



British Columbia Securities Commission

BCSC

**QUARTERLY AND YEAR END
REPORT
BC FORM 51-901F
(previously Form 61)**

INCORPORATED AS PART: X Schedule A

Schedule B and C

| ISSUER DETAILS | | |
|---|-----------------------------|------------------------------------|
| <i>Name of Issuer</i> | <i>For Year Ended</i> | <i>Date of Report YY/MM/DD</i> |
| RARE ELEMENT RESOURCES LTD. (formerly Spartacus Capital Inc.) | June 30, 2004 | |
| <i>Issuer's Address</i> | <i>Issuer's Fax No.</i> | <i>Issuer's Telephone No.</i> |
| #410 – 325 Howe Street Vancouver, B.C., V6C 1Z7 | (604) 688-3392 | (604) 687-3520 |
| <i>Contact Person</i> | <i>Contact's Position</i> | <i>Contact's Telephone No.</i> |
| Mark T. Brown | CFO | (604) 687-3520 |
| <i>Contact Email Address</i> | <i>Web Site Address</i> | |
| mtbrown@pacificopportunity.com | N/A | |
| CERTIFICATE | | |
| The three schedules required to complete this Report are attached and the disclosures contained herein have been approved by the Board of Directors. A copy of this Report will be provided to any shareholder who requests it. | | |
| <i>Director's Signature</i> | <i>Print Full Name</i> | <i>Date Signed YYYY/MM/DD</i> |
| "Mark T. Brown" | Mark T. Brown | 2004/11/15 |
| <i>Director's Signature</i> | <i>Print Full Name</i> | <i>Date Signed YYYY/MM/DD</i> |
| "Norman W. Burmeister" | Norman W. Burmeister | 2004/11/15 |

RARE ELEMENT RESOURCES LTD.
(formerly Spartacus Capital Inc.)

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended June 30, 2004 and 2003

DE VISSER GRAY

CHARTERED ACCOUNTANTS

401 - 905 West Pender Street
Vancouver, BC Canada
V6C 1L6

Tel: (604) 687-5447
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AUDITORS' REPORT

To the Shareholders of Rare Element Resources Ltd. (formerly Spartacus Capital Inc.)

We have audited the balance sheets of Rare Element Resources Ltd. (formerly Spartacus Capital Inc.) as at June 30, 2004 and 2003 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2004 and 2003 and the results of its operations and cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

"De Visser Gray"

CHARTERED ACCOUNTANTS

Vancouver, British Columbia
November 15, 2004

RARE ELEMENT RESOURCES LTD.

CONSOLIDATED BALANCE SHEETS

AS AT JUNE 30,

(Expressed in US Dollars)

| | <u>2004</u> | <u>2003</u> |
|---|-------------------------|-------------------------|
| ASSETS | | |
| CURRENT | | |
| Cash | \$ 214,805 | \$ 3,324 |
| Accounts receivable | 9,869 | 64 |
| Prepaid expenses | 9,302 | - |
| | <hr/> 233,976 | <hr/> 3,388 |
| Mineral properties and deferred exploration costs (Note 4) | <hr/> 167,127 | <hr/> 164,526 |
| | <hr/> \$ 401,103 | <hr/> \$ 167,914 |
| LIABILITIES | | |
| CURRENT | | |
| Accounts payable and accrued liabilities | \$ 16,906 | \$ 15,707 |
| Due to related party (Notes 6, 7 and 9) | - | 29,283 |
| Promissory note payable (Notes 7 and 9) | 10,000 | - |
| | <hr/> 26,906 | <hr/> 44,990 |
| SHAREHOLDERS' EQUITY | | |
| SHARE CAPITAL (Note 8) | 2,243,574 | 1,844,975 |
| CONTRIBUTED SURPLUS (Note 8(c)) | 45,147 | - |
| DEFICIT | <hr/> (1,914,524) | <hr/> (1,722,051) |
| | <hr/> 374,197 | <hr/> 122,924 |
| | <hr/> \$ 401,103 | <hr/> \$ 167,914 |

APPROVED BY THE BOARD OF DIRECTORS:

"Norman W. Burmeister"

Norman W. Burmeister

"Mark T. Brown"

Mark T. Brown

See accompanying notes to financial statements

RARE ELEMENT RESOURCES LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE YEARS ENDED JUNE 30,
(Expressed in US Dollars)

| | <u>2004</u> | <u>2003</u> |
|--|-----------------------|-----------------------|
| EXPENSES | | |
| Audit and legal | \$ 15,622 | \$ 6,875 |
| Communication and delivery | 21 | 24 |
| Foreign exchange loss | 2,824 | 3,835 |
| Bank charges and interest | 462 | 171 |
| Management, accounting and secretarial | 40,944 | 9,226 |
| Office and miscellaneous | 3,435 | 548 |
| Transfer and listing fees | 18,237 | - |
| Investor relations | 58,319 | - |
| Rent | 447 | - |
| Stock based compensation | 45,147 | - |
| Write-off of accounts payable | - | (9,411) |
| Interest expense | 7,015 | - |
| | <hr/> | <hr/> |
| NET LOSS FOR THE YEAR | \$ (192,473) | \$ (11,268) |
| DEFICIT, BEGINNING OF YEAR | <u>(1,722,051)</u> | <u>(1,710,783)</u> |
| DEFICIT, END OF YEAR | <u>\$ (1,914,524)</u> | <u>\$ (1,722,051)</u> |
| LOSS PER SHARE | <u>\$ (0.02)</u> | <u>\$ (0.00)</u> |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | <u>11,659,022</u> | <u>2,605,000</u> |

See accompanying notes to financial statements

RARE ELEMENT RESOURCES LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,
(Expressed in US Dollars)

| | 2004 | 2003 |
|---|-------------------|-----------------|
| CASH PROVIDED BY (USED IN) | | |
| OPERATIONS | | |
| Net loss for the year | \$ (192,473) | \$ (11,268) |
| Item not affected by cash: | | |
| Stock-based compensation | 45,147 | - |
| Changes in non-cash working capital items: | | |
| Accounts receivable | (5,879) | 169 |
| Prepaid expenses | (9,302) | 9,613 |
| Accounts payable and accrued liabilities | (24,576) | 4,888 |
| Due to/from related party | (29,187) | - |
| | <u>(216,270)</u> | <u>3,402</u> |
| INVESTING ACTIVITIES | | |
| Deferred exploration costs | <u>(2,601)</u> | <u>(3,137)</u> |
| FINANCING ACTIVITIES | | |
| Advance of promissory note | 110,737 | - |
| Repayment of promissory note | (119,286) | - |
| Cash received for common shares | 220,103 | - |
| | <u>211,554</u> | <u>-</u> |
| Cash acquired in capital transaction | <u>218,798</u> | <u>-</u> |
| INCREASE IN CASH | 211,481 | 265 |
| CASH, BEGINNING OF THE YEAR | <u>3,324</u> | <u>3,059</u> |
| CASH, END OF THE YEAR | <u>\$ 214,805</u> | <u>\$ 3,324</u> |

Supplemental disclosure of non-cash investing and financing activities:

Refer to notes 3 and 5

Interest paid during fiscal 2004: \$6,324

RARE ELEMENT RESOURCES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2004 and 2003

(Expressed in US Dollars)

1. NATURE OF OPERATIONS

Rare Element Resources Ltd. ("Rare Element" or "the Company", formerly Spartacus Capital Inc., "Spartacus") was incorporated under the laws of the Province of British Columbia on June 3, 1999.

The Company acquired all of the outstanding common shares of Paso Rico Resources Ltd. ("Paso Rico"), a British Columbia private company primarily engaged in the acquisition and exploration of mineral properties, in consideration for the issuance to the shareholders of Paso Rico of 6,977,501 common shares of the Company. On July 25, 2003 the Company changed its name to Rare Element upon the formal completion of the Qualifying Transaction ("QT") with Paso Rico. Refer to notes 2 and 3.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and principles of consolidation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are inclusive of the accounts of the Company and Paso Rico, together with those of Paso Rico's wholly-owned subsidiaries, Minera Santa Regina, S.A. de C.V. and Paso Rico (USA) Inc.

Reverse take-over accounting

The formal closing of the acquisition of Paso Rico occurred immediately subsequent to June 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 and is considered to be the continuing entity for accounting purposes. Consequently, the comparative figures presented are those of Paso Rico. Refer also to note 3.

RARE ELEMENT RESOURCES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2004 and 2003

(Expressed in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Foreign currency translation

The Company's reporting currency is the US Dollar. The Company's Canadian and Mexican operations are considered to be integrated operations with foreign currency transactions translated into US Dollars as follows:

- monetary assets and liabilities at the rates of exchange prevailing at the balance sheet dates;
- other assets and liabilities at the applicable historical exchange rates;
- revenues and expenses at the average rates of exchange for the year, and;
- gains and losses arising from the conversion of foreign currency balances and transactions are reported in income as they occur.

Use of Estimates

The preparation of these consolidated financial statements requires the use of estimates and assumptions that effect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported year. Actual results could differ from these estimates.

Mineral properties and deferred exploration costs

The cost of mineral properties and related exploration expenditures are deferred until the properties are placed into production, sold or abandoned. These deferred costs will be amortized over the estimated useful life of the properties following the commencement of production or written-off if the properties are sold, allowed to lapse, or abandoned.

Cost includes the cash consideration and the fair market value of shares issued for the acquisition of mineral properties. Properties acquired under option agreements are recorded in the accounts at such time as payments are made. Proceeds from options granted are applied to the cost of the related property and any excess is included in income for the year.

The recorded amounts of mineral claim acquisition costs and their related deferred exploration costs represent actual expenditures incurred and are not intended to reflect present or future values.

The Company reviews capitalized costs on its mineral properties on a periodic basis and will recognize an impairment in value based upon current exploration results and upon management's assessment of the future probability of profitable revenues from the property or from the sale of the property. Management's assessment of the property's estimated current fair market value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review.

Administrative costs are expensed as incurred.

RARE ELEMENT RESOURCES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2004 and 2003

(Expressed in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Loss per share

The loss per share is computed using the weighted average number of shares outstanding during the year. Diluted loss per share is not presented as the effect on the basic loss per share would be anti-dilutive.

Income taxes

The Company accounts for and measures future tax assets and liabilities in accordance with the liability method where future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively- enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the future benefit is taken and no asset is recognized. Such an allowance applies fully to all potential income tax assets of the Company.

Stock-based compensation

Effective July 1, 2002, the Company adopted the new Recommendations of the Canadian Institute of Chartered Accountants ("CICA") relating to the accounting for stock-based compensation and other stock-based payments. Under the new standard, payments to non-employees and to employees that are direct awards of stock, that call for settlement in cash or other assets, or that are stock appreciation rights which call for settlement by the issuance of equity instruments, are accounted for using the fair value method and are included in operations, with an offset to contributed surplus. During the comparative fiscal year, compensation expense in respect to options granted to employees was disclosed on a pro-forma basis only. Upon the issuance of additional CICA guidance in this area, the Company began expensing these amounts effective on July 1, 2003.

Prior to the adoption of these new standards, no compensation expense was calculated, recorded or otherwise disclosed when the Company granted stock-based incentives to individuals. A transaction was recorded only when the consideration paid by those exercising stock options was credited to shareholders' equity and the shares subject to option were issued.

These new Recommendations are applied prospectively and therefore the in adoption new standard has resulted in no changes to amounts previously reported. In connection with the recorded and disclosed amounts calculated utilizing the fair value method, the Company recognizes the expense as the options vest with the recipients.

RARE ELEMENT RESOURCES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2004 and 2003

(Expressed in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Financial instruments

The Company's financial instruments include accounts receivable, and accounts payable and accrued liabilities. The fair market values of these financial instruments approximate their carrying value due to their short-term natures.

Comparative figures

Certain of the prior year's figures have been reclassified in conformity with the current year's consolidated financial statement presentation.

3. CAPITAL TRANSACTION

As described in Note 2, 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 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 (Notes 5 and 8) | (83,521) |
| Net assets acquired | <u>\$ 117,305</u> |

4. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS

The amounts shown represent costs incurred to date, and do not necessarily represent present or future values as they are entirely dependant upon the economic recovery of current and future ore reserves. A breakdown of carrying values by property is as follows:

| | June30, 2004 | June 30, 2003 |
|---------------------|-------------------|-------------------|
| Bear Lodge Property | <u>\$ 167,127</u> | <u>\$ 164,526</u> |

RARE ELEMENT RESOURCES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2004 and 2003

(Expressed in US Dollars)

4. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS, Continued

A breakdown of the deferred expenditures is as follows:

| | <u>Total</u> |
|-----------------------------|-------------------|
| Balance as at June 30, 2002 | \$ 161,389 |
| Property Costs | 2,600 |
| Travel | 25 |
| Other | <u>512</u> |
| Balance as at June 30, 2003 | 164,526 |
| Property Costs | <u>2,601</u> |
| Balance as at June 30, 2004 | <u>\$ 167,127</u> |

All costs have been incurred on the Bear Lodge property.

Bear Lodge project

During March, 2000, the Company signed a Mineral Lease and Option agreement with Phelps Dodge Mining Company to explore certain unpatented lode mining claims in the Bear Lodge Mining District of Crook County, Wyoming, USA. The Company was committed to spending a minimum of \$1,750,000 over a period of five years to earn a 100% interest and the property would be subject to a net smelter royalty of 2% once the Company had earned its interest in the property. On August 27, 2002, Phelps Dodge Mining Company agreed to assign the Company the claims outright subject only to a 2% net smelter royalty. There are no further work commitments under this new arrangement.

All claims are located on federal lands and are subject to a \$100 per year annual maintenance fee payable to the United States Bureau of Land Management.

5. DEBTS BEING SETTLED

During May 2002, the Company reached agreements with its major related and unrelated creditors to settle an aggregate of \$83,521 (\$112,570 CDN) in debt by the issuance of 375,235 common shares. These shares were issued in July 2003 (Note 8).

6. DUE TO RELATED PARTY

The amount of \$NIL (2003 - \$29,283) is owed to a private company for management, accounting and secretarial expenses. A director of the Company is also a director and President of the private company. The amount bears no interest and is unsecured with no repayment terms. Refer also to notes 7 and 9.

RARE ELEMENT RESOURCES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2004 and 2003

(Expressed in US Dollars)

7. PROMISSORY NOTE PAYABLE

During the current year, the Company issued a promissory note to Pacific Opportunity Capital Ltd., a private company controlled by a director, for \$18,549 (\$25,000 CDN) due on June 25, 2005. The note bears simple interest at 10% per annum. During the year, the Company repaid \$8,469 (\$11,500 CDN) of the promissory note.

In addition, the Company issued a convertible debenture for an aggregate of \$110,817 (\$150,000 CDN). The convertible debenture may be converted at \$0.22CDN per unit, with each unit consisting of one common share and one warrant to purchase an additional common share at a price of \$0.35CDN for a period of two years. The debenture will pay interest at 12% per annum and has a one year term which may be extended for a second year with the payment of an extension fee of \$11,082 (\$15,000 CDN). During the year, the Company repaid the entire \$110,817 (\$150,000 CDN) convertible debenture plus interest of \$6,324 (\$8,384 CDN).

8. SHARE CAPITAL

Authorized - 100,000,000 common shares without par value

| Issued and outstanding: | <u>Number of Shares</u> | <u>Amount</u> |
|--|--------------------------|----------------------------|
| Balance as at June 30, 2002 and 2003 | 2,605,000 | * \$ 233,579 |
| Elimination of the book value of the Company's share capital pursuant to the purchase of the Company by Paso Rico for accounting purposes | - | * (233,579) |
| Adjustment to increase in book value of the Company's share capital to that of Paso Rico, the continuing entity for accounting purposes, immediately prior to the QT | - | 1,844,975 |
| Issuance of common shares of the Company to acquire the outstanding share capital of Paso Rico | 6,977,501 | 117,305 |
| Shares issued in private placement for qualifying transaction (net of share issue costs of \$22,330) (Note 8(a)) | 1,825,589 | 45,635 |
| Shares issued for debt (Notes 3 and 5) | 375,235 | 83,521 |
| Issued for cash, private placement (Note 8(b)) | <u>950,000</u> | <u>152,138</u> |
| Balance as at June 30, 2004 | <u><u>12,733,325</u></u> | <u><u>\$ 2,243,574</u></u> |

* translated from \$348,095 CDN

RARE ELEMENT RESOURCES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2004 and 2003

(Expressed in US Dollars)

8. SHARE CAPITAL, Continued

- (a) During the year, the Company completed a private placement financing of 1,825,589 units at \$0.22CDN per unit, with each unit consisting of one common share and one warrant to purchase an additional common share at a price of \$0.35CDN and expire on July 22, 2005.

To June 30, 2003, \$310,000 CDN had been received by Spartacus and has been recorded within the amount of net assets acquired by the Company upon completion of the reverse take-over. Refer also to Note 3.

- (b) During the year, the Company completed two financings for a total of \$152,138 (\$200,000 CDN). The first financing was for 200,000 units at a price of \$0.25 CDN per unit. Each unit consists of one common share and one share purchase warrant which allows the holder to purchase one common share at a price of \$0.35 CDN and expire on July 26, 2005. The second financing was for 750,000 units at a price of \$0.20 CDN per unit. Each unit consists of one common share and one share purchase warrant which allows the holder to purchase one common share at a price of \$0.35 CDN and expire on July 26, 2005.

- (c) The fair value of options reported as compensation expense in the current year has been estimated using the Black-Scholes Option Pricing Model using the following assumptions: a risk free interest rate of 2.75%, expected life of 5 years; an expected volatility of 52% and no expectation for the payments of dividends. Based on these variables, stock-based compensation expense of \$45,147 was recorded during the current year.

Option pricing models requires the input of highly subjective assumptions, particularly as to the expected price volatility of the stock. Changes in these assumptions can materially affect the fair value estimate and therefore it is management's view that the existing models do not necessarily provide a single reliable measure of the fair value of the Company's stock option grants.

Escrowed Shares

1,000,000 shares were placed in escrow in accordance with the escrow agreement dated August 25, 1999 amended on July 17, 2003. On October 22, 2003, 100,000 shares were released and on January 17, 2004, 150,000 shares were released leaving a balance of 750,000 shares held in escrow.

1,336,000 shares were placed in escrow in accordance with escrow agreements dated December 10, 2002. On August 7, 2003, 133,600 shares were released and on January 17, 2004, 200,400 shares were released leaving a balance of 1,002,000 shares held in escrow.

The total number of shares held in escrow at June 30, 2004 is 1,752,000.

Pooled Shares

5,777,501 shares were subject to a pooling agreement dated December 10, 2002 and 2,311,001 shares were released as at June 30, 2003. During the year, the remaining 3,466,500 shares were released.

RARE ELEMENT RESOURCES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2004 and 2003

(Expressed in US Dollars)

8. SHARE CAPITAL, Continued

Stock Options

The following table summarizes the Company's stock option activity for the year ended June 30, 2004:

| | Number of Shares | Weighted Average Exercise Price (CDN\$) | Weighted Average Remaining Contractual Life |
|----------------------------|---------------------|---|---|
| Outstanding, June 30, 2003 | 240,000 | \$ 0.20 | 0.38 |
| Granted | 1,040,000 | 0.35 | |
| Expired | (77,500) | 0.20 | |
| Outstanding, June 30, 2004 | 1,202,500 | \$ 0.33 | 3.80 |

| Expiry Date | Number of Options | Exercise Price (CDN\$) |
|-------------------|------------------------|------------------------------|
| November 15, 2004 | 162,500 ⁽¹⁾ | \$ 0.20 |
| October 31, 2008 | 1,040,000 | 0.35 |

(1) Subsequently, 162,500 options were exercised at \$0.20CDN per unit. On August 10, 2004, 100,000 options were issued at an exercise price of \$0.25CDN expiring on August 10, 2009.

Warrants

At June 30, 2004, the following warrants were outstanding:

| Expiry Date | Number of Warrants | Exercise Price (CDN\$) |
|---------------|--------------------------|------------------------------|
| July 22, 2005 | 1,825,589 | \$ 0.35 |
| July 26, 2005 | 950,000 | \$ 0.35 |

RARE ELEMENT RESOURCES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2004 and 2003

(Expressed in US Dollars)

9. RELATED PARTY TRANSACTIONS

During the year ended June 30, 2004, the Company incurred a total of \$41,391 (2003 - \$9,226) for rent, management, accounting and secretarial services provided by a private company controlled by one of the directors. As at June 30, 2004, the Company owed this private company an aggregate of \$10,000 (2003 - \$29,283) of which \$10,000 (\$13,500 CDN) is a promissory note. Refer also to note 7.

10. POTENTIAL ENVIRONMENTAL CONTINGENCY

The Company's mining and exploration activities are subject to various federal, provincial and state laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects 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.

11. INCOME TAXES

The following is a schedule of the Company's aggregate non-capital losses available to reduce taxable income in future years, expiring in segments over a seven year period.

| <u>Year of Expiration</u> | <u>Non-Capital Loss</u> CDN\$ |
|---------------------------|----------------------------------|
| 2005 | 138,044 |
| 2006 | 82,896 |
| 2007 | 1,576,966 |
| 2008 | 221,394 |
| 2009 | 83,596 |
| 2010 | 76,211 |
| 2011 | 191,951 |
| | <u>\$ 2,371,058</u> |

The future tax benefits, if any, resulting from the application of these losses have not been reflected in these consolidated financial statements as it cannot be considered likely that these amounts will be utilized.

RARE ELEMENT RESOURCES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2004 and 2003

(Expressed in US Dollars)

12. SUBSEQUENT EVENTS

In addition to items disclosed elsewhere in these notes, the following has occurred during the period subsequent to June 30, 2004:

- The Company completed a non-brokered private placement of 1,535,000 units at a price of \$0.20 CDN for gross proceeds of \$307,000 CDN. 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 \$0.30 CDN per share.
 - The Company granted 100,000 stock options to a director and consultant for an aggregate of 100,000 shares at an exercise price of \$0.25 CDN per share expiring August 10, 2009.
 - The Company issued 162,500 shares through exercise of stock options at \$0.20 CDN per unit.
-