

RARE ELEMENT RESOURCES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2009

AUDITORS' REPORT

To the Shareholders of Rare Element Resources Ltd.

We have audited the consolidated balance sheets of Rare Element Resources Ltd. as at June 30, 2009 and 2008 and the consolidated statements of operations and comprehensive loss, retained earnings and deficit and cash flows for each of the years in the three year period ended June 30, 2009. 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 Canadian generally accepted auditing standards. 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, 2009 and 2008 and the results of its operations and its cash flows for each of the years in the three year period ended June 30, 2009 in accordance with Canadian generally accepted accounting principles.

De Visser Gray LLP

CHARTERED ACCOUNTANTS

Vancouver, British Columbia
October 16, 2009

RARE ELEMENT RESOURCES LTD.
CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30
(Expressed in US Dollars)

	2009	2008
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 2,334,145	\$ 2,271,917
Accounts receivable	50,195	46,726
Prepaid expenses	27,978	26,883
	2,412,318	2,345,526
Equipment (Note 4)	1,872	4,267
Investment (Note 5)	-	15,083
Mineral properties and deferred exploration costs (Note 3)	1,609,496	1,019,349
Reclamation bond (Note 6)	10,533	10,000
	\$ 4,034,219	\$ 3,394,225
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 56,692	\$ 48,594
Due to related parties (Note 8)	9,769	15,257
	66,461	63,851
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 7)	7,841,832	6,574,447
WARRANTS (Note 7d)	627,442	337,114
CONTRIBUTED SURPLUS (Note 7)	876,046	542,188
DEFICIT	(5,377,562)	(4,123,375)
	3,967,758	3,330,374
	\$ 4,034,219	\$ 3,394,225
NATURE OF OPERATIONS (Note 1)		
COMMITMENTS AND CONTINGENCIES (Note 10)		
SUBSEQUENT EVENTS (Note 14)		

APPROVED BY THE BOARD OF DIRECTORS:

"Donald E. Ranta"

Donald E. Ranta

"Mark T. Brown"

Mark T. Brown

See accompanying notes to consolidated financial statements

RARE ELEMENT RESOURCES LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED JUNE 30
(Expressed in US Dollars)

	2009	2008	2007
EXPENSES			
Audit and legal	\$ 26,983	\$ 22,684	\$ 32,025
Accounting and administration (Note 8)	106,943	94,507	87,232
Amortization	2,395	2,117	191
Bank charges	2,420	1,584	1,023
Corporate development	78,328	69,446	-
Foreign exchange loss (gain)	292,358	(88,985)	43,589
Investor relations and shareholders' communication	119,129	116,280	204,362
Management fees (Note 8)	103,456	124,878	74,238
Office and miscellaneous	31,129	40,562	37,298
Rent (Note 8)	7,343	7,431	7,954
Stock-based compensation	428,350	423,891	240,142
Transfer and listing fees	17,541	30,628	29,166
Travel	55,304	38,629	24,518
Write-down of mineral properties	-	-	4,841
	<u>(1,271,679)</u>	<u>(883,652)</u>	<u>(786,579)</u>
OTHER ITEMS			
Interest income	32,575	29,786	35,083
Write off of investment (Note 5)	(15,083)	-	-
	<u>17,492</u>	<u>29,786</u>	<u>35,083</u>
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	<u>\$ (1,254,187)</u>	<u>\$ (853,866)</u>	<u>\$ (751,496)</u>
LOSS PER SHARE – BASIC AND DILUTED	<u>\$ (0.05)</u>	<u>\$ (0.04)</u>	<u>\$ (0.04)</u>
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	<u>24,072,331</u>	<u>22,972,529</u>	<u>20,412,956</u>

See accompanying notes to consolidated financial statements

RARE ELEMENT RESOURCES LTD.
CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY
(Expressed in US Dollars)

	Number of Shares	Share Capital	Warrants	Contributed Surplus	Deficit	Total Shareholders' Equity
Issued and outstanding:						
BALANCE AS AT JUNE 30, 2007	21,704,389	\$ 4,973,386	\$ -	\$ 240,729	\$ (3,269,509)	\$ 1,944,606
Issued for cash:						
Private placement (Note 7b(i))	1,075,000	813,243	337,114	-	-	1,150,357
Exercise of warrants (Note 7b(ii))	700,847	520,810	-	-	-	520,810
Exercise of options (Note 7b(iii))	386,500	282,524	-	(122,432)	-	160,092
Share issue costs (Note 7b(i))	-	(15,516)	-	-	-	(15,516)
Stock-based compensation (Note 7e)	-	-	-	423,891	-	423,891
Net loss for the year	-	-	-	-	(853,866)	(853,866)
BALANCE AS AT JUNE 30, 2008	23,866,736	6,574,447	337,114	542,188	(4,123,375)	3,330,374
Issued for cash:						
Private placement (Note 7b(iv))	2,000,000	1,042,722	290,328	-	-	1,333,050
Exercise of options (Note 7b(v))	398,000	235,442	-	(94,492)	-	140,950
Share issue costs (Note 7b(iv))	-	(10,779)	-	-	-	(10,779)
Stock-based compensation (Note 7e)	-	-	-	428,350	-	428,350
Net loss for the year	-	-	-	-	(1,254,187)	(1,254,187)
BALANCE AS AT JUNE 30, 2009	26,264,736	\$ 7,841,832	\$ 627,442	\$ 876,046	\$ (5,377,562)	\$ 3,967,758

See accompanying notes to consolidated financial statements

RARE ELEMENT RESOURCES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30
(Expressed in US Dollars)

	2009	2008	2007
CASH PROVIDED BY (USED IN) OPERATIONS			
Net loss for the year	\$ (1,254,187)	\$ (853,866)	\$ (751,496)
Items not involving cash:			
Amortization	2,395	2,117	191
Fair value of warrants received pursuant to the sale of mineral property	-	-	(15,083)
Stock-based compensation	428,350	423,891	240,142
Interest income accrued	(13,628)	-	-
Write off of investment	15,083	-	4,841
	<u>(821,987)</u>	<u>(427,858)</u>	<u>(521,405)</u>
Changes in non-cash working-capital items:			
Accounts receivable	36,626	(2,298)	(20,016)
Prepaid expenses	(1,095)	22,768	(26,446)
Accounts payable and accrued liabilities	(28,037)	32,138	(7,251)
Due to related parties	(5,488)	7,000	(1,299)
	<u>(819,981)</u>	<u>(368,250)</u>	<u>(576,417)</u>
INVESTING ACTIVITIES			
Deferred exploration costs	(581,012)	(256,618)	(159,750)
Purchase of equipment	-	(5,711)	(864)
	<u>(581,012)</u>	<u>(262,329)</u>	<u>(160,614)</u>
FINANCING ACTIVITIES			
Cash received for common shares	1,474,000	1,831,259	1,394,101
Share issue costs	(10,779)	(15,516)	-
Cash received for sale of mineral property	-	1,416	-
	<u>1,463,221</u>	<u>1,817,159</u>	<u>1,394,101</u>
INCREASE IN CASH AND CASH EQUIVALENTS	62,228	1,186,580	657,070
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>2,271,917</u>	<u>1,085,337</u>	<u>428,267</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>\$ 2,334,145</u>	<u>\$ 2,271,917</u>	<u>\$ 1,085,337</u>
Cash and cash equivalents consist of:			
Cash	1,814,845	786,917	1,085,337
GIC Investments	519,300	1,485,000	-
	<u>\$ 2,334,145</u>	<u>\$ 2,271,917</u>	<u>\$ 1,085,337</u>

See accompanying notes to consolidated financial statements

RARE ELEMENT RESOURCES LTD.
CUMULATIVE SCHEDULE OF MINERAL PROPERTY COSTS
(Expressed in US Dollars)

	Balance June 30, 2007	Expenditures for the year	Balance June 30, 2008	Expenditures for the year	Balance June 30, 2009
Bear Lodge Property					
Property acquisition costs	\$ 17,721	\$ -	\$ 17,721	\$ 23,000	\$ 40,721
Exploration expenditures					
Assays	7,751	5,623	13,374	16,573	29,947
Assessments and taxes	20,104	-	20,104	-	20,104
Drilling	323,922	136,038	459,960	274,712	734,672
Geological consulting	168,768	58,714	227,482	211,277	438,759
Geophysical	300	-	300	-	300
Metallurgical testing	38,530	55,000	93,530	61,500	155,030
Overhead expenses	9,679	1,160	10,839	2,685	13,524
Staking	17,949	-	17,949	-	17,949
Survey	34,338	-	34,338	-	34,338
Travel expenses	23,935	83	24,018	400	24,418
Wages	99,734	-	99,734	-	99,734
Total exploration expenditures on Bear Lodge property	762,731	256,618	1,019,349	590,147	1,609,496
Kipawa Property					
Exploration expenditures					
Geological consulting	4,949	-	4,949	-	-
Staking	1,308	-	1,308	-	-
Write-down of property	(4,841)	(1,416)	(6,257)	-	-
Total exploration expenditures on Kipawa property	1,416	(1,416)	-	-	-
TOTAL EXPENDITURES	\$ 764,147	\$ 255,202	\$ 1,019,349	\$ 590,147	\$ 1,609,496

See accompanying notes to consolidated financial statements

RARE ELEMENT RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2009, 2008 and 2007

(Expressed in US Dollars)

1. NATURE OF OPERATIONS

Rare Element Resources Ltd. (“Rare Element” or “the Company”) was incorporated under the laws of the Province of British Columbia on June 3, 1999.

The Company is in the process of exploring its mineral property interests and has not yet determined whether its mineral property interests contain mineral reserves that are economically recoverable. The Company’s continuing operations and the underlying value and recoverability of the amounts shown for mineral property interests are entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of the mineral property interests, obtaining the necessary permits to mine, and on future profitable production or proceeds from the disposition of the mineral property interests. To date, the Company has no revenue and has an accumulated operating deficit of \$5,377,562.

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 Resources Ltd. (“Paso Rico”), together with those of Paso Rico’s wholly-owned subsidiaries, Minera Santa Regina, S.A. de C.V., Compania Minera Real de las Lomas, S.A. de C.V. and Paso Rico (USA), Inc. The Company is in the process of winding down the two Mexican companies.

Use of estimates

The preparation of these consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reported period. 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 allowed to lapse or are 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 period.

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 periodically 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 a 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.

RARE ELEMENT RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2009, 2008 and 2007

(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 operations are considered to be integrated 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 period, and;
- gains and losses arising from the conversion of foreign-currency balances and transactions are reported in income as they occur.

Cash and cash equivalents

Provided that the instruments are readily convertible at the balance sheet date into cash without penalty at their carrying value, the Company considers its highly liquid term investments, typically with Canadian Chartered banks, to be cash equivalents. The Company maintains its cash and cash equivalents in bank deposit accounts which exceed federally insured limits. At June 30, 2009, the Company had its cash and cash equivalents with one financial institution. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents and holds no asset backed commercial paper.

Amortization

The Company provides for amortization on its computer equipment at 55%, and software at 100%, declining balance (one-half of the rate is taken in the year of acquisition and disposition).

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 amount 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.

Loss per share

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

Stock-based compensation

The Company recognizes compensation expense for all stock options granted using the fair value based method of accounting. Under the fair value method, stock-based payments are measured at the fair value of the consideration received or the fair value of the equity instruments issued or liabilities incurred, whichever is more reliably measurable, and are charged to operations over the vesting period. The offset is initially credited to contributed surplus and subsequently transferred to share capital if and when the related options are exercised. Cash received on the exercise of stock options is also credited to share capital.

RARE ELEMENT RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2009, 2008 and 2007

(Expressed in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made.

The associated asset retirement costs are capitalized as part of the carrying amount of long lived assets. The liability is accreted over the estimated time period until settlement of the obligation and asset is depreciated over the estimated remaining useful life of the asset. Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease in the carrying amount of the liability and the related capitalized asset retirement cost.

Comparative figures

Certain of the prior year's figures have been reclassified to conform with the current year's financial statement presentation.

Changes in accounting policies

On July 1, 2008, the Company adopted the following recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook. There was no material impact on the Company's financial condition or operating results as a result of the adoption of these new standards:

- a) Section 3862 – Financial Instruments – Disclosures, which replaces Section 3861 and provides expanded disclosure requirements that provide additional detail by financial asset and liability categories (Note 12).
- b) Section 3863 – Financial Instruments – Presentation, which enhances financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows (Note 12).
- c) Section 1535 – Capital Disclosures, which establishes standards for disclosing information about an entity's capital and how it is managed (Note 13). Under this standard, the Company is required to disclose the following:
 - qualitative information about its objectives, policies and processes for managing capital;
 - summary quantitative data about what it manages as capital;
 - whether during the period it complied with any externally imposed capital requirements to which it is subject; and
 - when the Company has not complied with such externally imposed capital requirements, the consequences of such non-compliance.
- d) Section 1400 – General Standards of Financial Statement Presentation, which include requirements for management to assess and disclose an entity's ability to continue as a going concern (Note 1).

RARE ELEMENT RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2009, 2008 and 2007

(Expressed in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

New accounting standards

The CICA has issued new standards which may affect the financial disclosures and results of operations of the Company for interim and annual periods beginning on or after January 1, 2009. The Company will adopt the requirements on the date specified for each respective section the impact of these standards on the consolidated financial statements, as outlined below.

a) Section 3064 -- Goodwill and Intangible Assets

This new standard replaces the former CICA 3062 – Goodwill and other intangible assets and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. CICA 3064 is effective for interim and annual financial statements for years beginning on or after January 1, 2009. The Company believes that adoption of this section will result in no material changes to the results of operations or financial position of the Company.

b) Section 1582 -- Business combinations, Section 1601 consolidated financial statements and Section 1602 non-controlling interests

These sections replace the former CICA 1581, Business Combinations and CICA 1600, Consolidated Financial Statements and establish a new section for accounting for a non-controlling interest in a subsidiary. These sections provide the Canadian equivalent to FASB Statements No. 141(R), Business Combinations and No. 160 Non-controlling Interests in Consolidated Financial Statements. CICA 1582 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. CICA 1601 and CICA 1602 apply to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011.

c) Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009 the CICA issued EIC-173, “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities” which requires the Company to consider its own credit risk as well as the credit risk of its counterparty when determining the fair value of financial assets and liabilities, including derivative instruments. The accounting treatments provided in EIC-173 have been applied in the preparation of these financial statements and as required have been applied retrospectively without restatement of prior periods. The adoption of this standard will not have a material impact on the valuation of financial assets or liabilities.

d) Mining Exploration Costs

In March 2009 the CICA issued EIC-174, “Mining Exploration Costs” which provides guidance to mining enterprises related to the measurement of exploration costs and the conditions that a mining enterprise should consider when determining the need to perform an impairment review of such costs. The accounting treatments provided in EIC-174 have been applied in the preparation of these financial statements and will not have an impact on the valuation of exploration assets.

RARE ELEMENT RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2009, 2008 and 2007

(Expressed in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

International Financial Reporting Standards (“IFRS”)

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS for fiscal years beginning on or after January 1, 2011, with earlier adoption permitted. Accordingly, the conversion to IFRS will be applicable to the Company’s reporting no later than in the first quarter of 2011, with restatement of comparative information presented. The conversion to IFRS will impact the Company’s accounting policies, information technology and data systems, internal control over financial reporting, and disclosure controls and procedures. The transition may also impact business activities, such as foreign currency activities, certain contractual arrangements, capital requirements and compensation arrangements. The Company is currently evaluating the future impact of IFRS on its financial statements and will continue to invest in training and additional resources to ensure a timely and accurate conversion.

3. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS

The amounts shown represent costs incurred to date, and do not necessarily represent present or future values as these are entirely dependent upon the economic recovery of future ore reserves. A summary of current property interests is as follows:

Bear Lodge Property

The Company, through its wholly-owned subsidiary, Paso Rico (USA), Inc., holds a 100% interest in a group of unpatented mineral claims known as the Bear Lodge Property. The property is situated in the Bear Lodge Mountains of Crook County, in northeast Wyoming. These claims were, in part, acquired from Freeport-McMoRan Copper & Gold (“Freeport”) by way of a “Mineral Lease and Option for Deed”. Certain claims and a portion of a defined area of influence surrounding the claims were subject to a production royalty of 2% of Net Smelter Returns (“NSR”) royalty payable to Freeport. On March 31, 2009, the Company re-purchased the NSR for \$50,000, \$27,000 of which was assigned to Newmont. Paso Rico (USA), Inc. also owns a portion of the claim group outright and these claims are not subject to the NSR.

The property comprises 90 federal unpatented mineral claims and a 640-acre Wyoming state lease for a total of approximately 2,100 acres. There is a sliding scale royalty on certain state lease land due to the State of Wyoming if ore is mined from the state section.

On June 1, 2006, Paso Rico (USA), Inc. and Newmont North America Exploration Limited (“Newmont”), a subsidiary of Newmont Mining Corporation, signed an agreement to establish a gold-exploration venture on the Company’s Bear Lodge, Wyoming property (“Venture”). Under the agreement, Newmont has the right to earn a 65% participating interest in the Bear Lodge property, excluding any rights to the rare-earth elements and uranium, but including rights to gold and other metals, by spending \$5 million on property exploration by 2011.

Newmont also has the right to earn an additional 15% participating interest by completing a positive feasibility study. If the Company’s interest is reduced to 20%, the Company shall have a financing option by which it may elect for Newmont to carry the Company’s share of Venture expenditures, without further dilution to the Company, until commencement of mining on the property. The funds advanced by Newmont under the financing option, plus interest at LIBOR plus 3%, shall be recouped from 90% of the Company’s portion of the proceeds from production.

RARE ELEMENT RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2009, 2008 and 2007

(Expressed in US Dollars)

3. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS, Continued

Bear Lodge Property, Continued

Newmont staked an additional 116 Federal lode mineral claims, which are included as part of the Venture's property. The total Venture area of interest consists of approximately nine square miles, mostly located in the north portion of the Bear Lodge Mountains.

Newmont is the operator of the gold-exploration program. The Company will continue to operate its own rare-earth-element exploration program; however, if the two exploration programs conflict, the Venture, under Newmont, may choose to operate both programs. The Company is advancing the exploration and evaluation of the rare-earth mineralization on the Bear Lodge property.

All claims are located on federal lands and are subject to annual maintenance fees payable to the United States Bureau of Land Management. These fees are now paid by Newmont as long as the Newmont agreement remains in effect.

Kipawa Property

In April 2006, the Company acquired the property by staking 26 claims, totaling approximately 1,531 hectares. The property is located in Quebec, 90 km north of North Bay, Ontario. The Company wrote off \$4,841 in fiscal 2007 upon making an agreement to sell the property. On October 12, 2007, the Company sold the property for its residual carrying amount of \$1,500 CDN (\$1,416).

4. EQUIPMENT

	2009	2008
Computer equipment	\$ 4,962	\$ 4,962
Software	1,338	1,338
Accumulated amortization	(4,428)	(2,033)
Net book value	\$ 1,872	\$ 4,267

5. INVESTMENT

In fiscal 2008, the Company sold to Almaden Minerals Ltd. ("Almaden") its 2% NSR royalty on a Mexican property which has been previously written off by the Company. The NSR was sold for \$20,000 and 25,000 Almaden warrants exercisable at a price of \$3.00 CDN until March 20, 2010. A fair value of \$15,083 was assigned to these warrants and was estimated using the Black-Scholes Option Pricing Model based on the following assumptions: A risk free interest rate of 3.98%, a volatility rate of 52.42%, and an expected time to exercise of 3 years.

The Company wrote off the estimated value of \$15,083 of the 25,000 Almaden warrants as of June 30, 2009.

Almaden has an officer in common with the Company.

RARE ELEMENT RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2009, 2008 and 2007

(Expressed in US Dollars)

6. RECLAMATION BOND

The Company was required to post a reclamation bond which covers the cost to reclaim the ground disturbed during its exploration programs at the Bear Lodge Property. On July 23, 2004, \$10,000 was transferred to the Wyoming Department of Environmental Quality for the bond required to cover the exploration program. The Company must complete certain reclamation work for these funds to be released, but may leave the bond in place for future exploration programs, even if such work is completed.

In August 2006, an additional bond of \$10,000 was set up in the name of Paso Rico (USA), Inc., but it was paid by Newmont. This bond covers Newmont's gold-exploration reclamation work and is not included in these financial statements. It will revert to Newmont if and when Newmont completes its reclamation.

In August 2009, an additional bond of \$100,000 was set up in the name of Paso Rico (USA), Inc., for the benefit of Rare Element Resources, The bond covers the Company's rare-earth exploration reclamation work.

7. SHARE CAPITAL AND CONTRIBUTED SURPLUS

a. Authorized – unlimited number of common shares without par value.

b. Issued

- i) On November 5, 2007, the Company completed a non-brokered private placement for \$1,075,000 CDN. The offering consisted of 1,075,000 units at \$1.00 CDN per unit. Each unit comprised one common share and one-half of a non-transferable share-purchase warrant. A whole warrant was exercisable into a common share of the Company at \$1.35 CDN until May 5, 2009. The fair value of \$337,114 was assigned to the warrants using Black-Scholes. The assumptions used were a risk-free interest rate of 3.76%, an expected life of 1.66 year, annualized volatility of 88%, and a dividend rate of 0%. These warrants expired in fiscal 2009. A total of \$15,516 was included in share issue costs.
- ii) In fiscal 2008, 700,847 warrants were exercised at \$0.75 CDN per share for proceeds of \$520,810.
- iii) In fiscal 2008, a total of 386,500 options at prices ranging from \$0.25 CDN to \$0.55 CDN were exercised for proceeds of \$160,092. A fair value of \$122,432 was recognized on these exercised options.
- iv) On May 27, 2009, the Company completed a non-brokered private placement for \$1,500,000 CDN. The offering consisted of 2,000,000 units at \$0.75 CDN per unit. Each unit comprised one common share and one-half of a non-transferable share-purchase warrant. A whole warrant is exercisable into a common share of the Company at \$1.00 CDN until November 27, 2010. The fair value of \$290,328 was assigned to the warrants based upon the average of the pro-rata method and the Black-Scholes option pricing model. The assumptions used were a risk-free interest rate of 1.27%, an expected life of 1.5 year, annualized volatility of 108%, and a dividend rate of 0%. A total of \$10,779 was included in share issue costs.
- v) In fiscal year 2009, a total of 398,000 options at prices ranging from \$0.25 CDN to \$0.58 CDN were exercised for proceeds of \$140,950. A fair value of \$94,492 was recognized on these exercised options.

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7. SHARE CAPITAL AND CONTRIBUTED SURPLUS, Continued

c. Stock Options

The following table summarizes the Company's stock option activity:

	Number of Options	Weighted Average Exercise Price (CDN\$)
Outstanding, June 30, 2007	2,082,500	0.42
Granted	850,000	1.02
Exercised	(386,500)	0.42
Outstanding, June 30, 2008	2,546,000	0.62
Granted	1,400,000	0.58
Exercised	(398,000)	0.40
Expired	(750,000)	0.35
Outstanding, June 30, 2009	2,798,000	0.71

At June 30, 2009, the following options were outstanding:

Expiry Date	Number of Options	Exercise Price (CDN\$)	Weighted Average Remaining Contractual Life (Years)
April 28, 2011 (a)	290,000	0.55	1.83
January 10, 2012 (b)	260,000	0.55	2.53
September 1, 2012	350,000	1.00	3.18
October 12, 2012	350,000	1.00	3.29
October 15, 2012	25,000	1.00	3.30
November 17, 2012 (c)	50,000	1.15	3.39
February 19, 2013	75,000	1.15	3.64
January 27, 2014 (d)	1,398,000	0.58	4.58
	2,798,000		

(a) Subsequent to the year end, 140,000 of these options were exercised.

(b) Subsequent to the year end, 60,000 of these options were exercised.

(c) Subsequent to the year end, 50,000 of these options were exercised.

(d) Subsequent to the year end, 172,000 of these options were exercised.

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7. SHARE CAPITAL AND CONTRIBUTED SURPLUS, Continued

d. Warrants

The following table summarizes the Company's warrant activity:

	Number of Shares	Weighted Average Exercise Price (CDN\$)
Outstanding, June 30, 2007	704,183	0.75
Granted	537,500	1.35
Exercised	(700,847)	0.75
Expired	(3,336)	0.75
Outstanding, June 30, 2008	537,500	1.35
Granted	1,000,000	1.00
Expired	(537,500)	1.35
Outstanding, June 30, 2009	1,000,000	1.00

At June 30, 2009, the following warrants were outstanding:

Expiry Date	Number of Warrants	Exercise Price (CDN\$)	Weighted Average Remaining Contractual Life (Years)
November 27, 2010 (a)	1,000,000	1.00	1.41

(a) Subsequent to the year end, 10,000 of these warrants were exercised.

e. Stock-based compensation

The fair value of stock options and warrants is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2009	2008	2007
Risk-free interest rate	1.27 – 2.03%	3.03 – 4.29%	4.08%
Annualized volatility	92 - 108%	86 – 89%	88%
Expected dividend yield	Nil	Nil	Nil
Expected option life in years	1.5 - 5 years	5 years	4 years

The weighted average fair value per option granted during the year ended June 30, 2009 was \$0.58 (2008 – \$0.27). During the years ended June 30, 2009, 2008, and 2007, the Company respectively recognized \$428,350, \$423,891 and \$240,142 of stock-based compensation expense for options granted to directors, officers, and consultants.

The warrants attached to the May 2009 private placement (Note 7b(iv)) were valued at \$290,328 based upon the average of the pro-rata method and the Black Scholes option pricing model

Option pricing models require the input of highly subjective assumptions, particularly as to the expected price volatility of the stock. Changes in these assumptions can materially affect fair value estimates 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.

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8. RELATED PARTY TRANSACTIONS

During the year ended June 30, 2009:

- a) \$Nil (2008 - \$55,861; 2007 - \$74,238) was charged for management fees by a private company controlled by the former president.
- b) \$103,456 (2008 - \$69,017; 2007 - \$Nil) was charged for management fees by an officer and director of the Company. As at June 30, 2009, \$Nil (2008 - \$8,500) was owed to the officer.
- c) \$114,286 (2008 - \$101,938; 2007 - \$95,186) was charged by a private company controlled by a director and officer of the Company for accounting, management fees and rent. As at June 30, 2009, \$9,769 (2008 - \$6,757) was owed to this private company.

Related party transactions were in the normal course of operations and are measured at the fair value amount as determined by management. The amounts owed bear no interest and are unsecured with no repayment terms.

9. INCOME TAXES

A reconciliation of income tax recovery at statutory rates compared to reported income tax recovery is as follows:

	2009	2008
Loss for the year	\$ (1,254,187)	\$ (853,866)
Expected income tax recovery	(390,403)	(268,714)
Effect of foreign tax rate differences	(2,222)	(121)
Non-deductible expenses	200,277	122,998
Unrecognized benefit of non-capital losses	192,348	145,837
Total income tax recovery	\$ -	\$ -

The significant components of the Company's future income tax assets and liabilities are as follows:

	2009	2008
Future income tax assets (liabilities):		
Non-capital loss carry forwards	\$ 680,270	\$ 479,399
Equipment	1,151	-
Cumulative Eligible Property	907	-
Share Issue Costs	4,421	-
Resources expense – USA	(64,444)	-
Resource expenses – Canada	1,627	(687)
Future income tax assets	623,932	478,712
Valuation allowance	(623,932)	(478,712)
Net future income tax assets	\$ -	\$ -

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9. INCOME TAXES, Continued

The following is a schedule of the Company's aggregate non-capital losses available to reduce taxable income in Canada in future years, expiring between 2009 and 2029 as follows:

Year of Expiration	Non-Capital Loss CDN\$
2009	37,007
2010	50,628
2014	251,425
2015	206,028
2026	461,482
2027	558,660
2028	521,005
2029	561,706
	\$ 2,647,941

The future tax benefits, if any, resulting from the application of these losses have been offset by a valuation allowance, as it cannot be considered likely that these amounts will be utilized.

The following is a schedule of the Company's aggregate non-capital losses available to reduce taxable income in the United States in future years, expiring between 2014 and 2024 as follows:

Year of Expiration	Non-Capital Loss
2014	84
2015	64,995
2016	87,060
2017	34,832
2018	22,351
2019	14,952
2020	15,091
2021	37,806
2022	23,795
2023	84,953
2024	158,905
	\$ 544,824

The future tax benefits, if any, resulting from the application of these losses have been offset by a valuation allowance, as it cannot be considered likely that these amounts will be utilized.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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10. COMMITMENTS AND CONTINGENCIES

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. SEGMENTED INFORMATION

The Company operates in a single reportable operating segment, being exploration and development of mineral properties.

Summarized financial information for the geographic segments the Company operates in are as follows:

	Canada	United States	Total
<u>As at June 30, 2009</u>			
Assets	\$ 2,414,190	\$ 1,620,029	\$ 4,034,219
<u>As at June 30, 2008</u>			
Assets	\$ 2,349,793	\$ 1,044,432	\$ 3,394,225
<u>For the year ended June 30, 2009</u>			
Loss for the year	\$ 1,239,377	\$ 14,810	\$ 1,254,187
Capital expenditures	\$ -	\$ 581,012	\$ 581,012
<u>For the year ended June 30, 2008</u>			
Loss for the year	\$ 853,062	\$ 804	\$ 853,866
Capital expenditures	\$ 5,711	\$ 256,618	\$ 262,329
<u>For the year ended June 30, 2007</u>			
Loss for the year	\$ 751,106	\$ 390	\$ 751,496
Capital expenditures	\$ 864	\$ 159,750	\$ 160,614

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12. FINANCIAL INSTRUMENTS AND RELATED RISKS

The Company's financial instruments typically consist of cash, short term investments, amounts receivable, investments in shares or warrants and accounts payable and accrued liabilities.

Cash equivalents, temporary investments and investments in shares and warrants of public companies have been classified as held for trading and are re-valued to market at each period end. Unrealized gains and losses on re-valuation are recorded in operations.

Amounts receivable are classified as loans and receivables and are carried at amortized cost. Accounts payable and accrued liabilities are classified as other liabilities and are carried at amortized cost. These instruments have fair values which approximate their cost due to their short-term nature.

The Company's operations consist of the acquisition and exploration of mineral resource properties in United States. The Company examines the various financial risks to which it is exposed and assesses the impact and likelihood of occurrence. These risks may include credit risk, liquidity risk, currency risk, interest rate risk and other risks. Where material, these risks are reviewed and monitored by the Board of Directors.

a) Credit risk

Counterparty credit risk is the risk that the financial benefits of contracts with a specific counterparty will be lost if a counterparty defaults on its obligations under the contract. This includes any cash amounts owed to the Company by those counterparties, less any amounts owed to the counterparty by the Company where a legal right of set-off exists and also includes the fair values of contracts with individual counterparties which are recorded in the financial statements.

(i) Trade credit risk

The Company is in the exploration stage and has not yet commenced commercial production or sales. Therefore, the Company is not exposed to significant credit risk and overall the Company's credit risk has not changed significantly from the prior year.

(ii) Cash and cash equivalents

In order to manage credit and liquidity risk the Company invests only in highly rated investment grade instruments that have maturities of three months or less. Limits are also established based on the type of investment, the counterparty and the credit rating.

(iii) Derivative financial instruments

As at June 30, 2009, the Company has no derivative financial instruments. It may in the future enter into derivative financial instruments and in order to manage credit risk, it will only enter into derivative financial instruments with highly rated investment grade counterparties.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure.

Accounts payable and accrued liabilities are due within the current operating period.

c) Interest rate risk

The Company's interest revenue earned on cash and on short term investments is exposed to interest rate risk. The Company does not enter into derivative contracts to manage this risk, and the Company's exposure to interest rate is very low as the Company has limited short term investments.

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12. FINANCIAL INSTRUMENTS, Continued,

d) Currency risk

The Company's property interests in the United States subject it to foreign currency fluctuations which may adversely affect the Company's financial position, results of operations and cash flows. The Company is affected by changes in exchange rates between the Canadian dollar and US dollar.

A one cent change in the US/CDN dollar currency rate would affect the Company's estimated one-year exploration expenditures by \$15,000.

The Company does not invest in derivatives to mitigate these risks.

e) Interest rate risk

The Company limits its exposure to interest rate risk as it invests only in short term investments at major Canadian financial institutions.

A one percent change in interest rates changes the results of operations by \$6,000.

13. MANAGEMENT OF CAPITAL RISK

The Company manages its cash and cash equivalents, common shares, stock options and warrants as capital (Note 7). The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

In order to maximize ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

The Company expects its current capital resources will be sufficient to carry its exploration plans and operations through fiscal 2010.

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14. SUBSEQUENT EVENTS

- a. On July 24, 2009, the Company completed a \$1,800,000 CDN financing consisting of 1,200,000 units at a price of \$1.50 CDN per unit. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant is exercisable into one common share for a period of 18 months from the closing date at a price of \$2.10 CDN.
- b. On August 11, 2009, another \$100,000 reclamation bond was set up in the name of Paso Rico (USA) Inc. and was transferred to the Wyoming Department of Environmental Quality.
- c. Subsequent to the year end, 422,000 options were exercised for gross proceeds of \$267,260 CDN. On July 20, 2009, 200,000 options were granted to an advisor of the Company with an exercise price of \$2.09 CDN expiring July 20, 2014. On October 2, 2009, another 30,000 options were granted to an advisor of the Company with an exercise price of \$4.49 CDN expiring October 2, 2014. On October 14, 2009, 10,000 warrants were exercised for gross proceeds of \$10,000 CDN.
- d. On September 21, 2009, the Company completed a \$3,000,000 CDN financing consisting of 1,000,000 units. Each unit was priced at \$3.00 CDN and consists of one common share and one common share purchase warrant. Each full warrant will allow the holder to purchase one additional common share for a period of 18 months from the closing date for additional consideration of \$4.25 CDN. There were no insiders participating in this offering and no commission was paid.
- e. On October 5, 2009, the Company announced the signing of a letter of intent to acquire 100% of the Eden Lake rare earth elements project from VMS Ventures Inc. for payment of 300,000 common shares and a 3% Net Smelter Returns (“NSR”) royalty. The letter of intent calls for a due diligence period, which is currently underway, prior to the signing of a formal purchase agreement. The common shares will be issued as to 75,000 at closing and three additional 75,000 tranches at six month intervals thereafter. The Company has the right to buy 50% of the 3% NSR for \$1.5 million and has also agreed to pay a finder’s fee of 20,000 common shares to two parties for this acquisition. The acquisition is subject to various conditions including the approval of the respective Boards of Directors and the consent of regulatory authorities.

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15. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). Material variations in the accounting principles, practices and methods used in preparing these consolidated financial statements from principles, practices and methods accepted in the United States (“U.S. GAAP”), and that impact consolidated financial statement line items, are described below.

Mineral property costs

Under Canadian GAAP, mineral exploration expenditures can be deferred on prospective mineral rights until such time as it is determined that further exploration work is not warranted, at which time the mineral exploration expenditures are written-off. Under U.S. GAAP, all exploration expenditures are expensed until an independent feasibility study has determined that the mineral rights are capable of economic commercial production.

	2009	2008	2007
a) Assets			
Mineral property costs under Canadian GAAP	\$ 1,609,496	\$ 1,019,349	\$ 764,147
Less deferred costs expensed under U.S. GAAP	(1,609,496)	(1,019,349)	(764,147)
Mineral property costs under U.S. GAAP	\$ -	\$ -	\$ -
b) Deficit			
Closing deficit under Canadian GAAP	\$ (5,377,562)	\$ (4,123,375)	\$ (3,269,509)
Adjustment to deficit for mineral property costs expensed under U.S. GAAP	(1,609,496)	(1,019,349)	(764,147)
Closing deficit under U.S. GAAP	\$ (6,987,058)	\$ (5,142,724)	\$ (4,033,656)
c) Net Loss			
Net loss under Canadian GAAP	\$ (1,254,187)	\$ (853,866)	\$ (751,496)
Mineral property costs expensed under U.S. GAAP	(590,147)	(256,618)	(160,132)
Net loss under U.S. GAAP	\$ (1,844,334)	\$ (1,110,484)	\$ (911,628)
d) Basic and Diluted Loss Per Share - U.S. GAAP			
	\$ (0.08)	\$ (0.05)	\$ (0.04)
e) Cash flows – Operating activities			
Cash used in operating activities – Canadian GAAP	\$ (810,846)	\$ (368,250)	\$ (576,417)
Loss under Canadian GAAP	1,254,187	853,866	751,496
Loss under U.S. GAAP	(1,844,334)	(1,110,484)	(911,628)
Cash used in operating activities – U.S. GAAP	\$ (1,400,993)	\$ (624,868)	\$ (736,549)
f) Cash flows - Investing Activities			
Cash used in investing activities - Canadian GAAP	\$ (581,012)	\$ (262,329)	\$ (160,614)
Mineral property costs expensed under U.S. GAAP	581,012	256,618	160,132
Cash used in investing activities - U.S. GAAP	\$ -	\$ (5,711)	\$ (482)

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15. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Continued

Recent United States Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board, or FASB, issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51." This statement improves the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards that require the ownership interests in subsidiaries held by parties other than the parent and the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income; changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently; when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value; and entities provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 affects those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Early adoption is prohibited. The adoption of this statement is not expected to have a material effect on the Company's financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133." This statement is intended to improve transparency in financial reporting by requiring enhanced disclosures of an entity's derivative instruments and hedging activities and their effects on the entity's financial position, financial performance, and cash flows. SFAS No. 161 applies to all derivative instruments within the scope of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" as well as related hedged items, bifurcated derivatives, and nonderivative instruments that are designated and qualify as hedging instruments. Entities with instruments subject to SFAS No. 161 must provide more robust qualitative disclosures and expanded quantitative disclosures. SFAS No. 161 is effective prospectively for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application permitted. The Company is currently evaluating the disclosure implications of this statement.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." SFAS No. 162 identifies the sources of accounting principles and provides entities with a framework for selecting the principles used in preparation of financial statements that are presented in conformity with GAAP. The current GAAP hierarchy has been criticized because it is directed to the auditor rather than the entity, it is complex, and it ranks FASB Statements of Financial Accounting Concepts, which are subject to the same level of due process as FASB Statements of Financial

Accounting Standards, below industry practices that are widely recognized as generally accepted but that are not subject to due process. The board believes the GAAP hierarchy should be directed to entities because it is the entity (not its auditors) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. SFAS No. 162 is effective 60 days following the SEC's approval of Public Company Oversight Board, or PCAOB, Auditing Standards No. 6, "Evaluating Consistency of Financial Statements (AS/6)." The adoption of SFAS No. 162 is not expected to have a material impact on the Company's financial position.

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15. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Continued

Recent United States Accounting Pronouncements, Continued

In May 2008, the FASB issued SFAS No. 163, "Accounting for Financial Guarantee Insurance Contracts-an interpretation of FASB Statement No. 60." Diversity exists in practice in accounting for financial guarantee insurance contracts by insurance enterprises under FASB Statement No. 60, "Accounting and Reporting by Insurance Enterprises." This results in inconsistencies in the recognition and measurement of claim liabilities. This statement requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. This statement requires expanded disclosures about financial guarantee insurance contracts. The accounting and disclosure requirements of the statement will improve the quality of information provided to users of financial statements. SFAS No. 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The adoption of SFAS No. 163 is not expected to have a material impact on the Company's financial position.