption of permitting and licensing efforts. During the nine months ended September 30, 2019, the Company focused on Items (i) and (iii) above by engaging Umwelt- und Ingenieurtechnik GmbH Dresden (“UIT”), an affiliate of General Atomic Technologies Corporation and Synchron, to continue technology review and advancement (Note 5), and by completing updated environmental baseline studies. The Company also monitored U.S. government actions regarding securing a domestic, non-Chinese, rare earth supply chain.

The financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business beyond the next 12 months following the filing date of this Quarterly Report on Form 10-Q. The Company has incurred losses since inception and further losses are anticipated in the development of its business. We do not have sufficient funds to fully complete feasibility studies, permitting, licensing, development and construction of the Bear Lodge REE Project. Therefore, the achievement of these activities will be dependent upon future financings, off-take agreements, joint ventures, strategic transactions, or sales of various assets. There is no assurance, however, that we will be successful in completing any such financing, agreement or transaction. As of September 30, 2019, without additional near-term funding or further reduction in spending, the Company projects that its current cash balance would be depleted within the next 12 months. As a result, as of that date, there was substantial doubt about the Company’s ability to continue as a going concern within one year from the filing date of these financial statements. However, in October 2019, the Company received \$5,040 in consideration for the issuance of 24,175,000 common shares to Synchron in connection with the exercise by Synchron of its common share purchase option (See Notes 4 and 6). With this infusion of cash, the Company now has the ability to continue to operate as a going concern for the next 12 months and beyond.

2. BASIS OF PRESENTATION

Interim presentation

In accordance with U.S. GAAP for interim financial statements, these condensed consolidated interim 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 condensed consolidated interim financial statements should be read in conjunction with our audited consolidated financial statements as of December 31, 2018, which were included in our Annual Report on Form 10-K for the year ended December 31, 2018. In the opinion of management, the accompanying unaudited condensed 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 September 30, 2019, and the results of our operations and cash flows for the three and nine months ended September 30, 2019 and 2018 in conformity with U.S. GAAP. Interim results of operations for the three and nine months ended September 30, 2019 may not be indicative of results that will be realized for the full year ending December 31, 2019.

Correction of immaterial error – valuation of the Synchron option liability

During October 2019, we identified an error to the consolidated financial statements for the years 2017 and all quarterly periods through September 30, 2019 related to the valuation of the Synchron Option Liability (see Note 4 for complete discussion of the transaction). We were utilizing an incorrect estimated number of common shares to be issued upon Synchron’s exercise of its Option. The valuation utilized approximately 14,600,000 common shares estimated to be issued upon exercise of the Option. The Company disclosed in its annual report on Form 10-K for the years ended December 31, 2018 and 2017, this amount was potentially dilutive to its Shareholders. In each of its interim quarterly disclosures on Form

RARE ELEMENT RESOURCES LTD.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

(all amounts stated in thousands of U.S. dollars except share and per share amounts)

10-Q, the Company disclosed the number of common shares to be issued would be equivalent to approximately an additional 15.49% of the Company's fully diluted outstanding common shares immediately after the exercise of the Option. However, the Company issued 24,175,000 Common shares upon exercise of the Option which is consistent with other public disclosures and the intention of the parties under the Option Agreement. The Company had properly disclosed the potential issuance of 24,175,000 common shares in its 2018 proxy statement and the August 21, 2017 8-K filing announcing the term sheet for the transaction. Synchron additionally disclosed 24,175,000 beneficial ownership shares in its 13D filing on October 19, 2017. The effect of correcting this error as of January 1, 2019 to consolidated financial statements was to decrease Deferred intellectual property license income by \$56, increase Common shares by \$313 and increase Accumulated deficit by \$257.

Management evaluated the materiality of the error described above from a qualitative and quantitative perspective. Based on such evaluation, we have concluded that while the accumulation of this error was significant to the year ended December 31, 2017, the correction would not be material to any individual prior period, nor did it have a material effect on the trend of financial results, taking into account the requirements of the SEC Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. Accordingly, we are correcting this error as of January 1, 2019 and have correctly stated the amounts for the three and nine months ended September 30, 2019 Consolidated Financial Statements included in this Form 10-Q.

3. EQUIPMENT

	September 30, 2019			December 31, 2018		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Computer equipment	\$ 1	\$ 1	\$ -	\$ 1	\$ 1	\$ -
Furniture	13	13	-	13	13	-
Geological equipment	346	291	55	346	288	58
Vehicles	87	85	2	87	84	3
	<u>\$ 447</u>	<u>\$ 390</u>	<u>\$ 57</u>	<u>\$ 447</u>	<u>\$ 386</u>	<u>\$ 61</u>

4. SHAREHOLDERS' EQUITY

Transaction with Synchron

On October 2, 2017, the Company and Synchron, an affiliate of General Atomic Technologies Corporation ("Synchron"), completed a transaction in accordance with the following terms. Pursuant to an investment agreement (the "Investment Agreement"), the Company (i) issued to Synchron 26,650,000 common shares of the Company, which constituted approximately 33.5% of the issued and outstanding common shares of the Company; (ii) received gross proceeds of \$4,752 in cash, less a \$500 preliminary payment received in August 2017; and (iii) granted Synchron an option (the "Option") to purchase approximately an additional 15.49% of the Company's fully diluted common shares for an aggregate exercise price of an additional \$5,040. Synchron's ownership percentage, immediately after giving effect to such exercise, is limited to 49.9% of the Company's common shares issued and outstanding. Pursuant to an option agreement (the "Option Agreement"), the Option is exercisable for a period of up to four years from the initial investment. Additionally, the parties executed an intellectual property rights agreement (the "IP Rights Agreement"), whereby Synchron received rights to use and improve the Company's intellectual property relating to the Company's patents-pending and related technical information. The Company retains the right to use any such improvements. For a detailed discussion regarding the transaction with Synchron, see Note 6 to the Company's Consolidated Financial Statements for the year ended December 31, 2018 in the Form 10-K filed with the SEC on March 29, 2019.

In October 2019, Synchron exercised the Option to purchase 24,175,000 common shares for a purchase price of \$5,040 pursuant to the Option Agreement. As a result, Synchron's ownership of outstanding common shares of the Company increased to approximately 49.0%. See Note 6 for further discussion.

The Company engaged a third-party valuation firm to determine the fair value of each component of the Synchron transaction: the Investment Agreement, the Option Agreement and the IP Rights Agreement. As of the closing date of

RARE ELEMENT RESOURCES LTD.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

(all amounts stated in thousands of U.S. dollars except share and per share amounts)

the Synchron transaction, the gross value of each component was determined to be as follows: \$2,900 for the Investment Agreement, \$825 for the Option Agreement and \$1,027 for the IP Rights Agreement. The costs incurred to complete the transaction were allocated to each component based on relative fair value to cost of equity, operating expenses and reduction to deferred income as they related to each component, respectively.

The value of the common shares was determined using a probability-weighted expected return method (“PWERM”) analysis, which included six different probability-weighted scenarios based on the calculated enterprise value of the Company utilizing assumptions from the pre-feasibility study completed in 2014 and trailing five-year average rare earth pricing in a discounted cash flow analysis.

Due to the variability in the number of common shares that could have been issued upon exercise, the Option was considered a derivative liability. As a result, we revalued the Option liability at the end of each reporting period, until the Option was exercised. Any gains or losses from the revaluation were recorded to the Consolidated Statements of Operations. The fair value of the Option as of September 30, 2019 and December 31, 2018 was \$312 and \$331, respectively. The gain (loss) on the revaluation of the Option liability was \$11 and \$16 for the three months ended September 30, 2019 and 2018, respectively, and \$19 and \$268 for the nine months ended September 30, 2019 and 2018, respectively. The Option was valued utilizing the Black-Scholes valuation model on both September 30, 2019 and December 31, 2018. The significant assumptions were as follows:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Risk-free interest rate	1.63%	2.46%
Expected volatility	75%	75%
Expected dividend yield	Nil	Nil
Expected term in years	2.0	2.8
Estimated forfeiture rate	Nil	Nil
Estimated exercise price	\$0.34	\$0.34
Estimated enterprise value per common share	\$0.00	\$0.00

The incremental difference between the estimated value of the exclusive and non-exclusive IP Rights Agreement was added to the value from the Black-Scholes model to arrive at the total value of the Option.

Because Synchron and its affiliates obtained exclusive rights to the intellectual property upon its recent exercise of the Option, the value of the IP Rights Agreement was considered deferred income as the Company retains exclusive title to the intellectual property until Synchron exercises the Option. We amortized the deferred income using the straight-line method over the term of the Option Agreement as this is the period of the Company’s performance obligation related to the IP Rights Agreement. During the three months ended September 30, 2019 and 2018, we amortized \$65 and \$64, respectively, of deferred intellectual property income. During each of the nine months ended September 30, 2019 and 2018, we amortized \$193 of deferred intellectual property income. The value of the IP Rights Agreement at the transaction date was determined using a PWERM analysis for six different probability-weighted scenarios using the relief from royalty method based on market royalty rates for similar agreements.

Stock-based compensation

As of September 30, 2019, we have 3,650,000 options outstanding that were issued under the 10% Rolling Stock Option Plan.

The compensation expense for stock option awards recognized in our condensed consolidated financial statements for the three months ended September 30, 2019 and 2018 was \$20 and \$28, respectively. The compensation expense for stock option awards recognized in our condensed consolidated financial statements for the nine months ended September 30, 2019 and 2018 was \$54 and \$85, respectively. As of September 30, 2019, there was approximately \$33 of total unrecognized compensation cost related to 1,225,000 unvested stock options that is expected to be recognized over a weighted-average remaining vesting period of 1.0 year.

The fair value of stock option awards granted to directors, officers, employees and/or consultants of the Company are estimated on the grant date using the Black-Scholes option valuation model and the closing price of our common shares on the business day prior to the grant date. There were 850,000 and nil options granted during the nine months ended

RARE ELEMENT RESOURCES LTD.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

(all amounts stated in thousands of U.S. dollars except share and per share amounts)

September 30, 2019 and 2018, respectively. The significant assumptions used to estimate the fair value of stock option awards using the Black-Scholes option valuation model are as follows for the nine months ended September 30, 2019:

Risk-free interest rate	2.49%
Expected volatility	141%
Expected dividend yield	Nil
Expected term in years	5.0
Estimated forfeiture rate	Nil

The following table summarizes our stock option activity for each of the nine months ended September 30, 2019 and 2018:

	None Months Ended September 30, 2019		None Months Ended September 30, 2018	
	Number of Stock Options	Weighted Average Exercise Price	Number of Stock Options	Weighted Average Exercise Price
Outstanding, beginning of period	3,385,400	\$ 0.44	4,031,400	\$ 0.94
Granted	850,000	0.07	–	–
Cancelled/Expired	(585,400)	0.27	(315,000)	1.53
Outstanding, end of period	<u>3,650,000</u>	<u>\$ 0.16</u>	<u>3,716,400</u>	<u>\$ 0.35</u>
Exercisable, end of period	<u>2,425,000</u>	<u>\$ 0.18</u>	<u>2,966,400</u>	<u>\$ 0.38</u>
Weighted-average fair value per share of options granted during period	\$ 0.07		N/A	

5. COMMITMENTS AND CONTINGENCIES

Our commitments and contingencies include the following items:

Potential environmental contingency

Our exploration and development 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 have become more restrictive. The Company conducts its operations to protect public health and the environment and believes that 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.

Contract commitment – related party

On February 14, 2019, the Company executed a technology test work agreement with UIT to further validate the Company's rare earth processing technology at pilot plant scale. Because Synchron is a significant shareholder of the Company, the two members of the board of directors of Rare Element who were appointed by Synchron abstained, and the remaining members of the board of directors approved the UIT engagement. The results of the UIT pilot plant test work are expected in the fourth quarter of 2019. The UIT pilot plant agreement is for an amount not to exceed \$700. Additionally, on September 9, 2019, the Company entered into an agreement to amend the terms and conditions related to the February 2019 agreement which resulted in additional estimated costs of \$70. Since the execution of the 2019 UIT agreements, the Company has incurred approximately \$377 in costs related thereto, \$150 of which is included in Accounts payable and accrued liabilities as at September 30, 2019.

6. SUBSEQUENT EVENT

RARE ELEMENT RESOURCES LTD.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

(all amounts stated in thousands of U.S. dollars except share and per share amounts)

On October 16, 2019, Company issued to Synchron 24,175,000 common shares of the Company for a purchase price of \$5,040 in connection with the exercise by Synchron of the Option (see Note 4). Accordingly, Synchron's ownership of outstanding common shares of the Company increased from approximately 33.5% to approximately 49.0%, and Synchron (i) obtained the right to nominate an additional board member and (ii) the intellectual property rights granted to pursuant to the IP Rights Agreement became exclusive for a perpetual term, free from a licensing fee. The Company retains the right to use the intellectual property and any improvements made by Synchron,

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 nine months ended September 30, 2019, has been prepared based on information available to us as of November 18, 2019. This discussion should be read in conjunction with the unaudited Condensed Consolidated Financial Statements and notes thereto included herewith and the audited Consolidated Financial Statements of Rare Element for the year ended December 31, 2018, 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.

Outlook

Following receipt of proceeds from the transaction with Synchron, in October 2017 (discussed in Note 4 of the unaudited Condensed Consolidated Financial Statements), we commenced a work plan to (i) continue the confirmation and enhancement of our proprietary technology for rare earth processing and separation through pilot plant testing (or "piloting"), (ii) develop a work plan to progress engineering work to optimize our mine plan and corresponding processing operations, and (iii) update and supplement environmental baseline data in anticipation of the potential resumption of permitting efforts.

During the nine months ended September 30, 2019, the Company focused on Items (i) and (iii) above by entering into a formal engagement with Umwelt- und Ingenieurtechnik GmbH Dresden ("UIT"), an affiliate of General Atomic Technologies Corporation and Synchron, to continue technology review and advancement (see "Contractual Obligations" discussion below), and by completing updated environmental baseline studies. The Company also monitored U.S. government actions regarding securing a domestic, non-Chinese, rare earth supply chain. The U.S. federal government considered legislation and issued two Presidential Executive Orders in 2017 to encourage and support the establishment of a domestic, non-Chinese, rare earth supply chain and to strengthen the defense industrial base with respect to critical minerals including rare earths. In June 2019, the Department of Commerce released its report entitled "Federal strategy to ensure secure and reliable supplies of critical minerals." This was followed by five U.S. Presidential Determinations on July 22, 2019 directed to the Secretary of Defense. One Presidential Determination declared that "the domestic production capability for Rare Earth Metals and Alloys is essential to the national defense." These initiatives have increased the government's level of interest in the Company's potential rare earth products as a segment of the supply chain, particularly considering Chinese dominance in the rare earth market. The Company is continuing to support these initiatives as critical to the United States' production of rare earth magnets to support the manufacturing of defense applications, electric vehicles and bicycles, wind turbines, automobiles, consumer electronics, and oil refining.

For the remainder of 2019, the Company plans to continue its focus on further rare earth processing and separation test work in a pilot plant while supporting U.S. federal government initiatives to secure U.S. domestic rare earth supply chain. Given Synchron's further investment in the Company in October 2019, through the exercise of the Option, the Company will also update its work plan for the upcoming year.

Results of Operations

Summary

Our consolidated net loss for the three months ended September 30, 2019 was \$339, or \$nil per share, compared with our consolidated net loss of \$548, or \$nil per share, for the same period in 2018. For the three months ended September 30, 2019, the decrease in consolidated net loss of \$209 from the prior period was primarily the result of a decrease in exploration and evaluation costs and corporate administration costs.

Our consolidated net loss for the nine months ended September 30, 2019 was \$1,120, or \$0.01 per share, which approximated our consolidated net loss of \$1,024, or \$0.01 per share, for the same period in 2018.

Exploration and evaluation

Exploration and evaluation costs were \$284 and \$423 for the three months ended September 30, 2019 and 2018, respectively. Exploration and evaluation costs were \$738 and \$699 for the nine months ended September 30, 2019 and 2018, respectively. The increase in the nine months ended September 30, 2019 from the prior period was the result of advancing our technology under the UIT technology agreement, supplementing our environmental baseline studies and maintaining our environmental obligations at the Bear Lodge REE Project.

Corporate administration

Corporate administration costs were \$137 and \$217 for the three months ended September 30, 2019 and 2018, respectively. Corporate administration costs were \$616 and \$817 for the nine months ended September 30, 2019 and 2018, respectively. The decrease from the prior period was the result of decreased expenses associated with our compliance and regulatory obligations.

Amortization of Intellectual Property Income

During the three months ended September 30, 2019 and 2018, we amortized \$65 and \$64 of deferred intellectual property income, respectively. During each of the nine months ended September 30, 2019 and 2018, we amortized \$193 of deferred intellectual property income. We incurred deferred intellectual property income due to the intellectual property rights agreement with Synchron. Because Synchron obtains exclusive rights to the intellectual property upon the exercise of the Option, the value of the IP Rights Agreement is considered deferred income. We amortize the deferred income using the straight-line method over the term of the Option Agreement.

Gain on Revaluation of Option Liability

Gain on the revaluation of the Option liability was \$11 and \$16 for the three months ended September 30, 2019 and 2018, respectively. Gain on the revaluation of the Option liability was \$19 and \$268 for the nine months ended September 30, 2019 and 2018, respectively. This gain is directly related to the valuation of the Option Agreement with Synchron and is primarily due to a decrease in the five-year trailing average of the market prices of rare earth elements, which is utilized for accounting purposes. As the Option Agreement is considered a derivative liability, we revalue the Option liability at the end of each reporting period, until the Option is exercised. Any gains or losses from the revaluation are recorded to the Consolidated Statements of Operations.

Cash Flows, Financial Position, Liquidity and Capital Resources

Cash Flows from Operating Activities

Net cash used in operating activities was \$1,453 for the nine months ended September 30, 2019, as compared with \$1,231 for the same period in 2018. The increase of \$222 in cash used is primarily the result of increased spending on Exploration and evaluation activities related to the advancement of our technology and environmental baseline studies.

Financial Position, Liquidity and Capital Resources

At September 30, 2019, our total current assets were \$1,141, as compared with \$2,560 as of December 31, 2018, which is a decrease of \$1,419. The decrease in total current assets is primarily due to a decrease in cash and cash equivalents due to funding our operations. Our working capital as at September 30, 2019 was \$900, as compared with \$2,174 at December 31, 2018.

Notwithstanding the transaction with Synchron in October 2017 (discussed in Note 4 of the unaudited Condensed Consolidated Financial Statements), as of September 30, 2019, we did not have sufficient funds to complete the feasibility studies, permitting, development and construction of the Bear Lodge REE Project. Therefore, the achievement of these activities will be dependent upon future financings, off-take agreements, joint ventures, strategic transactions, or sales of various assets. There is no assurance, however, that we will be successful in completing any such financing, agreement or transaction. As of September 30, 2019, there was substantial doubt about the Company's ability to continue as a going concern within one year from the planned filing date of these financial statements. In October 2019, however, the Company received \$5,040 in consideration for the issuance of 24,175,000 common shares to Synchron in connection with the exercise by Synchron of its common share purchase option (see Notes 4 and 6 of the unaudited Condensed Consolidated Financial

Statements). With this infusion of cash, the Company now has the ability to continue as a going concern for the next 12 months and beyond. Additional funding will be required to complete feasibility studies, permitting and development.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Contractual Obligations

In addition to the contractual obligations disclosed in Item 7 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2018, during the nine months ended September 30, 2019, the Company entered into the following agreement.

On February 14, 2019, the Company executed a technology test work agreement with UIT to further validate the Company's rare earth processing technology at pilot plant scale. Because Synchron is a significant shareholder of the Company, the two members of the board of directors of Rare Element who were appointed by Synchron abstained, and the remaining members of the board of directors approved the UIT engagement. The results of the UIT pilot plant test work are expected in the fourth quarter of 2019. The UIT pilot plant agreement is for an amount not to exceed \$700. Additionally, on September 9, 2019, the Company entered into an agreement to amend the terms and conditions related to the February 2019 agreement which resulted in additional estimated costs of \$70. Since the execution of the 2019 UIT agreements, the Company has incurred approximately \$377 in costs related thereto, \$150 of which is included in Accounts payable and accrued liabilities as at September 30, 2019.

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 various types of risk: interest rate risk, commodity price risk and other price risk.

Interest rate risk. Our cash and cash equivalents consist of cash held in bank accounts and, at times, short-term investments that earn interest at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates did not have a significant impact on estimated fair values as of September 30, 2019. Future cash flows from interest income on cash and cash equivalents will be affected by interest rate fluctuations. We manage interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

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.

Other price risk. Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk, or commodity price risk. We are not currently exposed to significant other price risk relating to financial instruments.

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 September 30, 2019, 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 September 30, 2019, 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, 2018.

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 the Company.

Pursuant to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, 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 quarter ended September 30, 2019, the Company was not subject to regulation by MSHA under the Mine Act.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

<u>Exhibit Number</u>	<u>Description</u>
31.1+	Certification of Chief Executive Officer pursuant to Rule 13a-14 promulgated under the Securities and Exchange Act of 1934, as amended
31.2+	Certification of Principal Financial Officer pursuant to Rule 13a-14 promulgated under the Securities and Exchange Act of 1934, as amended
32.1++	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2++	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1*	Form 8-K dated October 18, 2019 issued by Rare Element Resources regarding the issuance of unregistered equity securities and the appointment of a director.
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.

++ Furnished herewith.

* Incorporated by reference.

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: November 18, 2019

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

Date: November 18, 2019