

RARE ELEMENT RESOURCES LTD.

MANAGEMENT DISCUSSION AND ANALYSIS **FOR THE PERIOD ENDING SEPTEMBER 30, 2004**

Containing information up to and including November 26, 2004

Note to Reader

Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the Rare Element Resources Ltd. ("Rare Element" or the "Company", formerly Spartacus Capital Inc.) financial statements. The information provided herein should be read in conjunction with the Company's unaudited consolidated financial statements and notes for the period ended September 30, 2004.

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal controls and to ensure that information used internally or disclosed externally, including the financial statements and MD&A, is complete and reliable.

The Company's board of directors follows recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders. The board's audit committee meets with management quarterly to review the financial statements including the MD&A and to discuss other financial, operating and internal control matters.

The reader is encouraged to review the Company's statutory filings on www.sedar.com.

All currency amounts are expressed in US dollars unless otherwise noted.

Forward-Looking Information

When used in this document, words such as "estimate", "expect", "anticipate" and "believe" as well as similar expression are intended to identify forward-looking statements. Such statements are used to describe management's future plans, objects, and goals for the Company and therefore involve inherent risks and uncertainties. The reader is cautioned that actual results, performance or achievements may be materially different from those implied or expressed in such statements.

Overall Performance

The Company was incorporated in the province of British Columbia on June 3, 1999. Effective September 30, 2003 the Company completed its Qualifying Transaction ("QT") by acquiring Paso Rico Resources Ltd. ("Paso Rico"). The formal closing of the acquisition of Paso Rico occurred immediately subsequent to September 30, 2003. As the former shareholders of Paso Rico, through the share exchange, controlled the consolidated entity immediately subsequent to the completion of the QT, this transaction has been accounted for in these consolidated financial statements as a reverse takeover. Accordingly, under the principles applicable to these transactions, the QT is considered to be a capital transaction by Paso Rico, whereby Paso Rico, legally the Company's wholly-owned subsidiary, has acquired the assets and liabilities of Spartacus Capital Inc. and is considered to be the continuing entity for accounting purposes. Consequently, the comparative figures presented in the financial statements and in this report are those of Paso Rico.

Effective July 25, 2003 the Company changed its name to Rare Element Resources Ltd. on completion of the business combination with Paso Rico.

The Company's principal activity is the acquisition and exploration of mineral properties. The Company has a wholly owned US subsidiary, Paso Rico USA Inc., incorporated in the state of Wyoming. Paso Rico USA Inc. holds a 100% interest in a group of un-patented mineral claims, the Bear Lodge Project. The property is situated in the Bear Lodge Mountains of northeast Wyoming. These claims were, in part,

acquired from Phelps Dodge Exploration Company ("Phelps Dodge") by way of a "Mineral Lease and Option for Deed" subject to a 2% Net Smelter Royalty ("NSR") payable to Phelps Dodge from production from some of the claims and a portion of a defined area of influence surrounding the claims. Paso Rico USA Inc. owns a portion of the claim group outright and those claims are not subject to the NSR. All claims are located on federal lands and are subject to a \$125 per year annual maintenance fee payable to the United States Bureau of Land Management.

The Bear Lodge Project has indications of precious metals and "Rare Earth Elements" which are used in hybrid electric vehicle (HEV) batteries and motor/generators, consumer nickel-metal-hydride (Ni-MH) batteries, fuel cells, magnetic refrigeration technologies, and numerous other modern specialty technologies.

The claims that comprise the Bear Lodge Project have been extensively explored for the rare earth group of elements, as well as precious metals and base metals, by a number of major mining companies at various periods of time over the past fifty years. These various exploration campaigns have identified a number of rare earth and precious metals indications that the Company believes warrant further exploration and evaluation.

In the summer of 2004, the District Ranger for the Black Hills National Forest issued a "Decision Memo" approving the Plan of Operations for mineral exploration on the Bear Lodge property submitted by the Company. The decision allowed the commencement of its field exploration program including the carrying out of diamond drilling activity.

On July 15, 2004, the Company announced the completion of a non-brokered private placement of 1,535,000 units at CDN\$0.20 per unit for total gross proceeds of CDN\$307,000. Each unit consists of one common share and one warrant. Each warrant entitles the holder to purchase an additional common share at CDN\$0.30 per share for a period of 18 months after the issuance of the warrant. The funds raised are for further exploration and analysis of the Bear Lodge rare earths project in Wyoming and for general working capital purposes. Insider participation in this private placement amounts to CDN\$40,000. The TSX Venture Exchange approved this offering on July 19, 2004.

On July 21, 2004, the Company announced that it had retained the services of Applied Petrographics of Portland, Oregon to provide geological services for the Company's Bear Lodge property, near Sundance, Wyoming. Dr. James G. Clark, the principal of Applied Petrographics, has a Ph. D. in geology with specialties in economic and volcanic geology, igneous petrology, and geochemistry. Dr. Clark's duties will be to assist with the analysis of the current data held by Rare Element on the Bear Lodge property. In addition, Dr. Clark will review the current drill targets for the exploration program underway.

On August 11, 2004, the Company announced the issuance of stock options to one director and one consultant for a total of 100,000 shares at an exercise price of CDN\$0.25 per share for a period of five years, expiring on August 10, 2009.

On August 24, 2004, the Company announced that the drilling phase of the phase one exploration program on the Bear Lodge property had begun. The drilling program is being managed by Dr. Jim Clarke, Ph.D. (Geology), principal of Applied Petrographics and who has had prior experience on the Bear Lodge property.

The phase one program was recommended by Mr. Brian H. Meyer, P. Geol., in the report "Geological Exploration Report of the Bear Lodge Rare-Earth Property" which is NI 43-101 compliant. This report has been reviewed by both Dr. Clarke and Rare Element's President, Norm Burmeister, who have re-affirmed the drill targets selected. The principal purpose of this program is to evaluate the mineralizing parameters and metallurgy of the rare-earth bearing structure in the Bull Hill area. The estimated total program cost is approximately \$300,000 and is being funded from cash on hand. The program includes approximately 4,200 feet of core drilling, geochemistry and metallurgy analysis of the rare earth targets.

On November 1, 2004, the Company reported initial partial assay results from a near surface zone of mineralization in diamond drill hole RES 04-1, the first hole completed of the aforementioned drilling program. The well-defined zone is in the oxidized upper section of the hole from core depth 60 to 80 feet. The core length weighted average of this 20-foot section assayed 11.15% combined rare earth element oxides (REO).

The core was logged and quartered at the Company's facility in Sundance, Wyoming. Quarter core samples were sent to ALS Chemex preparation laboratory in Elko, Nevada for crushing, pulverizing and splitting. Sample splits were sent to the ALS Chemex laboratory in North Vancouver, British Columbia and analyzed for the 15 rare earth elements by ICPMS (Inductively Coupled Plasma Mass Spectrometry) methods. Rare earth oxide values were computed from elemental values by the company's personnel.

The twenty foot intercept from 60 to 80 feet in hole RES04-1 was also assayed for iron and manganese. The core length weighted average of the section assayed 15.03% iron (Fe) and 6.83% manganese oxide (MnO). Assays were performed on the REE core sample pulps reported on above by ALS Chemex in North Vancouver, British Columbia. Iron and manganese assays were done by ICP fusion. Preliminary metallurgical testing is planned to determine if a suitable minimally processed product for this application might be produced from the Bear Lodge FMR (ferro-manganese rare earth element) mineralization.

Hole RES 04-1 was drilled to a total depth of 1,160 feet at a minus 60 degree angle and bearing of N45E. Additional quarter core samples from another FMR vein at 117 feet and sections of silicocarbonate and carbonatite in the un-oxidized lower part of the hole have been submitted to ALS Chemex for assay.

The Company is also carrying out a program of sampling and re-sampling areas of known gold mineralization on the Bear Lodge property. There has recently been renewed gold exploration activity in the Bear Lodge area and at least one major gold company has staked a large group of lode claims in the immediate area.

Annual maintenance for unpatented mining claims was increased from \$100 per claim to \$125 per claim starting with payments due on September 1, 2004.

The Company's loss from operations for the period ended September 30, 2004, totaled \$34,134, or \$0.00 per share, as compared to a loss of \$30,574, or \$0.00 per share, for the period ended September 30, 2003. As at September 30, 2004, assets totaled \$665,044, an increase of \$263,941 from assets totaling \$401,103 as at June 30, 2004. Cash totaled \$364,912 as at September 30, 2004, an increase of \$150,107 from cash of \$214,805 as at June 30, 2004.

Results of Operations

The Company's loss from operations for the period ended September 30, 2004, totaled \$34,134 (2003 - \$30,514), a loss of \$0.00 per share (2003 - loss of \$0.00 per share).

General and administrative expenses totaled \$34,134 for the period ended September 30, 2004, an increase of \$3,560 compared to general and administrative expenses totaling \$30,574 for the period ended September 30, 2003. The most significant increases were in investor relations and stock-based compensation (see below). These increases were largely offset by US currency translation gain of \$16,491 (September 30, 2003 - foreign exchange loss of \$1,451).

The three largest expense items for this fiscal period were investor relations of \$12,996 (September 30, 2003 - \$5,064), stock-based compensation of \$14,473 (September 30, 2003 - \$nil), and management, accounting and secretarial of \$13,750 (September 30, 2003 - \$11,055).

Investor relations accounted for \$12,996 compared to \$5,064 for the same period in prior year. This increase incurred as a result of the Company entering a consulting agreement with an investor relations' firm.

Stock-based compensation expense accounted for \$14,473 compared to \$nil in the same period last year and reflects the Company's options granted during the three -month period ended September 30, 2004 while no stock options were granted during the same period last year.

Management, accounting and secretarial expenses accounted for \$13,350 of general and administrative expenses compared to \$11,055 for the quarter ended September 30, 2003. This increase is due to the administrative costs associated with the acquisition of Paso Rico and increased reporting activities.

Gain on foreign exchange for the three month period ended September 30, 2004 was \$16,491 compared to a loss on foreign exchange of \$1,451 for the three months ended September 30, 2003. This is primarily due to translating the Company's assets denominated in Canadian dollar to a weakened US dollar during the three months ended September 30, 2004.

Summary of Quarterly Results

| Expressed In \$ | Sep 04 Quarter | Jun 04 Quarter | Mar 04 Quarter | Dec 03 Quarter | Sep 03 Quarter | Jun 03 Quarter | Mar 03 Quarter | Dec 02 Quarter |
|-----------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Total Revenue | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| (Loss) | (34,134) | (93,899) | (39,550) | (28,450) | (30,574) | (3,259) | (4,532) | (7,890) |
| (Loss) Per Share | (0.00) | (0.01) | (0.00) | (0.00) | (0.00) | (0.00) | (0.00) | (0.00) |
| Total Assets | 655,044 | 401,103 | 452,034 | 469,214 | 498,030 | 167,914 | 173,673 | 174,295 |
| Total Long-term Liabilities | Nil | 10,000 | 10,000 | 129,286 | 129,286 | Nil | Nil | Nil |
| Cash Dividends Declared | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil |

Liquidity

The Company's working capital as at September 30, 2004 was \$340,971 (June 30, 2003 – \$207,070).

Cash provided by operating activities during the current period totaled \$6,545 (September 30, 2003 – cash used by operating activities totaled \$92,631). Cash used for general and administrative expenses amounts to \$19,661 (net of non-cash stock-based compensation of \$14,473; see "Results of Operations"). In addition, \$24,954 was used to increase the amount of prepaid expenses while \$42,108 of cash was provided by the increase in accounts payable.

Cash used for investing activities for the period ended September 30, 2004, was \$83,924 (September 30, 2003 - \$2,600), representing the mineral properties and deferred exploration costs of \$73,924 expended on the Bear Lodge property and \$10,000 put in a reclamation bond.

Cash provided by financing activities for the period ended September 30, 2004, was \$227,486 (September 30, 2003 - \$178,702). \$237,486 was received (net of share issue costs) for shares issued for the private placements that occurred during the period ended September 30, 2004. On July 17, 2004 the Company completed a non-brokered private placement of 1,535,000 units at a price of CDN\$0.20 for gross proceeds of CDN\$307,000. Each unit comprises one common share and one 18-month non-transferable warrant. The warrants are exercisable for one common share at a price of CDN\$0.30 per share. \$3,819 (CDN\$5,000) share issue costs were incurred in connection with this private placement. In addition, 45,000 stock options were exercised at CDN\$0.20 during the quarter ended September 30, 2004.

Long-term debt consists of a promissory note from the Company to Pacific Opportunity Capital Ltd., a private company controlled by a director, for \$18,549 (CDN\$25,000) due on June 25, 2005. The note bears

simple interest at 10% per annum. In the year ended June 30, 2003, the Company repaid \$8,549 (CDN\$11,500) of the promissory note. During the period ended September 30, 2004, the Company repaid the remaining \$10,000 (\$13,500 CDN) of the promissory note and paid accrued interest in full.

The ability of the Company to continue as a going concern is primarily dependent upon the Company obtaining proceeds raised from equity financing.

Capital Resources

The number of authorized common shares without par value is 100,000,000.

| | No. of Common Shares Issued | Share Capital Amount |
|--------------------|-----------------------------|----------------------|
| June 30, 2003 | 12,733,325 | \$ 2,243,574 |
| September 30, 2004 | 14,313,325 | \$ 2,481,060 |

At November 26, 2004 the Company had 14,430,825 issued and outstanding common shares.

As at September 30, 2004 the Company had 117,500 stock options outstanding with an exercise price of CDN\$0.20 and an expiry date of November 15, 2004, 1,040,000 stock options outstanding with an exercise price of CDN\$0.35, and 100,000 stock options outstanding with an exercise price of CDN\$0.25. If exercised, this options would increase the Company's available cash by CDN\$412,500. Subsequent to the three month period ended September 30, 2004, 117,500 of outstanding options were exercised, increasing the Company cash balance by CDN\$23,500.

As at September 30, 2004 the Company had 2,775,589 warrants outstanding with an exercise price of CDN\$0.35 per share, 1,825,589 of which have an expiry date of July 22, 2005, and the remaining 950,000 have an expiry date of July 26, 2005. In addition the Company had 1,535,000 warrants outstanding with an exercise price of CND\$0.30 and an expiry date of January 19, 2006. If all the warrants were exercised, it would increase the Company's available cash by CDN\$1,431,956.

Contributed surplus was \$59,620 as at September 30, 2004 (June 30, 2004 - \$45,147). The increase in contributed surplus represents 100,000 incentive stock options granted to officers, directors, and consultants of the Company during the quarter ended September 30, 2004. All the outstanding stock options are exercisable between CND\$0.25 to CDN\$0.35 per share and expire between October 31, 2008 and August 10, 2009. The total fair value of the outstanding options granted was calculated using the Black-Scholes method of valuation and the following weighted average assumptions: risk-free interest rate of 2%, annualized volatility of stock price of 100.74%, expected dividend yield of nil, and expected option life of five years.

As previously described under "Overall Performance", these consolidated financial statements are inclusive of the completion of the QT, recorded in the period, whereby Paso Rico, the continuing entity for accounting purposes, is considered to have acquired the assets and liabilities of Spartacus Capital Inc. in a capital transaction.

The cost of the acquisition was allocated to the net identifiable assets of Rare Element at July 1, 2003 as follows:

| | |
|--------------------------|-------------------|
| Cash | \$ 218,798 |
| Other working capital | (21,753) |
| Deferred financing costs | 22,330 |
| Promissory note | (18,549) |
| Debts being settled | (83,521) |
| Net assets acquired | <u>\$ 117,305</u> |

Note: During May 2002, the Company reached agreements with its major related and unrelated creditors to settle an aggregate of \$83,521 (CDN\$112,570) in debt by the issuance of 375,235 common shares. These shares were issued in July 2003.

The deficit was \$1,948,658 as at September 30, 2004 (June 30, 2003 - \$1,914,524). The increase is the result of the loss of \$34,134 for the period ended September 30, 2004.

Transactions with Related Parties

All transactions with related parties have occurred in the normal course of operations and are measured at their fair market value as determined by management. The balances referred to below, with the exception of the long-term loan, are non-interest bearing, unsecured, receivable or payable on demand, and have arisen from the provision of services and expense reimbursements or advances described.

During the period ended September 30, 2004, the Company incurred \$13,750 (2003 - \$13,435) for rent, management, accounting, and secretarial services provided by a private company controlled by a director and that company is owed \$6,399 as at September 30, 2004 (September 30, 2003 - \$10,000 (CDN\$13,500) of a promissory note, which was paid in full in this period). During the three month period ended September 30, 2004, \$1,348 and \$11,460 were incurred by directors of the Company for administrative and geological expenses respectively. As at September 30, 2004, \$7,609 of such expenses was owed to directors of the Company.

Investor Relations

In July 2003 the Company retained the services of Beloud Management Consultants Ltd. ("Beloud Management") for the purpose of market-making activities. Beloud Management receives a fee of CDN\$3,000 per month for a period of twelve months. The contract may be renewed thereafter with the consent of both parties. There are no performance factors contained in the agreement. Beloud Management is owned by Lorne Beloud, a Chartered Accountant, with many years of market experience.

In December 2003 the Company retained the services of SmallCap Corporate Partners Inc. ("SmallCap") for the purpose of providing its expertise and consulting services to the Company's investor relations activities. SmallCap's services involve the Company's business relations and working relationships with public, private, and institutional investors, broker, dealers and financial advisors and analysts in the securities and financial services community. SmallCap receives a fee of CDN\$3,000 per month for a period of twelve months.

The Company is also developing a website at www.rareelementresources.com.

Risks and Uncertainties

The Company's financial success will be dependent upon the extent to which it can discover mineralization or acquire mineral properties and the economic viability of developing its properties.

The Company competes with many companies possessing greater financial resources and technical facilities than itself. The market price of minerals and/or metals is volatile and cannot be controlled. There is no assurance that the Company's mineral exploration and development activities will be successful. The development of mineral resources involves many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome.

The development of mineral resources on federal lands in the United States is subject to a comprehensive review, approval and permitting process that involves various federal, state and local agencies. There can be no assurance given that the required approvals and permits for a mining project, if technically and economically warranted, on the Company's claims can be obtained in a timely or cost effective manner.

All of the Company's short to medium term operating and exploration cash flow must be derived from external financing. Actual funding may vary from what is planned due to a number of factors including the progress of exploration and development on its current properties. Should changes in equity market conditions prevent the Company from obtaining additional external financing, the Company will need to review its exploration property holdings to prioritize project expenditures based on funding availability.

The Company competes with larger and better financed companies for exploration personnel, contractors and equipment. Increased exploration activity has increased demand for equipment and services. There can be no assurance that the Company can obtain required equipment and services in a timely or cost effective manner.

The Company's operations in the United States and financing activities in Canada make it subject to foreign currency fluctuations and such fluctuations may materially affect its financial position and results.

Outlook

The Company has planned exploration programs for the Bear Lodge Project, which will assist in determining the value of these properties. The initial program will be in accordance with the recommendations made in the Technical Report filed in conjunction with the business combination between the Company and Paso Rico. The program will involve diamond drill testing of some of the rare earth elements occurrences at Bear Lodge and preliminary metallurgical testing of rare earth elements-bearing samples.

The Company believes that rare earth elements deposits have potential economic importance as various modern day technologies become more widely commercialized.

Additional information relating to the Company is available on Sedar at www.sedar.com.