



To our U.S. Shareholders

PFIC STATEMENT

PFIC INFORMATION

IMPORTANT TAX NOTICE TO U.S. SHAREHOLDERS OF RARE ELEMENT RESOURCES LTD.

This statement is provided for shareholders who are United States persons for purposes of the U.S. Internal Revenue Code of 1986, as amended (“IRC”) and the regulations thereunder. It is not relevant to other shareholders.

The collective Rare Element Resources group of non-U.S. entities (Rare Element Resources, Ltd and its non-U.S. subsidiary) may be deemed to be classified as a Passive Foreign Investment Corporation (“PFIC”) as defined in Section 1297(a) of the IRC for the year January 1, 2013 through December 31, 2013.

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, YOU ARE HEREBY NOTIFIED THAT ANYTHING CONTAINED IN THIS NOTICE CONCERNING ANY FEDERAL TAX OR OTHER ISSUE IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY ANY PERSON OR ENTITY FOR THE PURPOSE OF (i) AVOIDING PENALTIES THAT MAY BE IMPOSED ON ANY TAXPAYER OR (ii) PROMOTING, MARKETING OR RECOMMENDING TO ANOTHER PARTY ANY MATTERS ADDRESSED HEREIN.

The attached PFIC Annual Information Statement is being provided pursuant to the requirements of Treasury Regulation Section 1.1295-1(g) (1). The PFIC Annual Information Statement contains information to enable you, should you so choose based on the advice of your tax advisors in light of your personal tax circumstances, to elect to treat any of the Rare Element Resources group of entities as a qualified electing fund (“QEF”).

A U.S. shareholder who makes a QEF election is required to annually include in his or her income his or her pro rata share of the ordinary earnings and net capital gains of the Rare Element Resources entity, whether or not that entity distributes any amounts to its shareholders. If you do not elect to treat a Rare Element Resources entity as a QEF, then, if either Rare Element Resources entity is a PFIC for any year during your holding period, adverse tax consequences could result.

The QEF election is generally made on Form 8621 (“Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund”) on or before the due date, including extensions, for the income tax return with respect to the tax year to which the election relates.

THIS INFORMATION IS PROVIDED IN ORDER TO ASSIST SHAREHOLDERS IN MAKING CALCULATIONS AND DOES NOT CONSTITUTE TAX ADVICE. THE U.S. TAX LAWS REGARDING PFICS ARE EXTREMELY COMPLEX AND SHAREHOLDERS ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS CONCERNING THE OVERALL TAX CONSEQUENCES



OF THEIR RESPECTIVE INVESTMENT IN, AND OWNERSHIP OF SHARES OF RARE ELEMENT RESOURCES UNDER UNITED STATES FEDERAL, STATE, LOCAL AND FOREIGN LAW.

Further information on PFIC rules and the QEF election is available from the Internal Revenue Service, including the following website pages: www.irs.gov/instructions/i8621/ch01.html.

PFIC ANNUAL INFORMATION STATEMENT

1. This information statement applies to the taxable year of Rare Element Resources, Ltd. and Rare Element Holdings, Ltd. beginning on January 1, 2013 and ending December 31, 2013.
2. The total ordinary income and net capital gain of the entities specified in paragraph (1) above for the taxable year specified in paragraph (1) above are:

| | <u>Rare Element Resources, Ltd.</u> | <u>Rare Element Holdings, Ltd.</u> |
|---|---|--|
| (a) Ordinary Earnings | None | None |
| (b) Net Capital gain | None | None |
| (c) Your pro rata share of ordinary income | None | None |
| (d) Your pro rata share of net capital gain | None | None |

3. The amount of cash and fair market value of other property distributed or deemed distributed to the shareholder during the taxable year specified in paragraph (1) is as follows:

| | <u>Rare Element Resources, Ltd.</u> | <u>Rare Element Holdings, Ltd.</u> |
|-------------------------------|---|--|
| Cash | None | None |
| Fair market value of property | None | None |

4. The entities specified in paragraph (1) above will permit the U.S. shareholder to inspect and copy the entities' permanent books of account, records, and such other documents as may be maintained by the entities that are necessary to establish that the entities' ordinary earnings and net capital gain, as defined in Section 1293(e) of the IRC, are computed in accordance with U.S. income tax principles; and to verify these amounts.

RARE ELEMENT RESOURCES LTD.

/s/ Paul H. Zink
Senior Vice President and Chief Financial Officer

March 12, 2014