

**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 March 31, 2020

OR

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

For the transition period from _____ to _____

Commission file number: 001-34852



Rare Element Resources

RARE ELEMENT RESOURCES LTD.

(Exact Name of Registrant as Specified in its Charter)

BRITISH COLUMBIA

(State of other jurisdiction of incorporation or organization)

N/A

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

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 May 7, 2020: 104,007,066.

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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 statements” within the meaning of Securities Act of 1933, as amended (the “Securities Act”), the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and “forward-looking information” within the meaning of Canadian securities laws (collectively, “forward-looking statements”). Any statements that express or involve discussions with respect to business prospects, predictions, expectations, beliefs, plans, intentions, projections, objectives, strategies, assumptions, future events, performance or exploration and development efforts using words or phrases (including negative and grammatical variations) such as, but not limited to, “expects,” “anticipates,” “plans,” “estimates,” “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 and 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:

- our ability to resume suspended operational, licensing and permitting activities successfully;
- our ability and the timing to obtain the necessary permits and licenses, including project development, mining, beneficiation and processing permits and source material licenses;
- the potential impact of the coronavirus outbreak on our business operations, ability to raise capital, ability to obtain licenses and permits, impact on rare earth prices, and future plans to construct and operate a mine and produce rare earth products;
- the confirmation and piloting of our rare earth element recovery and separation technology and the ability to use it with respect to our Bear Lodge Rare Earth Element Project (the “Bear Lodge REE Project” or “Project”) or otherwise;
- the cost and timing of the further piloting of our rare earth element recovery and separation;
- our ability to license, permit, construct and operate a demonstration scale recovery and separation plant, or the cost or outcomes of its construction and operation;
- our ability to arrange the services of third parties to demonstrate the recovery and separation of rare earth products from Bear Lodge REE Project mineralized material or mineralized material from other sources;
- our ability and timing to exercise our right to purchase certain non-mineral lands for waste rock storage and mineral processing operations;
- anticipated losses in the operation of our business until such time, which may not occur in the foreseeable future or at all, as the development of the Project is completed, and the production stage has commenced;
- our ability to fund anticipated losses in the operation of our business until the development and operation, which may not occur in the foreseeable future or at all, of the Project is completed;
- the narrowed focus or suspension of the Company’s near-term operational, licensing and permitting 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 the Project;

- 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;
- expectations regarding the global supply and demand for rare earth elements (“REE”), including the potential impact of the Chinese-dominated market;
- the timing and potential conclusions of a future Feasibility Study (“FS”) on the Bear Lodge REE Project;
- 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;
- expectations as to the marketability and prices of rare earth product(s); and
- our potential status as a “passive foreign investment company” under U.S. tax laws.

Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors that could cause actual events or results to differ materially from 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) develop and maintain our assets, (ii) conduct our Project’s activities and (iii) maintain our general and administrative expenditures at appropriate levels;
- the potential adverse effects of the coronavirus outbreak on our business operations, ability to raise capital, ability to obtain licenses and permits, and future plans to construct and operate a mine and produce rare earth products;
- 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;
- the fact that certain activities, including equity and debt financing activities, which may be undertaken by the Company will require the prior approval of Synchron (as herein defined) and may also require the prior approval of 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 Project;
- the potential outcome of future feasibility studies that may indicate that the Project’s 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 Project;
- increased costs affecting our financial condition;

- establishing adequate distribution channels to place our future suite of products;
- competition in the mining and the rare earth industries, including an increase in global supplies or predatory pricing and dumping by our competitors;
- technological advancements, substitutes, and the establishment of new uses and markets for rare earth products;
- the specific product(s) from the Bear Lodge REE Project potentially having a limited number of customers, which could 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 reserve and 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;
- delay from opposition to the development of our Project 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 license or permit requirements adverse to the mining industry, including measures regarding reclamation, water and air 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 legislation or 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 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 status as a “passive foreign investment company”;
- risk factors discussed in our 2019 Annual Report;
- other factors, many of which are beyond our control; and
- the further adverse impact of the COVID-19 pandemic on any of the above factors.

This list is not exhaustive of the factors that might affect our forward-looking statements. Although we have attempted to identify important factors that could cause actual results to differ materially from those described in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary, possibly materially, from those anticipated, believed, estimated or expected. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. Except as required by law, we disclaim any obligation to revise or update any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. **We qualify all of the forward-looking statements contained in this Quarterly Report on Form 10-Q by the foregoing cautionary statements.** We advise you to carefully review the reports and documents we file from time to time with the U.S. Securities and Exchange Commission (the “SEC”), particularly our Annual Report on Form 10-K for the year ended December 31, 2019. 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)

	March 31, 2020	December 31, 2019
	(unaudited)	(audited)
ASSETS:		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,918	\$ 5,664
Prepaid expenses and other	10	40
Total Current Assets	4,928	5,704
Equipment, net	55	56
Investment in land	600	600
Total Assets	\$ 5,583	\$ 6,360
LIABILITIES:		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 236	\$ 470
Total Current Liabilities	236	470
Reclamation obligation	132	132
Repurchase option	600	600
Total Liabilities	968	1,202
Commitments and Contingencies		
SHAREHOLDERS' EQUITY:		
Common shares, no par value - unlimited shares authorized; shares outstanding March 31, 2020 and December 31, 2019 – 104,007,066 and 103,966,880, respectively	112,208	112,208
Additional paid in capital	23,890	23,831
Accumulated deficit	(131,483)	(130,881)
Total Shareholders' Equity	4,615	5,158
Total Liabilities and Shareholders' Equity	\$ 5,583	\$ 6,360

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)

	For the three months ended March 31,	2020	2019
Operating expenses:			
Exploration and evaluation	\$	(232)	\$ (230)
Corporate administration		(390)	(241)
Depreciation		(1)	(1)
Total operating expenses		(623)	(472)
Non-operating income:			
Interest income		20	8
Recognized deferred income on the sale of intellectual property (Note 4)		-	64
Gain on revaluation of option liability (Note 4)		-	15
Other income (expense)		1	-
Total non-operating income		21	87
Net loss	\$	(602)	\$ (385)
LOSS PER SHARE - BASIC AND DILUTED	\$	(0.01)	\$ (0.00)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		103,967,320	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 three months ended March 31,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss for the period	\$ (602)	\$ (385)
Adjustments to reconcile net loss for the period to net cash and cash equivalents used in operating activities:		
Depreciation	1	1
Gain on revaluation of option liability	–	(15)
Recognized deferred income on the sale of intellectual property	–	(64)
Stock-based compensation	59	15
	<u>(542)</u>	<u>(448)</u>
Changes in working capital		
Prepaid expenses and other	30	28
Accounts payable and accrued liabilities	(234)	(138)
Net cash and cash equivalents used in operating activities	<u>(746)</u>	<u>(558)</u>
Decrease in cash and cash equivalents	(746)	(558)
Cash and cash equivalents - beginning of the period	5,664	2,523
Cash and cash equivalents - end of the period	<u>\$ 4,918</u>	<u>\$ 1,965</u>

See accompanying notes to condensed consolidated interim financial statements

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

	Number of Shares	Amount	Additional Paid in Capital	Accumulated Deficit	Total
Balance, December 31, 2018	79,591,880	\$ 106,494	\$ 23,763	\$ (129,191)	\$ 1,066
Stock-based compensation	-	-	15	-	15
Net loss	-	-	-	(385)	(385)
Balance, March 31, 2019	79,591,880	\$ 106,494	\$ 23,778	\$ (129,576)	\$ 696
Balance, December 31, 2019	103,966,880	\$ 112,208	\$ 23,831	\$ (130,881)	\$ 5,158
Stock option exercise	40,186	-	-	-	-
Stock-based compensation	-	-	59	-	59
Net loss	-	-	-	(602)	(602)
Balance, March 31, 2020	104,007,066	\$ 112,208	\$ 23,890	\$ (131,483)	\$ 4,615

See accompanying notes to condensed consolidated interim financial statements.

RARE ELEMENT RESOURCES LTD.
NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS
MARCH 31, 2020

(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 been focused on advancing the Bear Lodge REE Project 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. Additionally, the Company holds a 100% interest in the Sundance Gold Project, adjacent to the Bear Lodge REE Project, which contains a historical inferred mineral resource primarily composed of three gold targets within the area of the Bear Lodge property. As a result of the Company’s current focus on the Bear Lodge REE Project, the Sundance Gold Project has been on hold since 2011 and further exploration will be required in order to define the extent of the gold occurrences.

During the quarter ended March 31, 2020, the Company focused on continuing the confirmation and enhancement of our proprietary technology for rare earth processing and separation through piloting. During March 2020, the board of Directors approved the engagement of Umwelt- und Ingenieurtechnik GmbH Dresden (“UIT”), an affiliate of General Atomic Technologies Corporation and Synchron, for further pilot plant test work to optimize certain processes and develop scale-up design criteria and cost estimates for a planned demonstration plant. The Company continued to monitor U.S. government actions regarding securing a domestic, non-Chinese, rare earth supply chain, participated in certain discussions with government officials, and met with a number of State and U.S. government officials regarding potential funding participation in the development of a demonstration plant.

2. BASIS OF PRESENTATION

In accordance with U.S. GAAP for interim financial statements, these condensed consolidated financial statements do not include certain information and note disclosures that are normally included in annual financial statements prepared in conformity with U.S. GAAP. Accordingly, these unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements as of December 31, 2019, which were included in our Annual Report on Form 10-K for the year ended December 31, 2019. 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 March 31, 2020, and the results of our operations and cash flows for the three months ended March 31, 2020 and 2019 in conformity with U.S. GAAP. Interim results of operations for the three months ended March 31, 2020 may not be indicative of results that will be realized for the full year ending December 31, 2020.

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, however, management does not believe there is substantial doubt as to its ability to continue as a going concern. However, even with the transactions with Synchron in 2017 and 2019 (Note 4), 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.

RARE ELEMENT RESOURCES LTD.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020

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

3. EQUIPMENT

	March 31, 2020			December 31, 2019		
	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	293	53	346	292	54
Vehicles	87	85	2	87	85	2
	<u>\$ 447</u>	<u>\$ 392</u>	<u>\$ 55</u>	<u>\$ 447</u>	<u>\$ 391</u>	<u>\$ 56</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 34% 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% of the Company’s fully diluted common shares for an aggregate exercise price of an additional \$5,040. Pursuant to an option agreement (the “Option Agreement”), the Option term was 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.

On October 16, 2019, the 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. Accordingly, (i) Synchron’s ownership of outstanding common shares of the Company increased from approximately 34% to approximately 49%, and (ii) Synchron obtained the right to nominate an additional board member and (iii) 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,

The Company engaged a third-party valuation firm to determine the fair value the three components of the Synchron transaction: the Investment Agreement, the Option Agreement and the IP Rights Agreement. As of the 2017 closing date of 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 gain on the revaluation of the Option liability was \$15 for the three months ended March 31, 2019. Due to the Synchron exercise the Option in October 2019, the Company no longer has a liability related to the Option and will no longer have any gains or losses from the revaluation of the Option liability.

RARE ELEMENT RESOURCES LTD.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020

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

On March 31, 2019, the Option was valued utilizing the Black-Scholes valuation model. The significant assumptions are as follows:

	March 31, 2019
Risk-free interest rate	2.24%
Expected volatility	75%
Expected dividend yield	Nil
Expected term in years	2.5
Estimated forfeiture rate	Nil
Estimated exercise price	\$0.34
Estimated enterprise value per common share	\$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 would obtain exclusive rights to the intellectual property upon exercise 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 was the period of the Company's performance obligation related to the IP Rights Agreement. During the three months ended March 31, 2019, we amortized \$64 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 March 31, 2020, we have 4,100,000 options outstanding that were issued under the 10% Rolling Stock Option Plan.

The compensation expense for stock option awards recognized in our consolidated financial statements for the three months ended March 31, 2020 and 2019 was \$59 and \$15, respectively. As of March 31, 2020, there was approximately \$523 of total unrecognized compensation cost related to 1,175,000 unvested stock options that is expected to be recognized over a weighted-average remaining vesting period of 1.5 years.

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 750,000 and 850,000 options granted during the three months ended March 31, 2020 and 2019, 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 three months ended March 31, 2020 and 2019:

	Three months ended March 31,	
	2020	2019
Risk-free interest rate	1.45%	2.49%
Expected volatility	148%	141%
Expected dividend yield	Nil	Nil
Expected term in years	5.0	5.0
Estimated forfeiture rate	Nil	Nil

RARE ELEMENT RESOURCES LTD.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020

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

The following table summarizes our stock option activity for each of the three months ended March 31, 2020 and 2019:

	2020		2019	
	Number of Stock Options	Weighted Average Exercise Price	Number of Stock Options	Weighted Average Exercise Price
Outstanding, beginning of period	3,450,000	\$ 0.16	3,385,400	\$ 0.44
Granted	750,000	0.83	850,000	0.07
Exercised ⁽¹⁾	100,000	0.32	–	–
Cancelled/Expired	–	–	(41,400)	0.32
Outstanding, end of period	4,100,000	\$ 0.28	4,194,000	\$ 0.21
Exercisable, end of period	2,925,000	\$ 0.17	2,969,000	\$ 0.24
Weighted-average fair value per share of options granted during period	\$ 0.75		\$ 0.07	

(1) The 100,000 stock options exercised resulted in 40,186 common shares being issued under the net settlement option pursuant to the terms of the 10% Rolling Stock Option Plan for the three months ended March 31, 2020.

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 approved the UIT engagement. The UIT pilot plant agreement was for an amount not to exceed \$700. Additionally, on September 9, 2019, the Company entered into an agreement to amend the scope terms and conditions related to the February 2019 agreement which resulted in additional estimated costs of \$70. The UIT pilot plant test work was completed in December 2019, with test work reports subsequently provided to the Company.

On March 9, 2020, the Board of Directors approved the engagement of UIT for further pilot plant test work in an amount not to exceed \$650. Under the 2020 engagement, UIT will optimize certain process steps, develop scale-up design criteria for a planned demonstration plant, and confirm operating and capital cost estimates. Consistent with the prior Board action engaging UIT, the three directors of Rare Element appointed by Synchron abstained because Synchron is a significant shareholder of the Company and is an affiliate of UIT.

Since the execution of the UIT agreements, the Company has incurred approximately \$1,354 in costs related thereto, \$120 of which is included in Accounts payable and accrued liabilities as at March 31, 2020.

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 months ended March 31, 2020, has been prepared based on information available to us as of May 11, 2020. This discussion should be read in conjunction with the unaudited Consolidated Financial Statements and notes thereto included herewith and the audited Consolidated Financial Statements of Rare Element for the year ended December 31, 2019, 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

During the quarter ended March 31, 2020, the Company focused on continuing the confirmation and enhancement of our proprietary technology for rare earth processing and separation through pilot testing .We entered into a formal engagement during March 2020 with Umwelt- und Ingenieurtechnik GmbH Dresden (“UIT”), an affiliate of General Atomic Technologies Corporation and Synchron, to continue our technology advancement (see Note 5 to the Condensed Consolidated Financial Statements for complete discussion regarding the agreement). Further, in 2020, the Company continued to monitor the general U.S. political climate and actions taken by the U.S. government to secure a domestic, non-Chinese, rare earth supply chain in the future. The U.S. federal government 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. In addition, the novel coronavirus outbreak in early 2020 is expected to further focus the U.S. government on the importance of a non-Chinese domestic rare earth supply chain. The Company is continuing to support and explore participating in these initiatives in 2020 as they are critical to the United States’ production of rare earth magnets to support the manufacturing of, among other things, defense technologies, electric vehicles and bicycles, wind turbines, automobiles, consumer electronics, and oil refining equipment. During 2020, the Company plans further piloting to optimize certain process steps, scale-up design criteria for a planned demonstration plant, confirm operating and capital cost estimates, and seek potential U.S. government funds for the demonstration plant.

As of March 31, 2020, the global outbreak of the novel coronavirus pandemic (“COVID-19”) has become wide-spread and is dramatically impacting many worldwide businesses as well as the U.S. and world economies. Although the Company’s employee and consultants were already working remotely and have not been materially impacted at this time in daily work schedules other than instituting travel restrictions, the Company has seen delays from third parties under contract with the Company. This includes the pilot plant studies with UIT, which has been engaged in the work relating to processing and separation of rare earths (see Note 5 to the Condensed Consolidated Financial Statements for complete discussion regarding the agreement). UIT has slowed the progression of the planned work due to worker restrictions in Germany. Although the slower progression is not material to the Company’s plans at this time, any continued impact may be material to the completion of the test work and our ability to progress our current business plans. Additionally, any economic downturn triggered by the pandemic and resulting direct and indirect negative impact to the Company cannot currently be determined but could have a prospective material impact to the Company’s future Project activities, cash flows and liquidity. Further, it is unknown, what, if any, impact the pandemic and resulting economic slowdown will have on rare earth prices and market supply and demand fundamentals. The Company is monitoring the impact of the COVID-19 pandemic on its 2020 plans. For further discussion of this matter, refer “Item 1A. Risk Factors” in Part II of this report.

Results of Operations

Summary

Our consolidated net loss for the three months ended March 31, 2020 was \$602, or \$0.01 per share, compared with our consolidated net loss of \$385, or nil per share, for the same period in 2018. See the discussion below for the primary drivers regarding the change in net loss period-to-period.

Exploration and evaluation

Exploration and evaluation costs were \$232 and \$230 for the three months ended March 31, 2020 and 2019, respectively. We have continued activities at the Bear Lodge REE Project related to maintaining our environmental obligations, supplementing our environmental baseline studies and reviewing and advancing our technology under the UIT technology agreement.

Corporate administration

Corporate administration costs were \$390 and \$241 for the three months ended March 31, 2020 and 2019, respectively. The increase from the prior period was the result of increased expenses associated with our compliance and regulatory obligations and lobbying efforts.

Amortization of Intellectual Property Income

During the three months ended March 31, 2019, we amortized \$64 of deferred intellectual property income. We incurred deferred intellectual property income due to the IP Rights Agreement with Synchron (see “Financial Position, Liquidity and Capital Resources - Transaction with Synchron” discussion below). Because Synchron obtained exclusive rights to the intellectual property upon exercise of the Option (as discussed below), the value of the IP Rights Agreement was considered deferred income. Prior to Synchron exercising its Option, we were amortizing the deferred income using the straight-line method over a period of four years (the term of the Option Agreement). Upon exercise of the Option during the fourth quarter of 2019, the Company fully amortized the remaining balance of the deferred intellectual property income. As a result, there was no amortization during the three months ended March 31, 2020.

Gain on Revaluation of Option Liability

Gain on the revaluation of the Option liability was \$15 for the three months ended March 31, 2019. This gain is directly related to the valuation of the Option Agreement with Synchron (see “Financial Position, Liquidity and Capital Resources – Transaction with Synchron” discussion below). As the Option Agreement was considered a derivative liability, we revalued the Option liability at the end of each reporting period, until the Option was exercised during the fourth quarter of 2019. As a result, there was no gain on revaluation of the Option liability during the three months ended March 31, 2020.

Cash Flows, Financial Position, Liquidity and Capital Resources

Cash Flows from Operating Activities

Net cash used in operating activities was \$746 for the three months ended March 31, 2020, as compared with \$558 for the same period in 2019. The increase of \$188 in cash used is primarily the result of increased spending on Corporate administration activities.

Financial Position, Liquidity and Capital Resources

At March 31, 2020, our total current assets were \$4,928, as compared with \$5,704 as of December 31, 2019, which is a decrease of \$776. The decrease in total current assets is primarily due to a decrease in the combination of cash and cash equivalents due to funding our operations. Our working capital as at March 31, 2020 was \$4,692, as compared with \$5,234 at December 31, 2019.

Due to transactions with Synchron in October 2019 (see “Financial Position, Liquidity and Capital Resources – Transaction with Synchron” discussion below), the Company has adequate funds to meet its obligations for the 12 months following the date of filing this quarterly report on Form 10-Q. We do not have sufficient funds, however, to fully complete feasibility studies, licensing, 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 transactions. Ultimately, in the event that we cannot obtain additional financial resources or complete a strategic transaction in the longer term, we may have to liquidate our business interests, and investors may lose all or part of their investment.

Transaction with Synchron

On October 2, 2017, the Company and 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 34% 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% of the Company’s fully diluted common shares for an aggregate exercise price of an additional \$5,040. Pursuant to an option agreement (the “Option Agreement”), the Option term was 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.

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, (i) Synchron’s ownership of outstanding common shares of the Company increased to approximately 49%, and (ii) Synchron obtained the right to nominate an additional board member and (iii) the intellectual property rights granted 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,

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Contractual Obligations

During the three months ended March 31, 2020, there were no material changes 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, 2019.

As noted in Item 7 of Part II of our Annual Report on Form 10-K, during the three months ended March 31, 2020 the Board of Directors approved the engagement of UIT for further pilot plant test work in an amount not to exceed \$650. This engagement took place on March 9, 2020. Under the 2020 engagement, UIT will optimize certain process steps, develop scale-up design criteria for a planned demonstration plant, and confirm operating and capital cost estimates. Consistent with the prior Board action engaging UIT, the three directors of Rare Element appointed by Synchron abstained because Synchron is a significant shareholder of the Company and is an affiliate of UIT.

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 March 31, 2020. 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 March 31, 2020, 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 March 31, 2020 there were no material changes to the risk factors, other than discussed below, disclosed in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2019.

In March 2020, the World Health Organization categorized the COVID-19 outbreak as a pandemic, and the President of the United States declared the outbreak a national emergency. COVID-19 continues to spread throughout the United States and other countries across the world, and the duration and severity of its effects are currently unknown. The outbreak has resulted in governments around the world implementing increasingly stringent measures to help control the spread of the virus, including quarantines, “shelter in place” and “stay at home” orders, travel restrictions, business curtailments, school closures and other measures. In addition, governments and central banks in several parts of the world have enacted fiscal and monetary stimulus and emergency measures to counteract the impacts of COVID-19.

The COVID-19 pandemic and similar issues in the future could have a material adverse effect on our ability to raise capital, construct or operate a mine or production facility, or execute our business plans. In addition, preventive measures we may voluntarily put in place, may have a material adverse effect on our business for an indefinite period of time, such as decreased employee or contractor availability, unavailability of needed products or services, or disruptions to the businesses of our contracted services and others. Our suppliers may also face these and other challenges, which could lead to a disruption or delays in their services. For example, UIT, which has been engaged in the test work relating to processing and separation of rare earths, has been slowed due to worker restrictions in Germany, although we still believe the work will be completed timely. The pandemic and resulting economic slowdown may also impact the supply and demand for rare earths domestically and globally. Although these disruptions may continue to occur, the long-term economic impact and near-term financial impacts of the COVID-19 pandemic cannot be reasonably estimated at this time due to the uncertainty of future developments.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

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

Pursuant to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act 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 March 31, 2020, the Company was not subject to regulation by MSHA under the Mine Act.

ITEM 5. OTHER INFORMATION

The Company’s 2020 annual meeting for the fiscal year ended December 31, 2019 will be held at the offices of General Atomics affiliates, 7800 East Dorado Place, 2nd Floor Conference Room, Greenwood Village, Colorado 80111 on Tuesday, June 9, 2020 at 2:00 p.m. (Mountain Standard Time). The Company’s shareholders may participate via teleconference and are encouraged to do so rather than attending in person due to COVID-19 social distancing restrictions.

ITEM 6. EXHIBITS

<u>Exhibit Number</u>	<u>Description</u>
10.1	10% Rolling Stock Option Plan as Amended and Restated on April 7, 2020
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
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.

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: May 11, 2020

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

Date: May 11, 2020



2011 STOCK OPTION PLAN

(as approved by shareholders on December 2, 2011 and Amended April 7, 2020)

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STOCK OPTION PLAN

ARTICLE 1 - DEFINITIONS AND INTERPRETATION

1.1 Definitions

As used herein, unless anything in the subject matter or context is inconsistent therewith, the following terms shall have the meanings set forth below:

- (a) "Award Date" means the date specified in an Option Certificate as the date on which an Option is granted and as approved by the Compensation Committee;
- (b) "Board" means the board of directors of the Corporation;
- (c) "Change of Control" means and shall be deemed to have occurred if one of the following events takes place:
 - (i) the sale, transfer or other disposition of all or substantially all of the Corporation's assets;
 - (ii) the Corporation amalgamates or enters into a plan of arrangement with another company at arm's length to the Corporation and its affiliates, other than an amalgamation or plan of arrangement that would result in the voting securities of the Corporation outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving or resulting entity) more than 50% of the combined voting power of the surviving or resulting entity outstanding immediately after such amalgamation or plan of arrangement; or
 - (iii) any Person or combination of Persons acting jointly or in concert acquires or becomes the beneficial owner of, directly or indirectly, more than 50% of the voting securities of the Corporation, whether through the acquisition of previously issued and outstanding voting securities, or of voting securities that have not been previously issued, or any combination thereof, or any other transaction having a similar effect;
- (d) "Compensation Committee" means the committee authorized by the Board to determine the grant of Options pursuant to the Plan, subject to in all instances, ratification by the Board together with any restrictions established by the Board to the terms set out herein;
- (e) "Consultant" means a person who provides management or consulting services to the Corporation or any related entity on an ongoing basis under contract, but who is not an Employee;
- (f) "Corporation" means Rare Element Resources Ltd.;
- (g) "Director" means any individual holding the office of director of the Corporation or any related entity;

- (h) "Disability" means a mental or physical disability which permanently prevents an Option Holder who is a Director or an Employee from continuing as a Director or an Employee as the case may be;
- (i) "Employee" means any individual regularly employed on a full-time or part-time basis by the Corporation or any related entity;
- (j) "Exercise Notice" means the notice respecting the exercise of an Option in the form set out as Schedule "B" hereto, duly executed by the Option Holder;
- (k) "Exercise Period" means the period during which a particular Option may be exercised and, in respect of each portion of such Option, is the period from and including the date of vesting thereof set forth in the Option Certificate to and including the Expiry Date;
- (l) "Exercise Price" means the price at which an Option may be exercised as determined in accordance with paragraph 3.5;
- (m) "Expiry Date" means the date determined in accordance with paragraph 3.3 and after which a particular Option cannot be exercised;
- (n) "Insider" has the meaning ascribed to such term in the TSX Company Manual;
- (o) "Mandatory Retirement" means the retirement of an Option Holder who is an Employee as a result of reaching the mandatory retirement age in the jurisdiction in which the Option Holder is employed;
- (p) "Option" means an option to acquire Shares, awarded to a Director, Employee or Consultant pursuant to the Plan;
- (q) "Option Certificate" means the certificate, substantially in the form set out as Schedule "A" hereto, evidencing an Option;
- (r) "Option Holder" means a Director, Employee or Consultant or former Director, Employee or Consultant, who holds an unexercised and unexpired Option or, where applicable, the Personal Representative of such person;
- (s) "Plan" means this Rare Element Resources Ltd. stock option plan;
- (t) "Personal Representative" means:
 - (i) in the case of a deceased Option Holder, the executor or administrator of the deceased duly appointed by a court or public authority having jurisdiction to do so; and
 - (ii) in the case of an Option Holder who for any reason is unable to manage his or her affairs, the person entitled by law to act on behalf of such Option Holder;
- (u) "related entity" means a related entity, as such term is defined in National Instrument 45-106, of the Corporation;

- (v) "Share" or "Shares" means, as the case may be, one or more common shares without par value in the capital of the Corporation; and
- (w) "TSX" means the Toronto Stock Exchange.

1.2 Corporate Option Holders

Where an Option Holder is a corporation, the Option Holder will be deemed to have died or to have become subject to a Disability if an individual employed by the Option Holder who is principally responsible for providing services to the Corporation on behalf of the Option Holder dies or becomes subject to a physical or mental disability which permanently prevents the individual from providing the services normally provided by the Option Holder, if, in the opinion of the Corporation, acting reasonably, by reason of the death or disability of the individual, the Option Holder is no longer able to provide the services for which the Corporation has contracted.

1.3 Choice of Law

The Plan is established under and the provisions of the Plan shall be interpreted and construed in accordance with the laws of the Province of British Columbia.

1.4 Headings

The headings used herein are for convenience only and are not to affect the interpretation of the Plan.

ARTICLE 2 - PURPOSE AND PARTICIPATION

2.1 Purpose

The purpose of the Plan is to provide the Corporation with a share-related mechanism to attract, retain and motivate qualified Directors, Employees and Consultants, to reward such of those Directors, Employees and Consultants as may be awarded Options under the Plan by the Compensation Committee from time to time for their contributions toward the long term goals of the Corporation and to enable and encourage such Directors, Employees and Consultants to acquire Shares as long term investments.

2.2 Participation

The Compensation Committee shall, from time to time, in its sole discretion determine those Directors, Employees and Consultants, if any, to whom Options are to be awarded. If the Compensation Committee elects to award an Option to a Director, Employee or Consultant, the Compensation Committee shall on the date of such election, in its sole discretion, but subject to paragraph 3.2, determine the number of Shares to be acquired on the exercise of such Option.

2.3 Notification of Award

Following the approval by the Compensation Committee of the awarding of an Option, the Corporate Secretary shall notify the Option Holder in writing of the award and shall enclose with such notice the Option Certificate representing the Option so awarded.

2.4 Copy of Plan

Each Option Holder, concurrently with the notice of the award of the Option, shall be provided by the Corporate Secretary with a copy of the Plan. A copy of any amendment to the Plan shall be promptly provided by the Corporate Secretary to each Option Holder.

2.5 Limitation

The Plan does not give any Option Holder that is a Director the right to serve or continue to serve as a Director nor does it give any Option Holder that is an Employee or Consultant the right to be or to continue to be employed by or provide services to the Corporation.

ARTICLE 3 - TERMS AND CONDITIONS OF OPTIONS

3.1 Board to Allot Shares

The Shares to be issued to Option Holders upon the exercise of Options shall be allotted and authorized for issuance by the Board prior to the award of such Options.

3.2 Limits on Grants of Options

The maximum number of Shares issuable under the Plan, together with the number of Shares issuable under outstanding options granted otherwise than under the Plan, shall not in the aggregate exceed 10% of the issued and outstanding Shares (calculated as at the Award Date of such Options). If any Option expires or otherwise terminates for any reason without having been exercised in full, the number of Shares in respect of which Option expired or terminated shall again be available for the purposes of the Plan.

In addition, the Corporation shall not grant Options:

- (a) to any one person where such grant would result in such person holding Options to acquire Shares in excess of 5% of the issued and outstanding Shares as at the Award Date; or
- (b) to Insiders of the Corporation, within any one year period, or at any time, whereby under the arrangement, or when combined with all of the Corporation's other security based compensation arrangements, such grant may exceed 10% of the Corporation's total issued and outstanding Shares, respectively.

3.3 Term of Option

Subject to paragraphs 3.4 and 3.10, the term of the Option shall be determined by the discretion of the Compensation Committee and shall not exceed the tenth anniversary of the Award Date of such Option.

3.4 Termination of Option; Accelerated Vesting

An Option Holder may exercise an Option in whole or in part at any time or from time to time during the Exercise Period provided that, with respect to the exercise of part of an Option, the Compensation Committee may at any time and from time to time fix a minimum or maximum

number of Shares in respect of which an Option Holder may exercise part of any Option held by such Option Holder. Any Option or part thereof not exercised within the Exercise Period shall terminate and become null, void and of no effect as of 5:00 p.m. local time in Littleton, Colorado, on the Expiry Date. The Expiry Date of an Option shall be the earlier of the date so fixed by the Compensation Committee at the time the Option is awarded and the date established, if applicable, in sub-paragraphs (a) to (f) below:

(a) **Death or Disability**

In the event that the Option Holder should die or have a Disability while he or she is still a Director or Employee or be deemed to have died or have a Disability while it is a Consultant, the Expiry Date shall be one year from the date of death or Disability of the Option Holder. Any Options which are unvested as of the date of death or Disability will not vest. Notwithstanding the foregoing, the Compensation Committee may, in its discretion, determine that any unvested Options of the Option Holder will immediately vest and become immediately exercisable.

(b) **Ceasing to hold Office**

In the event that the Option Holder is a Director and such Option Holder ceases to be a Director other than by reason of death or Disability, notwithstanding the vesting provisions in the Option Certificate, all unvested Options of the Option Holder will immediately vest and become immediately exercisable and the Expiry Date of the Option shall be the 90th day following the date the Option Holder ceases to be a Director, unless the Option Holder ceases to be a Director but continues to be engaged as an Employee or Consultant, in which case the Options will not so vest and the Expiry Date shall remain unchanged, or unless the Option Holder ceases to be a Director as a result of:

- (i) ceasing to meet the qualifications set forth in subsection 124(2) of the *Business Corporations Act* (British Columbia), as amended, or such other qualifications required by the corporate laws in any other jurisdiction under which the Corporation is continued or amalgamated; or
- (ii) a special resolution having been passed by the shareholders of the Corporation pursuant to subsection 128(3) of the *Business Corporations Act* (British Columbia), as amended, or an equivalent enactment pursuant to the corporate laws in any other jurisdiction under which the Corporation is continued or amalgamated; or
- (iii) by order of the British Columbia Securities Commission, the Ontario Securities Commission, the TSX or any other regulatory body having jurisdiction to so order, or
- (iv) his or her resignation, if he or she has been a Director for less than six months,

in which case the Expiry Date shall be the date the Option Holder ceases to be a Director and any Options which are unvested as of that date will not vest.

(c) **Ceasing to be Employed**

In the event that the Option Holder is an Employee and such Option Holder ceases to be an Employee other than by reason of death, Disability, Mandatory Retirement or a Change of Control, the Expiry Date of the Option shall be the 90th day following the date the Option Holder ceases to be an Employee, unless the Option Holder ceases to be an Employee but continues to be engaged as a Director or Consultant, in which case the Expiry Date shall remain unchanged, or unless the Option Holder ceases to be an Employee as a result of:

- (i) termination for cause; or
- (ii) by order of the British Columbia Securities Commission, the Ontario Securities Commission, the TSX or any other regulatory body having jurisdiction to so order,

in which case the Expiry Date shall be the date the Option Holder ceases to be an Employee. Any Options which are unvested as of the date the Option Holder ceases to be an Employee will not vest unless the Option Holder continues to be engaged as a Director or Consultant, in which case vesting of the Options shall be unchanged. Notwithstanding the foregoing, the Compensation Committee may, in its discretion, determine that any unvested Options of the Option Holder will immediately vest and become immediately exercisable.

(d) **Ceasing to be a Consultant**

In the event that an Option Holder is a Consultant and such Option Holder ceases to be a Consultant by reason of the completion or termination of the contract under which the Consultant provides services to the Corporation, the Expiry Date of the Option shall be the 90th day following the date the Option Holder ceases to be a Consultant unless the Option Holder ceases to be a Consultant but continues to be engaged as a Director or Employee, in which case the Expiry Date shall be the 90th day following the date the Option Holder ceases to be a Director or Employee. Any Options which are unvested as of the date the Option Holder ceases to be a Consultant will not vest unless the Option Holder continues to be engaged as a Director or Employee, in which case vesting of the Options shall be unchanged. Notwithstanding the foregoing, the Compensation Committee may, in its discretion, determine that any unvested Options of the Option Holder will immediately vest and become immediately exercisable.

In the event that an Option Holder is a Consultant and, upon completion of the contract under which the Consultant provided services to the Corporation such Consultant is subsequently hired by the Corporation and becomes an Employee within 90 days following the date the Option Holder ceases to be a Consultant of the Corporation, the Options previously granted to the Consultant will flow through to the Employee on the same terms and conditions of the original grant of Options.

(e) **Change of Control**

- (i) In the event that the Option Holder holds his or her Option as an Employee or Consultant (other than an Option Holder who is a Director or an officer of

the Corporation) and such Option Holder ceases to be an Employee or a Consultant as a result of a Change of Control at any time before six months have expired from the effective date of the Change of Control then, notwithstanding the vesting provisions of the Option Certificate of the Option Holder, all unvested Options of the Option Holder will immediately vest and become immediately exercisable and the Expiry Date shall be the earlier of the pre-existing Expiry Date and the date 90 days following the date on which the Employee or Consultant ceased to be such.

- (ii) In the event that the Option Holder is a Director or an officer of the Corporation and such Option Holder ceases to be an Employee, Director or Consultant as a result of a Change of Control at any time before six months have expired from the effective date of the Change of Control then, notwithstanding the vesting provisions of the Option Certificate of the Option Holder, all unvested Options of the Option Holder will immediately vest and become immediately exercisable and the Expiry Date shall be the earlier of the pre-existing Expiry Date and the date two years following the date on which the Employee, Director or Consultant ceased to be such.
- (iii) In the event that the Corporation enters into an agreement with another entity which may result in a Change of Control, or a “takeover bid” within the meaning of the *Securities Act* (British Columbia) is made for the Corporation by another entity which may result in a Change of Control, all unvested Options of the Option Holders will immediately vest and become immediately exercisable as of the date of the agreement or takeover bid.

(f) **Mandatory Retirement - Employee**

In the event that an Option Holder is an Employee and such Option Holder ceases to be an Employee by reason of Mandatory Retirement, notwithstanding the provisions of the Option Certificate, all unvested Options of the Option Holder will immediately vest and become immediately exercisable and the Expiry Date will be one year from the date of retirement.

3.5 Exercise Price

The Exercise Price shall be that price per share, as determined by the Compensation Committee in its sole discretion and announced as of the Award Date, at which an Option Holder may purchase a Share upon the exercise of an Option, and shall not be less than the closing price of the Shares on the TSX, or another stock exchange where the majority of the trading volume and value of the Shares occurs, on the last trading day immediately preceding the Award Date, provided, however, that the Compensation Committee may designate an Exercise Price below the closing price of the Shares on the TSX, or another stock exchange where the majority of the trading volume and value of the Shares occurs, on the last trading day immediately preceding the Award Date if the Option is granted in substitution for a stock option previously granted by an entity that is acquired by or merged with the Corporation or an affiliate of the Corporation.

3.6 Assignment of Options

Options are non-assignable and non-transferable. Notwithstanding the forgoing, an Option Holder may transfer an Option (or any part thereof) to a corporation which is 100% owned by the Option

Holder, provided that the transfer is permitted by and is effected in accordance with the applicable securities laws and the then applicable policies of the TSX.

3.7 Vesting Provisions

The Compensation Committee retains the discretion to impose vesting periods on any Stock Options granted to directors, senior officers, Employees or consultants.

3.8 Adjustments

If prior to the complete exercise of any Option the Shares are consolidated, subdivided, converted, exchanged or reclassified or in any way substituted for (collectively the "Event"), an Option, to the extent that it has not been exercised, shall be adjusted by the Compensation Committee in accordance with such Event in the manner the Compensation Committee deems appropriate. No fractional Shares shall be issued upon the exercise of the Options and accordingly, if as a result of the Event, an Option Holder would become entitled to a fractional share, such Option Holder shall have the right to purchase only the next lowest whole number of shares and no payment or other adjustment will be made with respect to the fractional interest so disregarded. Additionally, no lots of Shares in an amount less than 500 Shares shall be issued upon the exercise of the Option unless such amount of Shares represents the balance left to be exercised under the Option.

3.9 Exclusion From Severance Allowance, Retirement Allowance or Termination Settlement

If an Option Holder retires, resigns or is terminated from employment or engagement with the Corporation or any related entity, the loss or limitation, if any, pursuant to the Option Certificate with respect to the right to purchase Shares which were not vested at the time or which, if vested, were cancelled, shall not give rise to any right to damages and shall not be included in the calculation of nor form any part of any severance allowance, retiring allowance or termination settlement of any kind whatsoever in respect of such Option Holder.

3.10 Trading Blackouts

In the event the Expiry Date of an Option falls within a trading blackout period imposed by the Corporation, such Option will continue to be exercisable until the tenth business day following the expiry of such trading blackout period.

ARTICLE 4 - EXERCISE OF OPTION

4.1 Exercise of Option

An Option may be exercised only by the Option Holder or the Personal Representative of the Option Holder. An Option Holder or the Personal Representative of the Option Holder may exercise an Option in whole or in part at any time or from time to time during the Exercise Period up to 5:00 p.m. local time in Littleton, Colorado on the Expiry Date by delivering to the Corporate Secretary an Exercise Notice, the applicable Option Certificate and a certified cheque or bank draft payable to the Corporation in an amount equal to the aggregate Exercise Price of the Shares to be purchased pursuant to the exercise of the Option, subject to Section 4.4 or

Section 5.3, if applicable, and the amount necessary to satisfy the Corporation's withholding obligations pursuant to Section 5.3, if applicable.

4.2 Issue of Share Certificates

As soon as practicable following the receipt of the Exercise Notice, the Corporate Secretary shall cause to be delivered to the Option Holder a certificate for the Shares so purchased or, if a physical certificate is not issued due to the Corporation's participation in a direct registration system, an ownership confirmation statement, subject to Section 4.4. If the number of Shares so purchased is less than the number of Shares subject to the Option Certificate surrendered, the Corporate Secretary shall forward a new Option Certificate to the Option Holder concurrently with delivery of the aforesaid share certificate or ownership confirmation statement, as applicable, for the balance of Shares available under the Option.

4.3 Condition of Issue

The Options and the issue of Shares by the Corporation pursuant to the exercise of an Option is subject to this Plan and compliance with the laws, rules and regulations of all regulatory bodies applicable to the granting of such Options and the issuance and distribution of such Shares and to the listing requirements of any stock exchange or exchanges on which the Shares may be listed. The Option Holder agrees to comply with all such laws, rules and regulations and agrees to furnish to the Corporation any information, reports and/or undertakings required to comply with and to fully cooperate with the Corporation in complying with such laws, rules and regulations.

4.4. Cashless Exercise of Option

Notwithstanding any other provision of the Plan, an Option Holder who is an Employee, Director or Consultant of the Corporation may, in lieu of exercising an Option as provided in paragraph 4.1, elect to exercise such Option by providing an Exercise Notice to the Corporation specifying that the Option Holder is subscribing for the number of Shares to which the Option Holder is entitled on exercise of the Option without payment of the Exercise Price therefor. The number of Shares to be issued to the Option Holder upon such an election is the number obtained by dividing: (a) the difference between the closing price of the Shares as of the date of receipt by the Corporation of such notice and the Exercise Price of the Shares, multiplied by the number of Shares in respect of which the Option would otherwise be exercised upon payment of the aggregate Exercise Price, by (b) the closing price of the Shares as of the date of receipt by the Corporation of such notice. Upon any such election, the Corporation may, at the discretion of the Board, instead of issuing to the Option Holder the number of Shares calculated in accordance with the preceding sentence, pay to the Option Holder by cheque the amount of money calculated in accordance with clause (a) of such sentence.

ARTICLE 5 - ADMINISTRATION

5.1 Administration

The Plan shall be administered by the Corporate Secretary on the instructions of the Board. The Board may make, amend and repeal at any time and from time to time such regulations not inconsistent with the Plan as it may deem necessary or advisable for the proper administration and operation of the Plan and such regulations shall form part of the Plan. The Board may

delegate to the Corporate Secretary or any Director, officer or Employee of the Corporation such administrative duties and powers as it may see fit.

5.2 Interpretation

The interpretation by the Board of any of the provisions of the Plan and any determination by it pursuant thereto shall be final and conclusive and shall not be subject to any dispute by any Option Holder. No member of the Board or any person acting pursuant to authority delegated by it hereunder shall be liable for any action or determination in connection with the Plan made or taken in good faith and each member of the Board and each such person shall be entitled to indemnification with respect to any such action or determination in the manner provided for by the Corporation.

5.3 Withholding

The Corporation may withhold from any amount payable to an Option Holder, either under this Plan or otherwise, such amount as may be necessary to enable the Corporation to comply with the applicable requirements of any federal, provincial, state, local or foreign law, or any administrative policy of any applicable domestic or foreign tax authority, relating to the withholding of tax or any other required deductions with respect to the issuance or exercise of Options under the Plan ("Withholding Obligations"). The Corporation shall also have the right in its sole discretion to satisfy any liability for any Withholding Obligations by selling, or causing a broker to sell, on behalf of any Option Holder who is an Employee of the Corporation such number of Shares issued to the Option Holder sufficient to fund the Withholding Obligations (after deducting commissions payable to the broker), or retaining any amount payable which would otherwise be delivered, provided or paid to the Option Holder hereunder.

The Corporation may require an Option Holder, as a condition to exercise of an Option, to make such arrangements as the Corporation may require so that the Corporation can satisfy applicable Withholding Obligations with respect to such exercise, including, without limitation, requiring the Option Holder to: (i) remit the amount of any such Withholding Obligations to the Corporation in advance; or (ii) reimburse the Corporation for any such Withholding Obligations, or in the case of an Option Holder who is an Employee; (iii) authorize the Corporation to sell, on behalf of the Option Holder, such number of Shares upon exercise of such Options as is required to satisfy the Withholding Obligations and to retain such portion of the net proceeds (after payment of applicable commissions and expenses) from such sale as the amount required to satisfy any such Withholding Obligations; or (iv) cause a broker who sells Shares acquired by the Option Holder under the Plan on behalf of the Option Holder to withhold from the proceeds realized from such sale the amount required to satisfy any such Withholding Obligations and to remit such amount directly to the Corporation. The Corporation undertakes to remit any such amount to the applicable taxation or regulatory authority on account of such Withholding Obligations.

Any Shares of an Option Holder that are sold by the Corporation, or by a broker engaged by the Corporation (the "Broker"), to fund Withholding Obligations will be sold as soon as practicable in transactions effected on the TSX or such other stock exchange where the majority of the trading volume and value of the Shares occurs. In effecting the sale of any such Shares, the Corporation or the Broker will exercise its sole judgement as to the timing and manner of sale and will not be obligated to seek or obtain a minimum price. Neither the Corporation nor the Broker will be liable for any loss arising out of any sale of such Shares including any loss relating to the manner or timing of such sales, the prices at which the Shares are sold or otherwise. In addition, neither the Corporation nor the Broker will be liable for any loss arising from a delay in transferring any

Shares to an Option Holder. The sale price of Shares sold on behalf of Option Holders will fluctuate with the market price of the Corporation's Shares and no assurance can be given that any particular price will be received upon any such sale.

ARTICLE 6 - AMENDMENT AND TERMINATION

6.1 Board May Amend

The Board shall have the power to, without shareholder approval, at any time and from time to time, either prospectively or retrospectively, amend, suspend or terminate the Plan or any Option granted under the Plan, including, without limiting the generality of the foregoing,

- (a) to alter, extend or accelerate the terms and conditions of vesting of any Options;
- (b) to amend or modify the mechanics of exercise of Options as set forth in Section 4;
- (c) to effect amendments of a "housekeeping" or ministerial nature including, without limiting the generality of the foregoing, any amendment necessary to comply with the provisions of applicable laws (including, without limitation, the rules, regulations and policies of the TSX);
- (d) to effect amendments respecting the administration of the Plan; and
- (e) to effect amendments necessary to suspend or terminate the Plan;

provided always that any such amendment shall not, without the consent of the Option Holder, alter the terms or conditions of any Option or impair any right of any Option Holder pursuant to any Option awarded prior to such amendment in a manner materially prejudicial to such Option Holder.

Additionally, in the event of any reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of Shares or other securities of the Corporation or any other similar corporate transaction or event involving the Corporation (or the Corporation shall enter into a written agreement to undergo such a transaction or event), the Compensation Committee or the Board may, in its sole discretion, provide for any of the following to be effective upon the consummation of the event (or effective immediately prior to the consummation of the event, provided that the consummation of the event subsequently occurs):

- (i) either (A) termination of any Option, whether or not vested, in exchange for an amount of cash and/or other property, if any, equal to the amount that would have been attained upon the exercise of such Option or realization of the Option Holder's rights (and, for the avoidance of doubt, if, as of the date of the occurrence of the transaction or event described in this Section 6(i)(A), the Compensation Committee or the Board determines in good faith that no amount would have been attained upon the exercise of such Option or realization of the Option Holder's rights, then such Option may be terminated by the Corporation without any payment) or (B) the replacement of such Option with other equivalent rights or property selected by the Compensation Committee or the Board, in its sole discretion;
- (ii) that such Option be assumed by the successor or survivor corporation, or a parent or subsidiary thereof, or shall be substituted for by similar options, rights

or awards covering the stock of the successor or survivor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices; or

- (iii) that such Option shall be exercisable or payable or fully vested with respect to all Shares covered thereby, notwithstanding anything to the contrary in the Option cannot vest, be exercised or become payable after a date certain in the future, which may be the effective date of such event.

6.2 Shareholder Approval

Notwithstanding, the powers of the Board described in Section 6.1, shareholder approval (or disinterested shareholder approval, if required by the policies of the TSX) will be required for the following types of amendments:

- (a) any increase in the number of Shares issuable under the Plan, except such increases by operation of Section 3.8 or the first paragraph of Section 3.2;
- (b) any reduction in the Exercise Price of an Option or the cancellation and reissue of an Option within three months of the date of such cancellation, excluding any Options granted on a value of value exchange basis, subject to TSX approval, provided however that any such Options are not granted to any Insiders of the Corporation;
- (c) any amendment which extends the term of an Option beyond its original Expiry Date except in accordance with Section 3.10;
- (d) any amendment which would permit an Option to be transferable or assignable other than for normal estate settlement purposes or in accordance with Section 3.6;
- (e) any amendment to Section 3.2, Section 6.1 or Section 6.2 of the Plan; and
- (f) any amendment required to be approved by shareholders under applicable law (including without limitation, pursuant to the rules, regulations and policies of the TSX).

6.3 Termination

The Board may terminate the Plan at any time provided that such termination shall not alter the terms or conditions of any Option or impair any right of any Option Holder pursuant to any Option awarded prior to the date of such termination and notwithstanding such termination the Corporation, such Options, Option Holders, Directors and Employees and Shares shall continue to be governed by the provisions of the Plan.

6.4 Agreement

The Corporation and every person to whom an Option is awarded hereunder shall be bound by and subject to the terms and conditions of the Plan. By accepting an Option granted hereunder, the Option Holder expressly agrees with the Corporation to be bound by the terms and conditions of the Plan.

ARTICLE 7 - APPROVALS REQUIRED FOR PLAN

7.1 Approvals Required for Plan

Prior to its implementation by the Corporation, the Plan is subject to approvals by the shareholders of the Corporation at an annual and special meeting and the TSX.

APPENDIX "A"

SPECIAL REQUIREMENTS FOR OPTIONS GRANTED TO U.S. PARTICIPANTS

For purposes of this Appendix A, a U.S. Participant shall mean a Participant who is a U.S. citizen or a U.S. resident for U.S. federal tax purposes, in each case as defined in the U.S. Internal Revenue Code of 1986, as amended (the "Code"). In addition to the other provisions of this Plan (and notwithstanding any other provision of this Plan to the contrary), the following limitations and requirements will apply to any Option granted to a U.S. Participant:

- (a) The Board may use its reasonable efforts to ensure that any adjustment with respect to the exercise price for and number of Shares subject to an Option (including, but not limited to, the adjustments contemplated under Section 3.8) granted to a U.S. Participant pursuant to this Plan will be made so as to comply with, and not create any adverse consequences under, sections 424 and 409A of the Code;
- (b) with respect to any extension of an Expiry Date in accordance with Section 3.10 of the Plan, the term "black-out" shall mean a period of time during which, pursuant to the policies of the Corporation that are reasonably designed to ensure compliance with applicable securities laws or rules of exchanges, trading in Shares or Options is prohibited or restricted;
- (c) Options granted to U.S. Participants that are intended to qualify as "incentive stock options" within the meaning of section 422 of the Code ("Incentive Stock Options") shall, notwithstanding any other provision of this Plan to the contrary, be subject to the following limitations and requirements:
 - (i) Notwithstanding Section 3.2, the maximum number of Shares issuable under Incentive Stock Options granted under the Plan shall not in the aggregate exceed 5,000,000 Shares;
 - (ii) An Incentive Stock Option may be granted only to employees (including a Director or officer who is also an employee) of the Corporation (or of any parent or subsidiary of the Corporation). For purposes of this Appendix, the term "employee" shall mean a person who is an employee for purposes of the Code and the terms "parent" and "subsidiary" shall have the meanings set forth in sections 424(e) and 424(f) of the Code;
 - (iii) The aggregate fair market value (determined as of the date of grant) of the Shares with respect to which Incentive Stock Options are exercisable for the first time by any U.S. Participant during any calendar year (under this Plan and all other plans of the Corporation and of any parent or subsidiary of the Corporation) may not exceed US\$100,000 or any limitation subsequently set forth in section 422(d) of the Code;
 - (iv) As provided in Section 3.5, the exercise price of an Incentive Stock Options shall not be less than the closing price of the Shares on the TSX, or another stock exchange where the majority of the trading volume and value of the Shares occurs, on the last trading day immediately preceding the Award Date; provided, however, that in the case of the grant of an Incentive Stock Option to a U.S.

Participant who, at the time such Incentive Stock Option is granted, is a "10% shareholder" within the meaning of section 422(b)(6), the exercise price payable per Share upon exercise of such Incentive Stock Option will be not less than 110% of the closing price of the Shares on the TSX, or another stock exchange where the majority of the trading volume and value of the Shares occurs, on the last trading day immediately preceding the Award Date;

- (v) Notwithstanding Sections 3.4 and 3.10, an Incentive Stock Option will terminate and no longer be exercisable no later than ten years after the date of grant of such Incentive Stock Option; provided, however, that in the case of a grant of an Incentive Stock Option to a U.S. Participant who, at the time such Incentive Stock Option is granted, is a 10% shareholder, such Incentive Stock Option will terminate and no longer be exercisable no later than five years after the date of grant of such Incentive Stock Option;
- (vi) Notwithstanding Section 3.4, if a U.S. Participant who has been granted Incentive Stock Options ceases to be employed by the Corporation (or by any parent or subsidiary of the Corporation) for any reason, whether voluntary or involuntary, other than death, permanent disability or cause, such Incentive Stock Option shall be exercisable by the U.S. Participant (to the extent such Incentive Stock Option was vested on the date of cessation of employment) at any time prior to the earlier of (i) the date that is three months after the date of cessation of employment or (ii) the expiration of the term of such Incentive Stock Option. If a U.S. Participant who has been granted Incentive Stock Options ceases to be employed by the Corporation (or by any parent or subsidiary of the Corporation) because of the death or permanent disability of such U.S. Participant, such U.S. Participant, such U.S. Participant's personal representatives or administrators, or any person or persons to whom such Incentive Stock Option is transferred by will or the applicable laws of descent and distribution, may exercise such Incentive Stock Option (to the extent such Incentive Stock Option was vested on the date of death or permanent disability, as the case may be) at any time prior to the earlier of (i) the date that is one year after the date of death or permanent disability, as the case may be, or (ii) the expiration of the term of such Incentive Stock Option. For purposes of this Appendix, the term "permanent disability" has the meaning assigned to that term in section 422(e)(3) of the Code;
- (vii) Notwithstanding Section 3.6, an Incentive Stock Option granted to a U.S. Participant may be exercised during such U.S. Participant's lifetime only by such U.S. Participant, and an Incentive Stock Option granted to a U.S. Participant may not be transferred, assigned or pledged by such U.S. Participant, except by will or by the laws of descent and distribution;
- (viii) An Incentive Stock Option shall cease to be an Incentive Stock Option to the extent that the Participant exercises the Option using the cashless (or "net") exercise feature described in Section 4.4 and Schedule B; and
- (ix) No Incentive Stock Option will be granted more than ten years after the earlier of the date this Plan is adopted by the Board or the date this Plan is approved by the shareholders of the Corporation.

SCHEDULE "A"

**RARE ELEMENT RESOURCES LTD.
(the "Corporation")**

STOCK OPTION PLAN

OPTION CERTIFICATE

This Certificate is issued pursuant to the provisions of the Corporation's Stock Option Plan (the "Stock Option Plan") and evidences that ♦ is the holder of a non-transferable option (the "Option"), to purchase up to ♦ common shares (the "Shares") in the capital of the Corporation at a purchase price of \$♦ per Share as set out below (the "Exercise Price").

Subject to the provisions of the Stock Option Plan and, if applicable, the holder's employment or consulting contract, as it may be amended, this Option is awarded as of ♦ (the "Award Date") and shall expire on ♦ (the "Expiry Date").

This Option will become vested and exercisable as follows: ♦

To exercise this Option, the Exercise Notice in the form annexed hereto, shall be delivered to the Corporate Secretary of the Stock Option Plan through to and including 5:00 p.m. local time in Littleton, Colorado on the Expiry Date, together with the Certificate and a certified cheque or bank draft payable to Rare Element Resources Ltd. in an amount equal to the aggregate of the Exercise Price of the Shares in respect of which this Option is being exercised together with the amount of any applicable Withholding Obligations under the Stock Option Plan; provided however that in the case of a "cashless exercise" of Options pursuant to section 4.4 of the Stock Option Plan, no payment will be required to be made to the Corporation whatsoever, and further provided that, if pursuant to section 5.3 of the Stock Option Plan, an Option holder (the "Option Holder") instructs the Corporation to sell Shares issued upon exercise of an Option to satisfy any Withholding Obligations of the Option Holder, no further payment will be required to be made by the Option Holder in respect of such Withholding Obligations.

This Certificate is issued for convenience only and is not assignable, transferable or negotiable. This Certificate is subject to the detailed terms and conditions contained in the Stock Option Plan and the employment or consulting contract, as it may be amended, in the case of any dispute with regard to any matter in respect hereof, the provisions of the Stock Option Plan, the employment or consulting contract, as it may be amended, and the records of the Corporation shall prevail.

DATED this ♦ day of ♦, ♦.

RARE ELEMENT RESOURCES LTD.

Per:

SCHEDULE "B"
RARE ELEMENT RESOURCES LTD.
(the "Corporation")

STOCK OPTION PLAN
EXERCISE NOTICE

TO: The Corporate Secretary of the Corporation
Rare Element Resources Ltd.
PO Box 271049
Littleton, Colorado, 80127

1. EXERCISE OF OPTION : CHOOSE (A) OR (B) Below

A. Exercise of Option

The undersigned hereby irrevocably gives notice, pursuant to the Corporation's Stock Option Plan (the "Plan"), of the exercise of the Option to acquire and hereby subscribes for (*cross out inapplicable item*):

- (i) all of the shares which are the subject of the Option Certificate attached hereto (the "Shares"); or
- (ii) _____ of the Shares.

Calculation of total Purchase Price:

Number of Shares to be acquired on exercise:	_____
Multiplied by the Exercise Price per Share:	\$ _____
Equals total Purchase Price:	\$ _____

OR

B. Exercise of Cashless Option

The undersigned hereby irrevocably gives notice, pursuant to section 4.4 of the Corporation's Plan, of the exercise of the Option to acquire and hereby subscribe for the Shares, on a "cashless basis." Pursuant to this notice, the Option Holder hereby subscribes for the number of Shares to which the Option Holder is entitled on exercise of the Option without payment of the Exercise Price.

2. WITHHOLDING OBLIGATIONS

The undersigned acknowledges that the Corporation may have tax remittance and Withholding Obligations pursuant to the *Income Tax Act* (Canada) or the *Internal Revenue Service (United States)*. Accordingly, in accordance with Section 5.3 of the Plan, the undersigned [*check applicable item*]:

_____ has enclosed a cheque(s) for the Purchase Price and all applicable withholdings, in which case, the undersigned has [*tick one or both boxes, as applicable*]:

<input type="checkbox"/>	sold _____ number of Shares at \$ _____ price	= \$ _____
	Less Purchase Price of Shares and commissions	= \$ _____
	Times % tax rate	= _____ %
	Withholding Obligation	= \$ _____

_____ Shares have not been sold; therefore the Withholding Obligation is calculated as follows:

Market Value of Shares	= \$ _____
Less Purchase Price of Shares	= \$ _____

Times % tax rate = _____%

Withholding Obligation = \$ _____

_____ in the case of an Option Holder who is an Employee of the Corporation, authorizes the Corporation to sell, on behalf of the Employee, such number of Shares as is required to satisfy any such Withholding Obligations and to remit the proceeds from the sale of such Shares on account of such Withholding Obligations.

_____ in the case of an Option Holder who is an Employee of the Corporation, undertakes to cause the broker who sells Shares acquired by the Option Holder to withhold from the proceeds realized from such sale the amount required to satisfy any such Withholding Obligations and to remit such amount directly to the Corporation.

The undersigned's estimated taxable income for the current tax year is _____.

3. RESIDENCY

The undersigned certifies that he or she is a resident of _____ *[insert country]*.

4. DELIVERY OF SHARES

The Corporation is directed to deliver the share certificate evidencing the number of Shares, or in the case of an Option Holder who is an Employee of the Corporation and has pursuant to section 4.4 of the Plan elected to exercise the Option to acquire and subscribe for the Shares on a "cashless basis", at the sole discretion of the Corporation, a cheque evidencing the payment applicable to such Option Holder, to be issued to the undersigned pursuant to this Exercise Notice to the following address:

All capitalized terms, unless otherwise defined in this Exercise Notice, will have the meaning provided in the Plan.

DATED the _____ day of _____, _____.

Witness

Signature of Option Holder

Name of Witness *[Please Print]*

Name of Option Holder *[Please Print]*

Social Insurance or Social Security Number of Option Holder *[For Tax Remittance Purposes]*

CERTIFICATIONS

I, Randall J. Scott, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Rare Element Resources Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2020

/s/ Randall J. Scott

Randall J. Scott
President, Chief Executive Officer and Director
(Principal Executive Officer)

CERTIFICATIONS

I, Adria Hutchison, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Rare Element Resources Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Adria Hutchison

Date: May 11, 2020

Adria Hutchison
(Principal Financial Officer)

Exhibit 32.1

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code), the undersigned officer of Rare Element Resources Ltd. (the “Company”) does hereby certify, based on my knowledge, with respect to the Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2020 (the “Report”) that:

1. The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Randall J. Scott

Date: May 11, 2020

Randall J. Scott
President, Chief Executive Officer and Director
(Principal Executive Officer)

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code). It shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 (15 U.S.C. Section 78r) or otherwise subject to the liability of that section. It shall also not be deemed incorporated by reference into any filing under the Securities Exchange Act of 1934, as amended, or the Securities Act of 1933, as amended, except to the extent that the Company specifically incorporates it by reference.

**CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code), the undersigned officer of Rare Element Resources Ltd. (the “Company”) does hereby certify, based on my knowledge, with respect to the Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2020 (the “Report”) that:

1. The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 11, 2020

/s/ Adria Hutchison

Adria Hutchison
(Principal Financial Officer)

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code). It shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 (15 U.S.C. Section 78r) or otherwise subject to the liability of that section. It shall also not be deemed incorporated by reference into any filing under the Securities Exchange Act of 1934, as amended, or the Securities Act of 1933, as amended, except to the extent that the Company specifically incorporates it by reference.