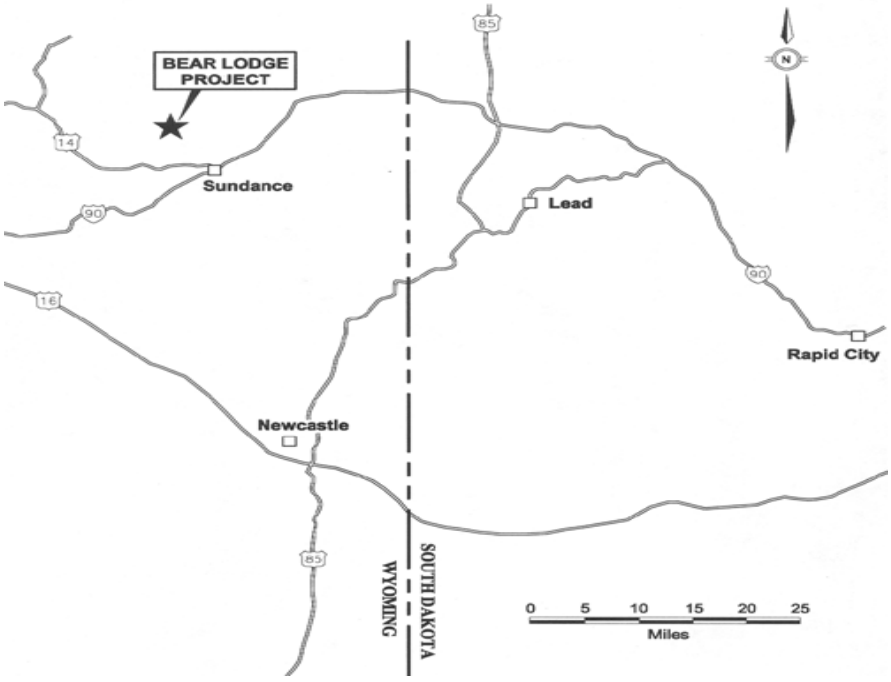
BEAR LODGE RARE-EARTH PROJECT
*R*ARE *E*LEMENT RE*S*OURCES LTD

The Bear Lodge Rare-Earth Project is ten kilometres north of the town of Sundance in northeast Wyoming (44°30'N Latitude, 104°27'W Longitude). Access from Sundance is by the Taylor Divide Road, which is paved to the south edge of the project area. A good gravel road transects the property and there are a number of four-wheel-drive mining and logging roads, which provide good local access. Rail transport is available at Moorcroft, 54 kilometres west of Sundance, and the regional power grid reaches to within about 1.5 kilometres. Sundance, the county seat with a population of 1161, is a good local source of supplies and labour. The regional supply center is Rapid City, South Dakota, 130 kilometres to the east.

Property elevations range from 1,760 to 1,940 metres with moderate slopes and saddles. Open Ponderosa pine forest is interspersed with dense bush and grassy meadows. The summer climate is warm and relatively dry. Winters are cold with variable amounts of snow. Optimal field conditions extend from early April to early November.



PROPERTY DESCRIPTION AND OWNERSHIP

The Bear Lodge Rare-Earth Project property comprises 90 unpatented federal lode claims and one state lease for a total of about 2400 acres. The property is wholly owned by Rare Element Resources through its Wyoming incorporated Paso Rico (USA) , Inc. Twenty-three of the unpatented mining claims, comprising 472 acres, were acquired from Phelps Dodge Corporation and are subject to a two-percent Net Smelter Return production royalty in favour of Phelps Dodge. In order to maintain all claims in good standing, the Company is responsible for the recording of assessment work and for the annual payment of fees consisting of $125 per claim. The annual state-lease payments consist of US$640.00. In addition, Rare Element Resources is responsible for the reclamation of disturbed ground.

President Bill Bird with Bull Hill in the middle ground.
Bull Hill is one of the centers for rare-earth-element mineralization.

HISTORY

The Bear Lodge Mountains and, in particular the carbonatite-alkaline intrusive complex that contains the rare-earth elements, host a variety of mineral occurrences. The following data are presented to emphasize the intense interest generated by these systems over the last 100 years; however, these data (including the grades and tonnages) are historical and cannot be relied upon until they are confirmed according to present-day, National Instrument 43-101 standards.

The area was initially prospected for gold during the late nineteenth century. Rare-earth mineralization in the Bear Lodge Mountains was first discovered in 1949. In 1972, Duval Corporation explored for porphyry-style copper and located high-grade copper, molybdenum, precious- and rare-earth metals within an altered carbonatite-alkaline-intrusive complex. One Duval drill hole intersected ten metres of 3.5 percent copper and 4.7 ounces of silver per short ton. Duval also encountered intercepts of combined total rare-earth oxides ranging from 1 to 15 percent. Molycorp Inc, at the time the main producer of rare-earth elements, joined the Duval program in 1978; however, it withdrew following the 1980 UNOCAL purchase of Molycorp. Duval withdrew following the Pennzoil purchase of Duval.

In 1983, the U. S. Geological Survey released Professional Paper 1049D, entitled "*Geology and Description of Thorium and Rare-Earth Deposits in the Southern Bear Lodge Mountains, Northeastern Wyoming."* The report concludes that the area contains "the largest deposit of disseminated rare-earth elements in North America." Since then, exploration by major companies has discovered several higher-grade rare-earth-bearing dikes, which add significantly to the project's potential.

Between 1982 and 1991, FMC Corporation, Newmont Exploration, Inc, Hecla Mining Company, International Curator Resources Ltd and Coca Mines, Inc explored the area for gold. Mineralization was discovered in the East and West breccia deposits (now owned by Rare Element Resources) that Hecla estimated at 8.2 million short tons averaging 0.023 ounces of gold per ton.

Hecla Mining Company concentrated on rare-earth exploration and it estimated the mineralization in the three carbonatite dike-swarms, which it discovered, to initially contain 4.3 million short tons averaging 3.8 percent total rare-earth oxides. At the end of the 1990 field season, and after merging with Coca Mines, it focused on the low-grade gold potential. Hecla defined six targets and reported that the potential was good for increasing the previously estimated gold resource.

In the mid Nineties, Phelps Dodge Corporation focused its efforts on the exploration of gold. The Phelps Dodge claims were eventually acquired by Rare Element Resources.

GEOLOGICAL SETTING

The Bear Lodge Mountains are part of the Black Hills Uplift that formed during the Late Cretaceous-Tertiary Laramide Orogeny. The uplift core consists of Precambrian schist, gneiss and granite. This core is overlain by Paleozoic, Mesozoic and Cenozoic sedimentary rocks. In the northern Black Hills, the core is intruded by an east-west trending belt of Tertiary alkalic bodies (dated from 38 to 60.5 million years). The Bearlodge alkalic complex, which is one of these bodies, consists of an elongated center, of mainly trachyte and phonolite, approximately ten by five kilometres. The extensive rare-earth and precious- and base-metal mineralization, including the carbonatite, intrusive brecciation, potassic metasomatism and hydrothermal alteration, are related to late-stage activity within this complex.

Structural mapping and interpretation is hindered by lack of outcrop; however, drilling, geochemical surveys, airborne geophysical data (NURE magnetics and radiometrics) and ground magnetics (Newmont) suggest that both northeasterly and northwesterly structural trends dominate.

PROPERTY GEOLOGY

With only five percent outcrop in the area, surface geology on the property is limited and most geological information has been gathered from trenches and drilling. Generally, the project area is underlain by phonolite and trachyte porphyry. Pseudoleucite porphyry dikes have intruded these units, followed by emplacement of heterolithic intrusive breccia bodies. The two largest breccia bodies underlie the highest points on the property, Carbon Hill and Bull Hill. Drilling indicates that these bodies expand with depth and may merge into one large body. Carbonatite dikes, which contain the rare-earth mineralization, represent the last of the igneous intrusive activity in the area. Carbonatite has been recognized at the surface in trenches located on Carbon Hill and immediately south of Bull Hill. Rare-earth-bearing iron-manganese (FMR) veins, dikes and stockworks are not uncommon. These are considered to be the altered oxidized equivalents of the carbonatite. Additional recognizable alteration types include potassic metasomatism, hydrothermal alteration, silicification, oxidation, and surface weathering.

Carbonatite bodies, ranging in size from microveinlets to dikes approaching 15 metres in width have been encountered in trenches and drill core. The dikes are generally steeply dipping to the southwest and strike to the northwest. They have been classified as either sovite or silicocarbonatite. Rare-earth mineral abundances in both rock types are reported to range from trace to greater than 50 percent. The rare-earth minerals are Ancylite, $Sr(REE)(CO_3)_2(OH)(H_2O)$, and Bastnaesite, $(REE)CO_3(F,OH)$. ('REE' represents the place in the mineral formula that is held by the variable amounts of the different rare-earth elements.)

Sovite carbonatite consists of fine to coarse crystalline calcite, with accessory biotite, potassium feldspar, augite, strontianite, dolomite and sulfides. Sulfide and oxide components range from trace to 30 percent and include pyrite, pyrrhotite, chalcopyrite, galena, sphalerite, molybdenite, hematite, rutile and ilmenite.

Silicocarbonatite contains 50 to 75 percent silicate minerals, such as biotite or phlogopite and potassium feldspar, with calcite and the accessory minerals aegirine, apatite, strontianite, barite, and celestite. Sulfide and oxide content range from minor amounts to nearly 25 percent and include pyrite, pyrrhotite, chalcopyrite, galena, sphalerite, hematite and rutile. Silicocarbonatite dikes in excess of five metres in width generally exhibit sovitic carbonatite cores.

The FMR veins and dikes, which are considered to be alteration derivatives of carbonatite, consist of iron and manganese oxides, altered silicates, amorphous silica, and minor to significant rare-earth-element minerals. Barite, fluorite, and apatite are common accessories and sanidine and quartz occur in variable amounts. They are typically rusty to black, and vuggy. The structures vary from hair-line stringers to dikes almost 15 metres wide. They also occur as sheeted zones and stockworks. Rare-earth mineralization, mainly as Bastnaesite, varies from 0.25 to almost 20 percent.

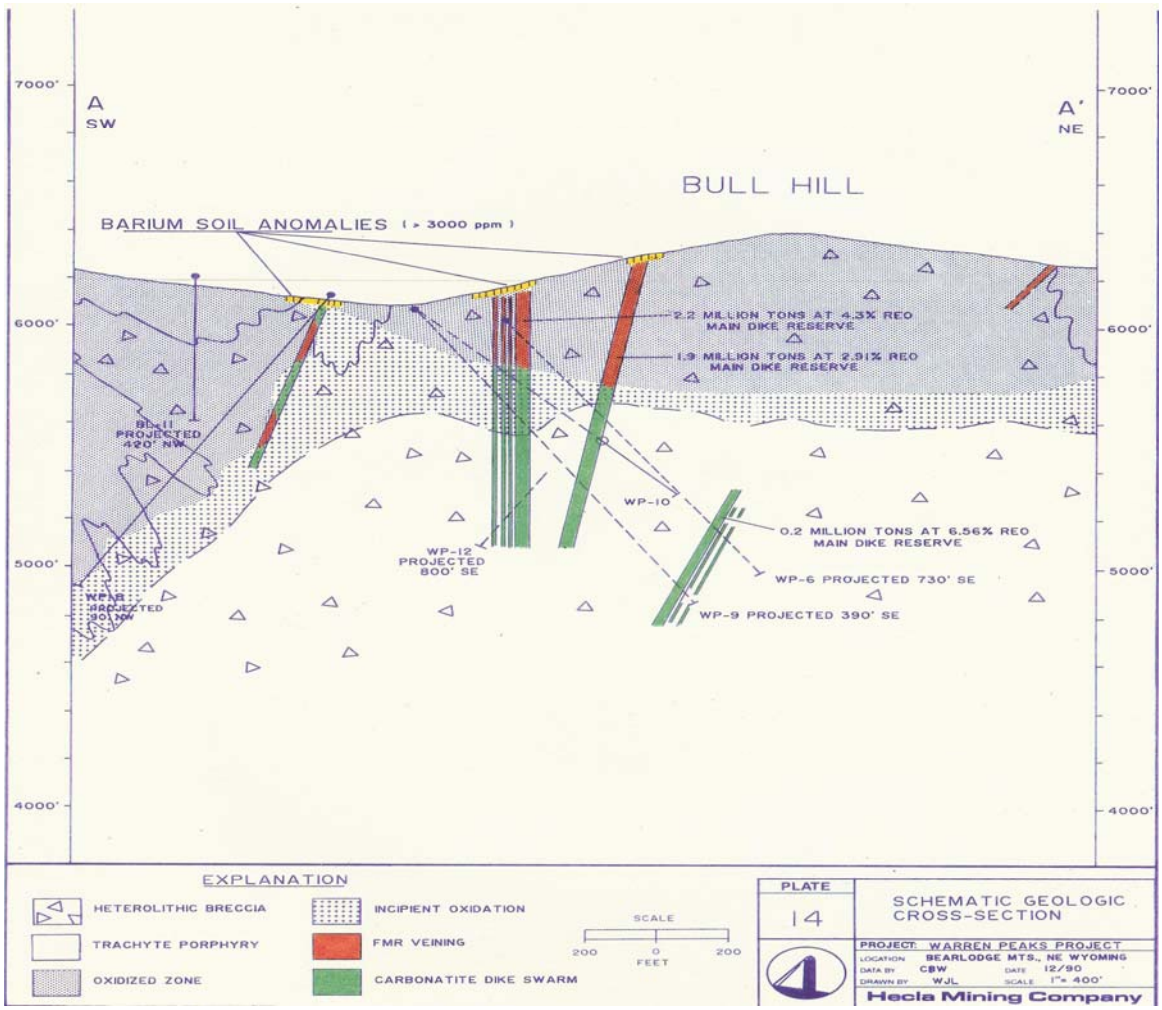
Fenite is an alteration product of alkali-ferric metasomatism and is typically associated with carbonatite intrusions. Samples exhibit alkali-feldspar microphenocrysts with interstitial calcite, sulfides, and/or aegirine. Sulfide content varies from trace to greater than 10 percent and includes pyrite, pyrrhotite, and chalcopyrite, with minor galena and sphalerite. Duval intersected high-grade copper mineralization associated with massive fenite within the intrusion breccia along the southwest flank of Carbon Hill.

Heterolithic intrusion breccia is generally composed of phonolite or trachyte with calcite patches and discontinuous microveinlets within the matrix. Clasts commonly exhibit sulfide-rich reaction rims. Cross-cutting carbonatite microveinlets and veins are common and carbonatite dike-swarms appear to occur proximal to the breccia-body margins, which is the case beneath the Bull Hill area. In close proximity to carbonatite, apatite occurs as disseminated microphenocrysts and aggregates in association with sulfides (mainly pyrite) and rare-earth element minerals.

RARE-EARTH MINERALIZATION

The best understood portion of rare-earth-element mineralization comprises three sub-parallel carbonatite dike-swarms, which were intersected by Hecla Mining Company drilling. The dike-swarms are situated along the southwest slope of Bull Hill and strike northwest with a steep southwest dip. They are hosted within intrusive heterolithic breccia, with each dike-swarm consisting of several closely spaced relatively narrow dikes and one main thick dike, ranging from five to 14 metres in true thickness. Drills have intersected the dike-swarms over strike lengths ranging from 100 to 240 metres and the structures remain open along strike and at depth.

Hecla cross-section showing its drill holes intersecting three carbonatite dike-swarms.



A schematic cross-section of dikes and drill holes indicates that these dikes are altered to FMR veins within the oxidized zone. Dikes have been intersected at vertical depths exceeding 300 metres and remain open at depth. They also appear to be uniformly mineralized along strike and depth. Discovery of the dike-swarms adds significantly to the potential of the mineralization that, as stated in US Geological Survey Professional Paper 1049-D (M Staatz,1983, *Geology and description of Thorium and Rare-Earth Deposits in the Southern Bear Lodge Mountains, Northeastern Wyoming*), were already thought to be "the largest resource of disseminated rare-earth elements in North America."

Carbonatite-hosted rare-earth mineralization consists predominantly of ancylite, which occurs as clusters of microcrystals with interstitial strontianite, clusters of coarse crystals or as microcrysts in apparent exsolution texture with calcite. These textures are considered amenable to extraction by standard rare-earth-element beneficiation techniques. Within the marginal zone of incipient oxidation, sulfides have been replaced by iron oxides and REE mineralization occurs as fine grained fibrous clusters of synchysite [$Ca(REE)(CO_3)_2F$] with bastnaesite, parisite [$Ca(REE)_2(CO_3)_3F_2$] and cerianite [$(CeTh)O_2$]. The well-oxidized FMR vein-hosted rare-earth mineralization consists of bastnaesite, and occasionally monazite [$(REE,Nd)PO_4$]. FMR veins generally have a higher concentration of REE than carbonatite; however, the oxidized material is very fine grained and it may require additional, or other than conventional beneficiation methods.

EXPLORATION

Rare Element Resources is focusing on delineating and expanding currently known zones of potentially exploitable Bear Lodge rare-earth-bearing carbonatite bodies. Aspects of the geology is similar to the Mountain Pass, California, rare-earth deposit, which has an average grade of 9.3 percent total rare-earth oxides (REO) and reserves of about 15 million short tons. The Mountain Pass model provides the framework for exploration at Bear Lodge. Previous exploration at Bear Lodge indicates that the comparison is valid and that the property could eventually match or exceed the size and grade of Mountain Pass.

Extensive exploration by several major companies has significantly advanced the property; however, much of this work was shallow and in search of precious and base metals. Further, core is not available to corroborate data (core was donated to the South Dakota School of Mines, which used it for study, only keeping a reference specimen from each interval). Resulting data, though valuable, are historical. There can be no reliance upon these data until they are confirmed using standard methods prescribed by Canada's National Instrument 43-101, which controls public-company disclosure of mineral resources.

Data from the four Hecla drill holes, which located three rare-earth-bearing carbonatite dike-swarms, provide the foundation for Rare Element Resources' exploration.

Mineralized intercepts from the four 1991 Hecla drill holes that located the three Bull Hill Carbonatite Dike-swarms (REO = rare-earth oxide)

Drill Hole	Interval Feet	Thickness Feet	True Thickness	Lithologic Description	Total % REO
WP-6	72-102	30	26.0	FMR vein	5.13
	680-760	80	39.0	Carbonatite dike	2.94
	985-1075	90	65.0	Carbonatite stockwork	3.60
	985-1010	25	19.2	Carbonatite dikelets	6.56
WP-9	222.5-229	6.5	1.7	FMR vein	8.34
	347-352.5	5.5	3.9	Carbonatite dike	6.80
	403-479	76.0	42.4	Carbonatite dikes	4.03
	481-486.8	5.8	3.2	Carbonatite dike	10.47
	846.5-930.8	84.3	48.3	Carb dikes / breccia	2.88
	846.5-856.5	10	5.8	Carbonatite dike	7.22
	886.5-903	16.5	8.3	Carbonatite dike	3.31
	905.5-930.8	25.3	8.7	Carbonatite dike	4.04
WP-10	53.5-58.5	5	4.1	FMR vein	5.26
	194-206	12	8.5	FMR vein	5.55
	355-432	77	54.4	Carb dikes / breccia	2.78
	432-476	44	31.1	Carbonatite dike	3.73
WP-12	724.3-729.5	5.2	1.8	Carbonatite dike	5.36
	744-753	9.0	5.2	Carbonatite dike	1.95
	976-1022.5	46.5	23.3	Carb dikes / breccia	2.46
	976-982.3	6.3	3.2	Carbonatite dike	4.36
	1009-1022.5	13.5	7.1	Carbonatite dike	4.51

FIVE HOLES DRILLED IN 2004 & 2005

Rare Element Resources is focusing on confirming, delineating and expanding the currently known Bear Lodge rare-earth-bearing carbonatite dike-swarms. Two holes drilled by the Company in 2004 supported the Hecla work. A third 2004 hole, designed to locate a deep hypothesized feeder plug for the carbonatite dike-swarms, failed to intersect its target.

Two holes were drilled in 2005. Drill-hole RES05-1 (285 metres) tested the northwest extension of the Bull Hill carbonatite dike-swarm; however, it did not encounter REE mineralization. Drill-hole RES05-2 (377 metres) tested an area near Hecla Mining Company hole WP-6 which intersected four significant intercepts of high-grade rare-earth-bearing carbonatite. The hole cut four carbonatite structures; however, they were not of the same widths as those encountered in WP-6.

Assay results from Rare Element Resources 2004 exploration drilling program.

Drill Hole	Interval	Intercept	Mineralized Lithology	Total REO (%)
RES04-1	60 – 80’	20’	FMR vein	11.33
RES04-1	117 – 124’	7’	FMR vein	10.95
RES04-1	378.5 – 394’	15.5’	FMR/silicocarbonatite	4.30
RES04-1	405 – 411’	6’	Silicocarbonatite	2.59
RES04-1	441.5 – 451’	9.5’	Silicocarbonatite	3.57
RES04-1	592 – 596’	4’	Carbonatite	7.18
RES04-1	720 – 726.5’	6.5’	Carbonatite	7.86
RES04-1	817.5 – 840’	22.5’	Carbonatite	4.29
RES04-1	873 – 879’	6’	Carbonatite	7.08
RES04-2	367.5 – 560’	192.5’	Silicocarbonatite	4.06
RES04-3	0-962’	No significant REO mineralization. Au pending sampling and assaying.		

A budget for proposed 2006 exploration is now under consideration. It is expected to be approximately US$400,000. This includes drilling, sampling, geophysics, geological supervision and report preparation. In addition, US$50,000 is budgeted in 2005 for metallurgical testing.

POTENTIAL FOR GOLD & OTHER METALS

In addition to the major rare-earth-element targets, the Bear Lodge property contains important gold exploration targets. A revival and recent refinements of the Alkaline-Igneous gold-exploration model, coupled with the strong gold market, have renewed and intensified gold-exploration interest in the Bear Lodge property.

The Bear Lodge property has a well-documented, hydrothermally altered and mineralized system with rock types, minerals and structures that match major features of the Alkaline-Igneous gold-exploration model. Past exploration efforts paid little attention to the potential for the deeper-seated, high-grade gold deposits targeted by this model. The property exposes the upper levels of a mineralized alkaline-igneous intrusive-complex, which is very similar to the Cripple Creek, Colorado complex. The Cripple Creek alkaline-igneous intrusive complex hosts a deposit that has produced more than 21 million ounces of gold. Some key aspects of this gold-exploration model and the similarities between Bear Lodge and Cripple Creek are as follows:

- At Bear Lodge, many rock-chip samples, collected by a variety of major companies over the last 30 years, carry gold values in excess of one gram per tonne. Historically, the highest grade of these samples assayed over 0.41 ounces of gold per ton. (These numbers are not reliable as they have not been verified since promulgation of NI 43-101 standards.)
- Wide areas with strong (≥100 parts per billion or ppb gold) and mid-level (50 to 99 ppb gold) gold anomalies in rock-chip and soil samples.

- Gold mineralization, which is structurally controlled and closely associated with large-scale potassium feldspar-pyrite (± carbonate) metasomatic alteration.
- Veinlets and wall rocks containing disseminated rare-earth-element minerals and apatite crystals with rims enriched in rare-earth elements.
- Other anomalous elements that characterize mineralization in the complexes, which include potassium, tellurium, arsenic, antimony, molybdenum, barium and strontium.
- The Bear Lodge alkaline-igneous rocks, which are dominated by phonolitic and trachytic sills, dikes, and plugs (as well as numerous related late-stage intrusions and intrusive breccia bodies) could represent the upper levels of an alkaline-igneous system that is similar to that exposed at Cripple Creek.

Anomalous gold values are prevalent wherever the intrusive breccias and carbonatites occur. Hecla located six gold targets and determined that there was good potential for expanding the gold resource. The gold-bearing East and West heterolithic intrusive breccia zones were originally discovered by FMC and delineated by Hecla. They are approximately 300 metres apart on the surface; but there are indications that they converge at depth. The rock is vuggy and silicified with local sericite-clay zones. Vugs are coated with iron oxides, pyrite, jarosite, opal and traces of barite. Gold values, ranging from 0.01 to 0.15 ounces of gold per short ton are probably associated with disseminated pyrite.

A third type of target for the Bear Lodge Project is the copper mineralization intersected by Duval drill-hole WBD-5, which is located just east of Carbon Hill. This drill hole intersected a fenite-altered trachyte porphyry with a sulfide-rich matrix of chalcopyrite-pyrrhotite-calcite (3.5% copper over one 10-metre intersection). Carbonatite-hosted copper deposits, such as the Palabora deposit in South Africa (700 million tons averaging 0.68% copper), provide the exploration model.

CANADA NATIONAL INSTRUMENT 43-101

Drilling, tonnage and grade data presented from the past exploration work of Duval, FMC Corporatin and Hecla Mining Compay were gathered prior to the promulgation of Canada National Instrument 43-101. They may not have been gathered according to standards acceptable to this instrument; therefore, there can be no reliance upon them until they are substantiated by acceptable NI43-101 standard methods.

William H. Bird, PhD, PGeo, serves the Board of Directors of the Company as an internal, technically Qualified Person. Technical information in this report has been prepared in accordance with Canadian regulatory requirements set out in National Instrument 43-101 and reviewed by Dr Bird.

This report contains Forward-looking statements, such as those dealing with exploration potential. These involve known and unknown risks and uncertainties that may cause the Company's actual future-period results to differ materially from forecasts. Please refer to the Company's financial statements for a discussion of the Company's risks. This report was prepared by Company management, who take full responsibility for content.