



**Letter from the President,
Notice of Annual and Special Meeting of Shareholders
and
Management Information Circular
2010**

Letter from the President

Donald E. Ranta - President & CEO, Director



Dear Shareholders,

Rare Element has had an exciting year in fiscal 2009-2010; we have made some great strides forward with the Bear Lodge rare-earths project, and we have regained control of the Sundance gold project. After 10 years in business, Rare Element is finally on the radar screens of many of those companies and governments that require rare-earth elements (REE)! I want to extend a hearty congratulations to the two founders of the company—Norman Burmeister and Mark Brown—for their vision and persistence. Norm had the vision that rare earths would someday become very valuable and he acquired a property in Wyoming with significant rare-earths potential. Mark believed in the company and persisted in ensuring it was funded during some difficult years when other companies were failing.

Rare earths have become a field of interest and concern from many sectors, including government, industry, and academia. The Green Technology revolution is one of the key drivers in the demand for rare-earth elements, and we only see demand increasing further as the clean technologies are implemented.

At the same time, China, which is the predominant producer of rare earths in the world, continues to add export taxes and annually reduce its export quotas of REEs. China announced a 40% decrease in exports for 2010 in early July 2010, and there are indications of a further 30% decrease for 2011. The combination of increasing demand and reduced exports has created massive price increases for the elements, some of which have risen in price by 700%, and much of this increase in a matter of the past few months.

Following a highly successful resource estimation effort in the spring of 2009, we began having favorable metallurgical test results on the upper, oxide zone mineralization and we initiated a larger drill program at the beginning of fiscal year 2009-2010. This prompted us to establish a clearly defined plan to advance the project quickly to the next stage and we have completed all aspects of the initial plan:

- Drilling program of 20 core holes completed in December 2009,
- Significant financings completed, including \$8.8 million in April 2010,
- REE inferred resource estimation completed in May,
- Continued favorable progress with metallurgical testing results on oxide mineralization,
- Preliminary Economic Assessment (a Scoping Study) completed in September showing a 40% Internal Rate of Return using historic REE prices, not the current high prices,
- A major REE drilling program started in June 2010 and is continuing; results include some of the highest grades to date in both step-off and in-fill holes,
- Collected a bulk sample consisting of both large diameter drill core and surface samples,
- Settled with Newmont to terminate their potential earn-in on our gold project lands with no vested interest, and also acquired their non-venture lands,
- A gold drilling program started in July 2010 and is continuing with a goal to estimate a resource early in 2011,
- NYSE-Amex listing completed in August 2010 providing much greater trading volume and liquidity.

Each of these accomplishments has taken the efforts of many of our team in the field and in the office and everyone has done a great job. We are adding additional staff as the project expands, and will convert some staff from contractors to employees this coming year.

Rare Element also acquired two early stage Canadian REE projects and optioned one of them out. We are working to option out the other one soon.

We have a considerable amount of work to do in the evaluation and advancement of the Bear Lodge rare-earths project, and in the exploration of the Sundance gold project. Competitive advantages of the Bear Lodge rare-earths project are the outstanding infrastructure in this area of northeastern Wyoming and the unique character of the oxide zone mineralization allowing simple low-cost processing and an inexpensive concentration plant.

As we begin the year 2011, Rare Element now has a mandate provided in our Preliminary Economic Analysis to move the project ahead as quickly as possible due to the robust economics noted in the report and the strategic nature of the deposit. Our plan is to work towards production of REEs starting in 2015. During the remainder of 2010 and through 2011, we will focus on the following milestones:

- Completion of the 2010 REE drilling program and announcing the results,
- Updating of the REE resource estimate in early 2011 with expectations to upgrade much of the oxide resource from the inferred category to the measured and indicated resource categories,
- Pilot plant testing of the bulk sample collected in the fall of 2010 for further design of a concentration plant and producing concentrate for marketing,
- Continuation of metallurgical work through 2011 with optimization of our current mineral processing to concentrate the rare-earth minerals, followed by chemical concentration to produce a potentially saleable concentrate product.
- Planning to conduct testing on extraction and separation of individual rare-earth elements from our concentrate and to create a preliminary design of a plant.

On the Sundance gold project surrounding our rare-earths deposit area, we will look to accomplish the following in 2011:

- Completion of the 2010 drilling program and announcing the results.
- Compilation of all the past drilling data with the current data and the preparation of the first Rare Element gold resource by Q2 of 2011.
- Then consideration of all options in advancing the project.

We have much to do in 2011 and we are very excited to continue working on one of the best rare-earths projects in North America, plus an important gold project.

Sincerely,

Donald E. Ranta

President & CEO, Director
Rare Element Resources Ltd.

RARE ELEMENT RESOURCES LTD.

410 – 325 Howe Street
Vancouver B.C.
V6C 1Z7

NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that an annual and special meeting of the shareholders of Rare Element Resources Ltd. (the “Company”) will be held at The Vancouver Club, 915 West Hastings Street, Vancouver, British Columbia, on Monday, December 13, 2010 at 10:00 a.m. At the meeting, the shareholders will receive the audited financial statements for the year ended June 30, 2010, together with the auditor’s report thereon, and consider resolutions to:

1. elect directors of the Company for the ensuing year;
2. appoint DeVisser Gray, Chartered Accountants, as auditor of the Company for the ensuing year and authorize the directors to determine the remuneration to be paid to the auditor;
3. consider and if deemed advisable, to pass an ordinary resolution to adopt a shareholder rights plan, as more particularly set out in the section of the Information Circular entitled “Particulars of Matters to be Acted Upon – Adoption of Shareholder Rights Plan”; and
4. transact such other business as may properly be put before the meeting.

All registered shareholders are entitled to attend and vote at the meeting in person or by proxy. The board of directors requests all registered shareholders who will not be attending the meeting in person to read, date and sign the accompanying proxy and deliver it to Computershare Trust Company of Canada, Attention: 100 University Ave., 9th Floor, Toronto, ON M5J 2Y1. If a shareholder does not deliver a proxy to Computershare Trust Company of Canada by 10:00 am (Vancouver, British Columbia time) on Thursday, December 9, 2010 (or before 48 hours, excluding Saturdays, Sundays and holidays before any adjournment of the meeting at which the proxy is to be used) then the shareholder will not be entitled to vote at the meeting by proxy. Only shareholders of record at the close of business on Thursday, October 28, 2010 will be entitled to vote at the meeting.

An information circular and a form of proxy accompany this notice.

DATED at Vancouver, British Columbia, the 28th day of October, 2010.

ON BEHALF OF THE BOARD

Donald E. Ranta

Donald E. Ranta
President and Chief Executive Officer

RARE ELEMENT RESOURCES LTD.

Suite 410 – 325 Howe Street

Vancouver, B.C.

V6C 1Z7

INFORMATION CIRCULAR

(as at October 28, 2010 except as otherwise indicated)

SOLICITATION OF PROXIES

This information circular (the “Circular”) is provided in connection with the solicitation of proxies by the management of Rare Element Resources Ltd. (the “Company”). The form of proxy which accompanies this Circular (the “Proxy”) is for use at the annual and special meeting of the shareholders of the Company to be held on Monday, December 13, 2010 (the “Meeting”), at the time and place set out in the accompanying notice of meeting (the “Notice of Meeting”). The Company will bear the cost of this solicitation. The solicitation will be made by mail, but may also be made by telephone.

APPOINTMENT AND REVOCATION OF PROXY

The persons named in the Proxy are directors and/or officers of the Company. **A registered shareholder who wishes to appoint some other person to serve as their representative at the Meeting may do so by striking out the printed names and inserting the desired person's name in the blank space provided.** The completed Proxy should be delivered to Computershare Trust Company of Canada (“Computershare”) by 10:00 am on Thursday December 9, 2010 (or before 48 hours, excluding Saturdays, Sundays and holidays before any adjournment of the meeting at which the proxy is to be used).

The Proxy may be revoked by:

- (a) signing a proxy with a later date and delivering it at the time and place noted above;
- (b) signing and dating a written notice of revocation and delivering it at the time and to the place noted above; or
- (c) attending the Meeting or any adjournment of the Meeting and registering with the scrutineer as a shareholder present in person.

Provisions Relating to Voting of Proxies

The shares represented by proxy in the enclosed form will be voted or withheld from voting by the designated holder in accordance with the direction of the registered shareholder appointing him. If there is no direction by the registered shareholder, those shares will be voted for all proposals set out in the Proxy and for the election of directors and the appointment of the auditors as set out in this Circular. The Proxy gives the person named in it the discretion to vote as such person sees fit on any amendments or variations to matters identified in the Notice of Meeting, or any other matters which may properly come before the Meeting. At the time of printing of this Circular, the management of the Company knows of no other matters which may come before the Meeting other than those referred to in the Notice of Meeting.

Non-Registered Holders

Only registered shareholders or duly appointed proxyholders are permitted to vote at the Meeting. Most shareholders of the Company are “non-registered” shareholders because the shares they own are not registered in their names but are instead registered in the name of the brokerage firm, bank or trust company through which they purchased the shares. A person is not a registered shareholder (a “Non-Registered Holder”) in respect of shares which are held either: (a) in the name of an intermediary (an “Intermediary”) that the Non-Registered Holder deals with in respect of the shares (Intermediaries include, among others, banks, trust companies, securities dealers or brokers and trustees or administrators of self-administered RRSPs, RRIFs, RESPs and similar plans); or (b) in the name of a clearing agency (such as CDS Clearing and Depository Services Inc. (“CDS”)), of which the Intermediary is a participant.

Non-Registered Holders who have not objected to their Intermediary disclosing certain ownership information about themselves to the Company are referred to as “NOBOs”. Those Non-Registered Holders who have objected to their Intermediary disclosing ownership information about themselves to the Company are referred to as “OBOs”. In accordance with the requirements of National Instrument 54-101 of the Canadian Securities Administrators, the Company has elected to send the Notice of Meeting, this Circular and the Proxy (collectively, the “Meeting Materials”) directly to the NOBOs, and indirectly through Intermediaries to the OBOs. The Intermediaries (or their service companies) are responsible for forwarding the Meeting Materials to each OBO, unless the OBO has waived the right to receive them.

Intermediaries will frequently use service companies to forward the Meeting Materials to the OBOs. Generally, an OBO who has not waived the right to receive Meeting Materials will either:

- (a) be given a form of proxy which has already been signed by the Intermediary (typically by a facsimile, stamped signature), which is restricted as to the number of shares beneficially owned by the OBO and must be completed, but not signed, by the OBO and deposited with Computershare Trust Company of Canada; or
- (b) more typically, be given a voting instruction form (“VIF”) which is not signed by the Intermediary, and which, when properly completed and signed by the OBO and returned to the Intermediary or its service company, will constitute voting instructions which the Intermediary must follow.

These securityholder materials are being sent to both registered shareholders and Non-Registered Holders. If you are a Non-Registered Holder, and the Company or its agent has sent these materials to you, your name and address and information about your holdings of securities have been obtained in accordance with applicable securities regulatory requirements from the Intermediary holding on your behalf. By choosing to send these materials to you directly, the Company (and not the Intermediary holding on your behalf) has assumed responsibility for (i) delivering these materials to you, and (ii) executing your proper voting instructions. Please return your voting instructions as specified in the request for voting instruction.

The Meeting Materials sent to NOBOs who have not waived the right to receive meeting materials are accompanied by a VIF, instead of a form of proxy. By returning the VIF in accordance with the instructions noted on it, a NOBO is able to instruct the voting of the Shares owned by it.

VIFs, whether provided by the Company or by an Intermediary, should be completed and returned in accordance with the specific instructions noted on the VIF. The purpose of this procedure is to permit Non-Registered Holders to direct the voting of the Shares which they beneficially own. Should a Non-Registered Holder who receives a VIF wish to attend the Meeting or have someone else attend on his or her behalf, the Non-Registered Holder may request a legal proxy as set forth in the VIF, which will grant the Non-Registered Holder, or his or her nominee, the right to attend and vote at the Meeting.

Please return your voting instructions as specified in the VIF. Non-Registered Holders should carefully follow the instructions set out in the VIF, including those regarding when and where the VIF is to be delivered.

Financial Statements

The audited financial statements of the Company for the year ended June 30, 2010 together with the auditor's report on those statements (the "Financial Statements"), will be presented to the shareholders at the Meeting.

VOTING SECURITIES AND PRINCIPAL HOLDERS OF VOTING SECURITIES

As at the date of the accompanying Notice of Meeting, the Company's authorized capital consists of an unlimited number of common shares without par value of which 34,840,965 common shares are issued and outstanding. All common shares in the capital of the Company carry the right to one vote.

Shareholders registered as at October 28, 2010 are entitled to attend and vote at the Meeting. Shareholders who wish to be represented by proxy at the Meeting must, to entitle the person appointed by the Proxy to attend and vote, deliver their Proxies at the place and within the time set forth in the notes to the Proxy.

To the knowledge of the directors and executive officers of the Company, there is no person who beneficially owns or controls or directs, directly or indirectly, 10% or more of the issued and outstanding common shares of the Company.

As at October 28, 2010 the total number of common shares owned or controlled by management and the directors of the Company and their associates or affiliates was 2,344,245 common shares, representing 6.7% of the total issued and outstanding common shares.

ELECTION OF DIRECTORS

The directors of the Company are elected annually and hold office until the next annual general meeting of the shareholders or until their successors are elected or appointed. The management of the Company proposes to nominate the persons listed below for election as directors of the Company to serve until their successors are elected or appointed. In the absence of instructions to the contrary, Proxies given pursuant to the solicitation by the management of the Company will be voted for the nominees listed in this Circular. Management does not contemplate that any of the nominees will be unable to serve as a director. The number of directors on the board of directors of the Company is currently set at six.

The following table sets out the names of the nominees for election as directors, the offices they hold within the Company, their occupations, the length of time they have served as directors of the Company, and the number of shares of the Company which each beneficially owns, directly or indirectly, or over which control or direction is exercised, as of the date of this Circular:

Name, province or state and country of residence and positions, current and former, if any, held in the Company	Principal occupation for last five years	Served as director since	Number of common shares beneficially owned or controlled or directed, directly or indirectly, at present ⁽¹⁾
DONALD E. RANTA Colorado, USA <i>Director, President & Chief Executive Officer</i>	President, Rare Element Resources Ltd.; consultant for various mining companies; 2004-06 Vice President - Exploration, Gryphon Gold Corp	October 1, 2007	185,000
MARK T. BROWN British Columbia, Canada <i>Director & Chief Financial Officer</i>	President, Pacific Opportunity Capital Ltd.	June 3, 1999	1,588,645 ⁽³⁾
M. NORMAN ANDERSON British Columbia, Canada <i>Director</i>	President, Norman Anderson & Associates	July 17, 2003	50,000
NORMAN W. BURMEISTER⁽²⁾ Wyoming, United States <i>Director</i>	President, Saratoga Gold Company Ltd.	July 17, 2003	525,000
STEPHEN P. QUIN⁽²⁾ British Columbia, Canada <i>Director</i>	President, Capstone Mining Corp.	May 3, 2005	12,500
GREGORY E. MCKELVEY⁽²⁾ Arizona, United States <i>Director</i>	President, Animas Resources Ltd.; consultant for various mining companies.	February 19, 2008	3,600

Notes:

- (1) The information as to common shares beneficially owned or controlled has been provided by the directors themselves.
- (2) Member of the Company's Audit Committee.
- (3) 915,645 of these common shares are held by Pacific Opportunity Capital Ltd., a company of which Mark Brown is the President and a director, 45,000 of these common shares are held by a company 100% owned by Mark Brown and 628,000 of these common shares are held by Mark Brown personally.

No proposed director is being elected under any arrangement or understanding between the proposed director and any other person or company except the directors and executive officers of the Company acting solely in such capacity.

Corporate Cease Trade Orders or Bankruptcies

No director or proposed director of the Company is, or within the ten years prior to the date of this Circular has been, a director or executive officer of any company, including the Company, that while that person was acting in that capacity:

- (a) was the subject of a cease trade order or similar order or an order that denied the company access to any exemption under securities legislation for a period of more than 30 consecutive days; or
- (b) was subject to an event that resulted, after the director ceased to be a director or executive officer of the company being the subject of a cease trade order or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or
- (c) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Individual Bankruptcies

No director or proposed director of the Company has, within the ten years prior to the date of this Circular, become bankrupt or made a proposal under any legislation relating to bankruptcy or insolvency, or been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of that individual.

EXECUTIVE COMPENSATION

Named Executive Officers

During the financial year ended June 30, 2010, the Company had two Named Executive Officers (“NEO”) being: Donald E. Ranta, the President and Chief Executive Officer (“CEO”) of the Company, and Mark T. Brown, the Chief Financial Officer (“CFO”) of the Company.

“Named Executive Officer” means: (a) each Chief Executive Officer, (b) each Chief Financial Officer, (c) each of the three most highly compensated executive officers, or the three most highly compensated individuals acting in a similar capacity, other than the Chief Executive Officer and Chief Financial Officer, at the end of the most recently completed financial year whose total compensation was, individually, more than CDN\$150,000; and (d) each individual who would be an NEO under paragraph (c) but for the fact that the individual was neither an executive officer of the company, nor acting in a similar capacity, at the end of that financial year.

COMPENSATION DISCUSSION & ANALYSIS

Compensation Discussion & Analysis

The compensation of the Company's Named Executive Officers is determined by the Company's Board of Directors (the "Board") which is composed of six members, four of whom are independent.

The Board's compensation program is designed to provide competitive levels of compensation, a significant portion of which is dependent upon individual and corporate performance and contribution to increasing shareholder value. The Board recognizes the need to provide a total compensation package that will attract and retain qualified and experienced executives as well as align the compensation level of each executive to that executive's level of responsibility. In general, a NEO's compensation is comprised of two components:

- (a) Salary, wages or contractor payments; and
- (b) Stock option grants.

The objectives and reasons for this system of compensation are generally to allow the Company to remain competitive compared to its peers in attracting experienced personnel. The salaries are set on a basis of a review and comparison of salaries paid to executives at similar companies. The CEO is paid a salary that is lower than his comparative salary levels for a person of his experience and capabilities because he is also a participant in the Company's Stock Option Plan. The CFO also takes a payment as a contractor that is lower than comparative salary levels because he also works as the CFO for other companies and does not devote 100% of his time to the Company. The CFO also is a participant in the Company's Stock Option Plan.

Stock option grants are designed to reward the NEOs for success on a similar basis as the shareholders of the Company, but these rewards are highly dependent upon the volatile stock market, much of which is beyond the control of the NEOs.

No directors' fees are paid.

Option-Based Awards

Stock option grants are made on the basis of the number of stock options currently held, position, overall individual performance, anticipated contribution to the Company's future success and the individual's ability to influence corporate and business performance. The purpose of granting such stock options is to assist the Company in compensating, attracting, retaining and motivating the officers, directors and employees of the Company and to closely align the personal interest of such persons to the interest of the shareholders.

The recipients of incentive stock options and the terms of the stock options granted are determined from time to time by the Board. The exercise price of the stock options granted is generally determined by the market price at the time of grant.

SUMMARY COMPENSATION TABLE

Set out below is a summary of compensation paid during the Company's most recently completed financial year to the Company's Named Executive Officers:

Summary Compensation Table

Name and principal position	Year	Salary (US\$)	Share-based awards (US\$)	Option-based awards (US\$) ⁽³⁾	Non-equity incentive plan compensation (US\$)		Pension value (US\$)	All other compensation (US\$)	Total compensation (US\$) ⁽⁴⁾
					Annual incentive plans	Long-term incentive plans			
Donald E. Ranta, CEO	2010	\$185,936 ⁽¹⁾	NA	\$65,949	NA	NA	NA	NA	\$251,885
	2009	\$103,456 ⁽¹⁾	NA	\$126,939	NA	NA	NA	NA	\$230,395
Mark T. Brown, CFO	2010	NA	NA	\$49,462	NA	NA	NA	\$208,222 ⁽²⁾	\$257,684
	2009	NA	NA	\$15,031	NA	NA	NA	\$114,286 ⁽²⁾	\$129,317

Notes:

- (1) Mr. Ranta received a monthly amount of US\$8,500 and effectively October 1, 2009, a monthly amount of US\$12,000 as management fees.
- (2) Pacific Opportunity Capital Ltd., a company of which Mark Brown is President and Director, charged a total of US\$208,222 and US\$114,286 for rent, accounting and management fees of an accounting and administrative team of five people during fiscal 2010 and 2009 respectively.
- (3) The fair value of option-based awards which are vested during 2010 is determined by the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares and expected life of the options.
- (4) During the NEO's employment, the Company reimburses the NEO for all travel and other expenses actually, properly and necessarily incurred by the NEO in connection with the NEO's duties in accordance with the policies set from time to time by the Company, in its sole discretion. The NEO is required to furnish such receipts, vouchers or other evidence as are required by the Company to substantiate such expenses. Such reimbursements are excluded from the "Total Compensation".

The Company paid a total of US\$208,222 during the financial year ended 2010 to Pacific Opportunity Capital Ltd., a company which Mr. Mark T. Brown is the president and director, for the management and accounting services of an accounting and administrative team of five people during 2010 as well as for rent.

INCENTIVE PLAN AWARDS

Outstanding Option-Based Awards

The following table sets forth the outstanding share-based awards and option-based awards held by the Named Executive Officers of the Company at the end of the most recently completed financial year:

**Outstanding Share-Based Awards and
Option-Based Awards**

Name	Option-based Awards			
	Number of securities underlying unexercised options (#)	Option exercise price (CDN\$)	Option expiration date	Value of unexercised in-the-money options (CDN\$) ⁽¹⁾
Donald E. Ranta CEO	350,000	1.00	10/01/2012	\$350,000
	145,000	0.58	01/27/2014	\$205,900
	100,000	2.71	05/28/2015	Nil
Mark T. Brown CFO	100,000	0.55	04/28/2011	\$145,000
	50,000	0.55	01/10/2012	\$72,500
	150,000	0.58	01/27/2014	\$213,000
	100,000	2.71	05/28/2015	Nil

Note:

(1) The market price for the Company's common shares on June 30, 2010 was CDN \$2.00.

Incentive Plan Awards – Value Vested or Earned During the Year

The following table sets forth details of the value vested or earned for all incentive plan awards during the most recently completed financial year by each Named Executive Officer:

**Value Vested or Earned for Incentive Plan Awards During the Most
Recently Completed Financial Year**

Name	Option-based awards – Value vested during the year ⁽¹⁾ (CDN\$)	Share-based awards – Value vested during the year (CDN\$)	Non-equity incentive plan compensation – Value earned during the year (CDN\$)
Donald E. Ranta CEO	\$355,600	NA	NA
Mark T. Brown CFO	\$266,700	NA	NA

Note:

(1) The options granted to the Named Executive Officers were vested as follows: 20% vested 4 months after the date of grant; 20% vested 8 months after the date of grant; 20% vested 12 months after the date of grant; 20% vested 15 months after the date of grant; and the remaining 20% vested 18 months after the date of grant. The aggregate dollar value that would have been realized if the options under the option-based award had been exercised on the vesting date is calculated by determining the difference between the market price of the underlying securities on the date of vest (if in-the-money) and the exercise price of the options under the option-based award multiplied by the number of options vested on the vesting date.

Narrative Discussion

The following information is intended as a brief description of the Stock Option Plan and is qualified in its entirety by the full text of the Stock Option Plan, which will be available for review at the Meeting.

1. The maximum number of common shares which may be reserved for issuance for all purposes under the Plan shall not exceed 5,779,347 common shares (amended at the Annual General Meeting dated December 7, 2009), the exercise price of which, as determined by the board of directors in its sole discretion, shall not be less than the closing price of the Company's shares traded through the facilities of the Exchange on the date prior to the date of grant, less allowable discounts, in accordance with the policies of the Exchange or, if the shares are no longer listed for trading on the Exchange, then such other exchange or quotation system on which the shares are listed or quoted for trading.
2. The board of directors shall not grant options to any one person in any 12 month period which will, when exercised, exceed 5% of the issued and outstanding shares of the Company or to any one consultant or to those persons employed by the Company who perform investor relations services which will, when exercised, exceed 2% of the issued and outstanding shares of the Company.
3. Upon expiry of an option, or in the event an option is otherwise terminated for any reason, the number of shares in respect of the expired or terminated option shall again be available for the purposes of the Stock Option Plan. All options granted under the Stock Option Plan may not have an expiry date exceeding ten years from the date on which the board of directors grant and announce the granting of the option provided the Company is a Tier 1 Issuer or five years if the Company is a Tier 2 Issuer.
4. If the option holder ceases to be a director of the Company or ceases to be employed by the Company (other than by reason of death), or ceases to be a consultant of the Company as the case may be, then the option granted shall expire on no later than the 90th day following the date that the option holder ceases to be a director, ceases to be employed by the Company or ceases to be a consultant of the Company, subject to the terms and conditions set out in the Stock Option Plan.

The Board retains the discretion to impose vesting periods on any options granted. All options granted to date vest as follows: 20% vest 4 months after date of grant, 20% vest 8 months after the date of grant, 20% vest 12 months after the date of grant, 20% vest 15 months after the date of grant, and the remaining 20% vest 18 months after the date of grant.

TERMINATION AND CHANGE OF CONTROL BENEFITS

The Company has no compensatory plan, contract or arrangement where a Named Executive Officer is entitled to receive more than CDN\$100,000 (including periodic payments or instalments) to compensate such executive officer in the event of resignation, retirement or other termination of the Named Executive Officer's employment with the Company, a change of control of the Company, or a change in responsibilities of the Named Executive Officer following a change in control.

Under the terms of the management consulting agreement between the Company and Donald E. Ranta, Mr. Ranta is entitled to a payment equal to 3 months remuneration in the event Mr. Ranta is terminated by the Company without notice.

DIRECTOR COMPENSATION

Director Compensation Table

Other than compensation paid to the NEOs, and except as noted below, no compensation was paid to directors in their capacity as directors of the Company or its subsidiaries, in their capacity as members of a committee of the Board or of a committee of the board of directors of its subsidiaries, or as consultants or experts, during the Company's most recently completed financial year.

The following table sets forth the details of compensation provided to the directors, other than the NEOs during the Company's most recently completed financial year:

Director Compensation Table

Name	Fees Earned (US\$)	Share-based Awards (\$)	Option-based Awards ⁽¹⁾ (US\$)	Non-Equity Incentive Plan Compensation (\$)	Pension Value (\$)	All Other Compensation ⁽⁴⁾ (US\$)	Total (US\$)
M. Norman Anderson	NA	NA	\$46,462	NA	NA	NA	\$46,462
Norman W. Burmeister	NA	NA	\$46,462	NA	NA	NA	\$46,462
Stephen P. Quin	NA	NA	\$46,462	NA	NA	NA	\$46,462
Gregory E. McKelvey	NA	NA	\$65,807	NA	NA	NA	\$65,807

Note:

- (1) The fair value of option-based awards which are vested is determined by the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares and expected life of the options. The options granted to the directors vest as follows: 20% vest 4 months after the date of grant; 20% vest 8 months after the date of grant; 20% vest 12 months after the date of grant; 20% vest 15 months after the date of grant; and the remaining 20% vest 18 months after the date of grant.

Narrative Discussion

Directors are only compensated through the grant of stock options. No Directors' fees are paid.

INCENTIVE PLAN AWARDS

Outstanding Option-Based Awards

The following table sets forth the outstanding share-based awards and option-based awards held by the directors of the Company at the end of the most recently completed financial year:

Outstanding Option-Based Awards

Name	Option-based Awards			
	Number of securities underlying unexercised options (#)	Option exercise price (CDN\$)	Option expiration date	Value of unexercised in-the-money options (CDN\$) ⁽¹⁾
M. Norman Anderson	50,000	0.55	01/10/2012	\$72,500
	150,000	0.58	01/27/2014	\$213,000
	50,000	2.71	05/28/2015	Nil
Norman W. Burmeister	50,000	0.55	04/28/2011	\$72,500
	50,000	0.55	01/10/2012	\$72,500
	150,000	0.58	01/27/2014	\$213,000
	50,000	2.71	05/28/2015	Nil
Stephen P. Quin	90,000	0.58	01/27/2014	\$127,800
	50,000	2.71	05/28/2015	Nil
Gregory E. McKelvey	25,000	1.00	10/12/2012	\$25,000
	65,000	1.15	02/19/2013	\$55,250
	125,000	0.58	01/27/2014	\$177,500
	50,000	2.71	05/28/2015	Nil

Note:

(1) The market price for the Company's common shares on June 30, 2010 was CDN\$2.00

Incentive Plan Awards – Value Vested or Earned During the Year

The following table sets forth details of the value vested or earned for all incentive plan awards during the most recently completed fiscal year by each director:

Value Vested or Earned for Incentive Plan Awards during the Most Recently Completed Financial Year

Name	Option-based awards – Value vested during the year ⁽¹⁾ (CDN\$)	Share-based awards – Value vested during the year (CDN\$)	Non-equity incentive plan compensation – Value earned during the year (CDN\$)
M. Norman Anderson	\$266,700	NA	NA
Norman W. Burmeister	\$266,700	NA	NA
Stephen P. Quin	\$266,700	NA	NA
Gregory E. McKelvey	\$297,150	NA	NA

Note:

- (1) The options granted to the directors vest as follows: 20% vest 4 months after the date of grant; 20% vest 8 months after the date of grant; 20% vest 12 months after the date of grant; 20% vest 15 months after the date of grant; and the remaining 20% vest 18 months after the date of grant. The aggregate dollar value that would have been realized if the options under the option-based award had been exercised on the vesting date is calculated by determining the difference between the market price of the underlying securities on the date of vest (if in-the-money) and the exercise price of the options under the option-based award multiplied by the number of options vested on the vesting date.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets out those securities of the Company which have been authorized for issuance under equity compensation plans, as at June 30, 2010:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by the securityholders	3,236,000	CDN\$1.30	2,543,347
Equity compensation plans not approved by the securityholders	Nil	N/A	N/A
Total	3,236,000	CDN\$1.30	2,543,347

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

None of the current or former directors, executive officers, employees of the Company, the proposed nominees for election to the board of directors of the Company, or their respective associates or affiliates, are or have been indebted to the Company since the beginning of the last completed financial year of the Company.

INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON

No director or executive officer of the Company or any proposed nominee of management of the Company for election as a director of the Company, nor any associate or affiliate of the foregoing persons, has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, since the beginning of the Company's last financial year in matters to be acted upon at the Meeting, other than the election of directors or the appointment of auditors.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

None of the persons who were directors or executive officers of the Company or a subsidiary of the Company at any time during the Company's last financial year, the proposed nominees for election to the board of directors of the Company, any person or company who beneficially owns, directly or indirectly, or who exercises control or direction over (or a combination of both) more than 10% of the issued and outstanding common shares of the Company, nor any associate or affiliate of those persons, has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any transaction or proposed transaction which has materially affected or would materially affect the Company.

MANAGEMENT CONTRACTS

Management, administrative and secretarial functions are provided by Pacific Opportunity Capital Ltd. ("POC"), a private company of which Mark T. Brown, a director and officer of the Company, is the president and director. A total of US\$208,222 was invoiced by POC for rent, management and accounting services rendered and for the services of Mark T. Brown, the Chief Financial Officer, and four other staff at POC for the year ended June 30, 2010.

Effective October 1, 2009, Donald E. Ranta receives a monthly compensation of US\$12,000 for his services as Chief Executive Officer, pursuant to a management consulting agreement.

Other than as disclosed herein, no management functions of the Company are to any substantial degree performed by a person or company other than the directors or executive officers of the Company.

APPOINTMENT OF AUDITOR

Auditor

The management of the Company intends to nominate DeVisser Gray, Chartered Accountants, for re-appointment as auditor of the Company. Forms of proxy given pursuant to the solicitation by the management of the Company will, on any poll, be voted as directed and, if there is no direction, for the re-appointment of DeVisser Gray, Chartered Accountants, as auditor of the Company to hold office until the close of the next annual general meeting of the Company, at a remuneration to be fixed by the directors. DeVisser Gray, Chartered Accountants, was first appointed as auditor of the Company since incorporation in June 1999.

AUDIT COMMITTEE

The Company is required to have an audit committee comprised of not less than three directors, a majority of whom are not officers, control persons or employees of the Company or an affiliate of the Company. The Company's current audit committee consists of Gregory E. McKelvey, Stephen P. Quin and Norman W. Burmeister.

Relevant Education and Experience

Based on their business and educational experiences, each audit committee member has a reasonable understanding of the accounting principles used by the Company; an ability to assess the general application of such principles in connection of the accounting for estimates, accruals and reserves; experience analyzing and evaluating financial statements that present a breadth and level of complexity of issues that can reasonably be expected to be raised by the Company's financial statements, or experience actively supervising one or more individuals engaged in such activities; and an understanding of internal controls and procedures for financial reporting.

Gregory E. McKelvey has more than forty years of extensive, international experience in Latin America, Africa, and Europe in expanding responsibilities for significant mining companies such as Kennecott, Cominco, Homestake, and Phelps Dodge. He also acts as an Adjunct Faculty member at the University of Arizona in their International Center for Mining Health, Safety and Environment and worked for the USGS in Latin America. He has also consulted for Codelco, Phelps Dodge, Newmont Mining, Gerald Metals and Quadra Mining. Mr. McKelvey has successfully directed and led innovative exploration efforts, resulting in the discovery and identification of several major ore deposits. He participated in or led the teams that discovered Sossego (Cu/Au) in Brazil; Sheep Creek (Zn, Cu, Co) in Montana; Spar Lake-Cabinet Mts. (Cu, Ag) in Montana; Sechura, (P2O5) in Peru; extensions of the Punta de Cobre (Cu/Au) deposits in Chile; extensions of ore at Chino (Cu) in New Mexico; the Codelco IOCG discovery in Brazil, and the recent new porphyry copper center at Sierra Gorda in Chile. From April 2001 to May 2005, he was Managing partner of Global Mine Discovery Partnership LLC and since April 2005, he has been a geologic consultant for Quadra Mining, Newmont Gold, Gerald Minerals and Phelps Dodge. Since July 2007, he has been President/CEO/Director of Animas Resources Ltd.; since January 2008, he has been a Director of Avrupa Minerals Ltd.; and since December 2009, he has been a Director of Redhawk Resources Inc.

Stephen P. Quin is a professional geologist registered with the Association of Professional Engineers and Geoscientists of BC, and a Fellow of the Geologic Association of Canada and Society of Economic Geologists. Mr. Quin has more than 30 years of international experience in exploration, mine development and operations and corporate development. In 2005, Mr. Quin led the acquisition and subsequent feasibility, financing and development of the Minto Mine in Yukon and, subsequently, the merger of Sherwood with Capstone Mining Corp. Prior to Sherwood, Mr. Quin was Executive Vice President of Miramar Mining Corporation and participated in or led the acquisition of the Con Mine in NWT and then the acquisition and exploration of the Hope Bay project in Nunavut. In parallel, Mr. Quin led the acquisition and subsequent exploration of copper and gold properties for Miramar's affiliate, Northern Orion Exploration, including the giant Agua Rica copper-gold-molybdenum deposit in Argentina. In addition to his management roles, during the past number of years Mr. Quin has been a director and/or officer for a number of public companies as set out below:

Reporting Issuer	Position held	Date Appointed	Date Ceased
American Gold Capital Corp. <i>(Combined with Chesapeake Gold Corp.)</i>	Director	Mar. 10, 2006	Feb. 23, 2007
Bear Lake Gold Ltd.	Director	Sep. 25, 2008	N/A
Capstone Mining Corp.	Director	Nov. 28, 2008	N/A
	President	Nov. 28, 2008	N/A
	COO	Nov. 28, 2008	May 20, 2010
Chalice Gold Mines Ltd.	Director	May 3, 2010	N/A
Kimber Resources Inc.	Director	Dec. 12, 2006	N/A
Maximus Ventures Ltd. <i>(Merged with NFX Gold Inc. and renamed Bear Lake Gold Ltd.)</i>	Director	Feb. 23, 2006	Sep. 25, 2008
Mercator Minerals Ltd.	Director	Feb. 8, 2005	N/A
Miramar Mining Corp. <i>(Acquired by Newmont Mining Corp.)</i>	Director	May 29, 1987	Jun. 28, 2002
	Vice President	May 25, 1990	Jan. 11, 1994
	Executive Vice President	Jan. 11, 1994	Aug. 30, 2005
Northern Orion Exploration Ltd.	Director	Feb. 6, 1996	Apr. 5, 1999
	Executive Vice President	Feb. 6, 1996	Apr. 5, 1999
Polymet Mining Corp. <i>(formerly Fleck Resources Ltd.)</i>	Director	1992	Mar. 17, 2003
Sherwood Copper Corp. <i>(Merged with Capstone Mining Corp.)</i>	Director	Aug. 27, 2001	Nov. 28, 2008
	President & CEO	Sep. 01, 2005	Nov. 28, 2008
Troon Ventures Ltd.	Director	Apr. 30, 2008	N/A
Western Keltic Mines Inc. <i>(Acquired by Sherwood Copper Corp.)</i>	Director	Mar. 07, 2008	May 27, 2008

Norman W. Burmeister graduated from the Colorado School of Mines in Mining Geology in 1961 and has over 40 years of experience in the mining industry. He holds a professional engineer license from the Association of Professional Engineers and Geoscientists of British Columbia. He was Chief Geologist for Silver Standard Resources from 1965 to 1978. In 1980 he founded Bull Run Corporation and served as its Chairman/CEO until 1992. During that period Bull Run successfully found, explored and developed a significant gold mine in Elko County, Nevada. From 2003 to 2007, he was President/CEO/Director of Bayswater Uranium Corp. From 2003 to 2005, he was President/CEO of the Company and its predecessor companies. Since 2006, he has been President/CEO/Director of Saratoga Gold Company Ltd.

Audit Committee Charter

The text of the audit committee's charter is attached as Schedule "A" to this Circular.

Independence

National Instrument 52-110 *Audit Committees*, ("NI 52-110") provides that a member of an audit committee is "independent" if the member has no direct or indirect material relationship with the Company, which could, in the view of the Company's board of directors, reasonably interfere with the exercise of the member's independent judgment.

All of the members of the Company's audit committee are independent as that term is defined.

Financial Literacy

NI 52-110 provides that an individual is "financially literate" if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements.

All of the members of the Company's audit committee are financially literate as that term is defined.

Audit Committee Oversight

Since the commencement of the Company's most recently completed financial year, the audit committee of the Company has not made any recommendations to nominate or compensate an external auditor which were not adopted by the board of directors of the Company.

Reliance on Certain Exemptions

Since the commencement of the Company's most recently completed financial year, the Company has not relied on:

- (a) the exemption in section 2.4 (*De Minimis Non-audit Services*) of NI 52-110; or
- (b) an exemption from NI 52-110, in whole or in part, granted under Part 8 (*Exemptions*).

Pre-Approval Policies and Procedures

The audit committee has not adopted any specific policies and procedures for the engagement of non-audit services.

Audit Fees

The following table sets forth the fees paid by the Company to DeVisser Gray, Chartered Accountants, for services rendered in the last two fiscal years:

	<u>2009</u>	<u>2010</u>
DeVisser Gray		
Audit fees.....	CDN\$19,500	CDN\$20,000
Audit-related fees.....	N/A	N/A
Tax fees.....	N/A	N/A
All other fees.....	N/A	CDN\$14,900 ⁽¹⁾
Total	<u>CDN\$19,500</u>	<u>CDN\$34,900</u>

⁽¹⁾ CDN\$14,900 was paid to the auditor for reviewing documents related to the short-form prospectus financing in April 2010.

Exemption in Section 6.1

The Company was formerly a “venture issuer” as defined in NI 52-110 and has relied on the exemption in section 6.1 of NI 52-110 relating to Parts 3 (*Composition of Audit Committee*) and 5 (*Reporting Obligations*). The Company is now a “non-venture issuer” and will not be able to rely on such exemptions in the future.

CORPORATE GOVERNANCE DISCLOSURE

National Instrument 58-101, *Disclosure of Corporate Governance Practices*, requires all reporting issuers to provide certain annual disclosure of their corporate governance practices with respect to the corporate governance guidelines (the “Guidelines”) adopted in National Policy 58-201. These Guidelines are not prescriptive, but have been used by the Company in adopting its corporate governance practices. The Company’s Board has approved and adopted a set of policies on Corporate governance, which include a Code of Conduct, Board of Directors Mandate, Audit Committee Charter, Whistleblower Policy, Nominating, Corporate Governance and Compensation Committee Charter and Internal Controls Policy all of which are available on the Company’s Web site. The Company’s approach to corporate governance is set out below.

	GOVERNANCE DISCLOSURE GUIDELINE UNDER NI 58-101	COMMENTS
1.	Board of Directors (a) Disclose the identity of the directors who are independent.	The Board currently is comprised of six directors, four of the directors are independent and two are not independent. The Board considers that M. Norman Anderson, Norman W. Burmeister, Gregory E. McKelvey and Stephen P. Quin are independent directors.
	(b) Disclose the identity of the directors who are not independent, and describe the basis for that determination.	The Board considers that Donald E. Ranta and Mark T. Brown are not independent directors. Donald E. Ranta is not an independent director because he is an officer of the Company. Mark T. Brown is not an independent director because he is an officer of the Company. The Board is responsible for determining whether or not each director is an independent director. To do this, the Board analyzes all the relationships of the directors with the Company and its subsidiaries. Those directors who do not meet the meaning of independence as provided in NI 58-101 were deemed to not be independent directors. More information about each director can be found on pages 4 and 5 of this Information Circular.

<p>2.</p>	<p>Directorship</p> <p>If a director is presently a director of any other issuer that is a reporting issuer (or the equivalent) in a jurisdiction or a foreign jurisdiction, identify both the director and the other issuer.</p>	<p>The following directors currently serve on the Board of the reporting issuer(s) (or equivalent) listed below:</p> <ul style="list-style-type: none"> • Donald E. Ranta – Animas Resources Ltd., Otis Gold Corp. and Avrupa Minerals Ltd. • Mark T. Brown – Animas Resources Ltd., Avrupa Minerals Ltd., Fox Resources Ltd., Portal Resources Ltd., Strategem Capital Corporation and Sutter Gold Mining Inc. • M. Norman Anderson – Cia de Minas Buenaventura S.A. (Peru) • Stephen P. Quin – Capstone Mining Corp., Troon Ventures Ltd., Bear Lake Gold Ltd., Mercator Minerals Ltd., Kimber Resources Inc. and Chalice Gold Mines Ltd. • Gregory E. McKelvey – Animas Resources Ltd., Redhawk Resources Inc. and Avrupa Minerals Ltd. 												
<p>3.</p>	<p>Attendance at Board Meetings</p> <p>Disclose the attendance record of each director for all board meetings held since the beginning of the issuer’s most recently completed financial year.</p>	<p>Total number of board meetings held: 5</p> <table border="1" data-bbox="852 829 1412 1123"> <thead> <tr> <th data-bbox="852 829 1112 892">Name of Director</th> <th data-bbox="1112 829 1412 892">Number of Board Meetings Attended</th> </tr> </thead> <tbody> <tr> <td data-bbox="852 903 1112 934">Donald E. Ranta</td> <td data-bbox="1112 903 1412 934">5</td> </tr> <tr> <td data-bbox="852 945 1112 976">Mark T. Brown</td> <td data-bbox="1112 945 1412 976">5</td> </tr> <tr> <td data-bbox="852 987 1112 1018">M. Norman Anderson</td> <td data-bbox="1112 987 1412 1018">5</td> </tr> <tr> <td data-bbox="852 1029 1112 1060">Stephen P. Quin</td> <td data-bbox="1112 1029 1412 1060">5</td> </tr> <tr> <td data-bbox="852 1071 1112 1123">Gregory E. McKelvey</td> <td data-bbox="1112 1071 1412 1123">4</td> </tr> </tbody> </table>	Name of Director	Number of Board Meetings Attended	Donald E. Ranta	5	Mark T. Brown	5	M. Norman Anderson	5	Stephen P. Quin	5	Gregory E. McKelvey	4
Name of Director	Number of Board Meetings Attended													
Donald E. Ranta	5													
Mark T. Brown	5													
M. Norman Anderson	5													
Stephen P. Quin	5													
Gregory E. McKelvey	4													
<p>3.</p>	<p>Orientation and Continuing Education</p> <p>Describe what steps, if any, the Board takes to orientate new board members and describe what measures, if any, the Board takes to provide continuing education for directors.</p>	<p>Currently, the Board does not have a formal orientation or education program for its members.</p> <p>When new directors are appointed, they receive orientation, commensurate with the previous experience, on the Company’s business and on the responsibilities of directors.</p> <p>Board meetings may also include presentations by the Company’s management and employees to give the directors additional insight into the Company’s business.</p>												
<p>4.</p>	<p>Ethical Business Conduct</p> <p>Describe what steps, if any, the Board takes to encourage and promote a culture of ethical business conduct.</p>	<p>The Board has adopted a “Code of Conduct” to encourage and promote a culture of ethical business conduct. It also promotes ethical business conduct through the nomination of Board members it considered ethical, through avoiding and minimizing conflicts of interest and by having a majority of its Board members independent of corporate matters.</p>												

<p>5.</p>	<p>Nomination of Directors Describe what steps, if any, are taken to identify new candidates for Board nomination, including: (a) who identifies new candidates, and (b) the process of identifying new candidates.</p>	<p>The Board, through its Nominating, Corporate Governance and Compensation Committee, considers its size each year when it considers the number of directors to recommend to the shareholders for election at the annual meeting of shareholders, taking into account the number required to carry out the Board's duties effectively and to maintain a diversity of views and experience</p>
<p>6.</p>	<p>Compensation Describe what steps, if any are taken to determine compensation for the directors and CEO, including: (a) who determines compensation; and (b) the process of determining compensation.</p>	<p>The Nominating, Corporate Governance and Compensation Committee is required to review the compensation for directors and executives. The Nominating, Corporate Governance and Compensation Committee reviews the adequacy and form of, and recommends to the Board the compensation for directors and executives, which may include annual retainers, meeting fees, option grants and other benefits received by directors to ensure that the compensation received accurately reflects the risks and responsibilities involved in being an effective director or executive. For more information regarding compensation paid to directors and executives, see pages 6 to 12 of this Information Circular.</p>
<p>7.</p>	<p>Other Board Committees If the Board has standing committees other than the audit, compensation and nominating committees, identify the committees and describe their function.</p>	<p>The Board has two committees: a) Audit Committee; and b) Nominating, Corporate Governance and Compensation Committee. The current members of the Audit Committee are Gregory E. McKelvey (Chair), Norman W. Burmeister and Stephen P. Quin. The current members of the Nominating, Corporate Governance and Compensation Committee are Stephen P. Quin (Chair), M. Norman Anderson, Norman W. Burmeister and Gregory E. McKelvey.</p>
<p>8.</p>	<p>Assessments Disclose what steps, if any, that the Board takes to satisfy itself that the Board, its committees, and its individual directors are performing effectively.</p>	<p>Currently, the Board takes responsibility for monitoring and assessing its effectiveness and the performance of individual directors, its committees, including reviewing the Board's decision-making processes and quality and adequacy of information provided by management.</p>

Attached as Schedule "B" is a copy of the Mandate for the Board of Directors.

PARTICULARS OF MATTERS TO BE ACTED UPON

Adoption of Shareholder Rights Plan

General

The shareholders of the Company will be asked at the Meeting to consider and, if deemed advisable, to approve a resolution approving the adoption by the Company of a shareholder rights plan (the “Rights Plan”). The Rights Plan is contained in an agreement (the “Rights Plan Agreement”) between the Company and Computershare Trust Company of Canada (the “Rights Agent”) dated November 10, 2010. The Rights Plan has been executed by the Company and approved by the Board of Directors. Under the Rights Plan, share purchase rights (each, a “Right”), will be issued as of the close of business on the date the Plan is approved by the Board (the “Effective Date”) to holders of common shares of the Company (each, a “Share”) at the rate of one Right for each Share outstanding. Until the Separation Time (as defined below), the Rights will be attached to and are transferred only with the associated Shares. As such no certificates representing Rights will be issued. The Rights Plan will expire and all Rights will be terminated immediately after the Meeting if the Rights Plan is not ratified by the shareholders.

The full text of the Rights Plan Agreement, in its current form, will be available for viewing at the Meeting and at the Company’s head office located at 410 – 325 Howe Street, Vancouver, British Columbia, V6C 1Z7 during regular business hours up to the day before the Meeting.

Purpose of the Rights Plan

The Rights Plan has been designed to protect shareholders of the Company from unfair, abusive or coercive take-over strategies, including the acquisition of control of the Company by a bidder in a transaction or series of transactions that does not treat all shareholders equally or fairly or provide all shareholders an equal opportunity to share in the premium paid on an acquisition of control. The Rights Plan provides management and the board of directors with more than the 35 day statutory minimum period under Canadian securities laws to review the terms of a take-over bid and solicit alternative offers. The Rights Plan is not intended to prevent a take-over or deter fair offers for securities of the Company. Rather, it is designed to encourage anyone seeking to acquire control of the Company to make an offer that represents fair value to all holders of common shares.

The Rights Plan will cause substantial dilution to a person or group who attempts to acquire control of the Company other than through a Permitted Bid (as defined below) or on terms approved by the board of directors. The Rights Plan provides that take-over bids that meet pre-determined standards of fairness will be Permitted Bids and will proceed without triggering the dilutive effects of the Rights Plan. The Permitted Bid concept, which is found in most shareholder rights plans, ensures that senior management of the Company and the board of directors do not impair the rights of shareholders to obtain, review and accept or decline take-over bids. The Rights Plan is designed to afford the board of directors the opportunity to present to the shareholders of the Company a detailed analysis of a bid and additional time to consider alternatives to an unfair or inadequate proposal and, if it considers such action to be in the best interests of all shareholders, to commence an orderly auction of the shares or assets of the Company for the benefit of all shareholders.

If a bidder does not wish to make a Permitted Bid, the bidder can negotiate with and obtain prior approval of the board of directors to make an offer on terms that the board of directors considers fair to all shareholders. In such circumstances, the board of directors may redeem the Rights or waive the application of the Rights Plan, thereby allowing such offer to proceed without dilution to the bidder. The adoption of the Rights Plan does not relieve the board of directors of its fiduciary duties to act in the best interests of all shareholders

and does not prevent a take-over bid or merger or other business combination that the board of directors, in the exercise of its fiduciary duties, determines to be in the best interests of the Company and its shareholders. Moreover, the Rights Plan does not inhibit the use of the proxy solicitation rules under applicable legislation to promote a change in the management or direction of the Company.

The Rights Plan is designed not to interfere with the day-to-day operations of the Company. Prior to being activated, the Rights Plan does not affect the Company's balance sheet or income statement and its implementation should not result in a taxable event for the Company or its shareholders. The implementation of the Rights Plan does not increase the level of debt of the Company or involve a sale, exchange or purchase of significant assets or the loss of earning power of the Company. The issue of the Rights does not dilute the equity or voting interests of existing shareholders and should not interfere with equity or debt financing by the Company.

In considering whether to approve the adoption of the Rights Plan, the board of directors was made aware that the Rights Plan may discourage certain types of take-over bids that might be made for the Company and may render more difficult a merger, tender offer, assumption of control by the holders of a large block of the Company's securities or the removal of incumbent management. The Rights Plan will cause substantial dilution to a person or group that attempts to acquire the Company other than through a Permitted Bid or on terms approved by the board of directors. The board of directors carefully considered these matters but concluded that they do not justify denying shareholders the protection that the Rights Plan affords. The Rights Plan is not intended to prevent all unsolicited take-over bids for the Company and will not do so. The Rights Plan is designed to encourage potential bidders to make Permitted Bids or negotiate take-over proposals with the board of directors that the board of directors considers are in the best interests of the Company and to protect the Company's shareholders against being coerced into selling their Shares at less than fair value.

Background

The Rights Plan is not being proposed by the board of directors or management of the Company in response to or in anticipation of any specific take-over bid or proposed bid or other transaction. Rather, the Rights Plan is intended to address the board of director's concern that, in the current business and legal environment in which the Company operates, there is the potential for unfair treatment of shareholders that should be guarded against to the extent practicable.

The board of directors is concerned that under current law an acquiror could use coercive or other abusive take-over practices to obtain control of the Company without paying a fair price and without negotiating with the board of directors acting on behalf of all shareholders. For example, a bidder may acquire blocks of Shares in the market or in private agreements involving a small number of private investors and thereby gain effective control of the Company without paying an appropriate "control premium" to all shareholders of the Company. A bidder may also make a take-over bid to acquire effective or legal control of the Company that the board of directors, acting honestly and in good faith, may believe is wholly inadequate and unfair to shareholders of the Company and does not reflect the full or premium control value for all of the Shares. Without anything else, public shareholders would likely feel compelled to tender to such a bid, even where the bid is considered by the board of directors to be inadequate and of less than fair value for an acquisition of control, fearing that if they do not tender, they will pass up their only opportunity to receive any "take-over premium" for a portion of their Shares. The board of directors also believes that the timetable for take-over bids prescribed by the Canadian securities laws could impair the board's ability to ensure that all other alternatives to maximize shareholder value are thoroughly explored.

In response to these concerns, the board of directors considered the desirability and the practicability of various strategies to deter unfair or abusive take-over practices and, in particular, whether a shareholder rights plan would be in the best interests of the Company and its shareholders and, if so, what the appropriate characteristics of such a shareholder protection rights plan would be.

In considering whether to approve the adoption of the Rights Plan, the board of directors considered the current legislative framework in Canada governing take-over bids. Under provincial securities legislation a take-over bid generally means an offer to acquire voting or equity shares of a person or persons, where the shares subject to the offer to acquire, together with shares already owned by the bidder and parties related to the bidder, an aggregate of 20% or more of the outstanding shares.

Summary of the Rights Plan

The following is a summary of the principal terms of the Rights Plan which is qualified in its entirety by reference to the text of the Rights Plan.

Term

The Rights Plan will remain in effect until the earlier of the time at which the right to exercise the right shall terminate pursuant to Sections 5.1(c), 5.1(e) or 5.17 of the Rights Plan or the close of business on the date immediately following the date of the Company's annual meeting of shareholders to be held in 2013. Subject to shareholder approval by ordinary resolution, the Rights Plan may be renewed for successive periods of three years.

Rights Exercise Privilege

After a person acquires 20% or more of the Shares of the Company or commences a take-over bid to acquire Shares of the Company, other than by way of a Permitted Bid (the "Separation Time"), the Rights will separate and trade separately from the Shares and will be exercisable. The acquisition by any person (an "Acquiring Person") of 20% or more of the Shares, other than by way of a Permitted Bid, is referred to as a "Flip-in Event". Any Rights held by an Acquiring Person will become void upon the occurrence of a Flip-in Event.

Eight business days after the occurrence of a Flip-in Event, each Right (other than those held by the Acquiring Person), will permit its holder to purchase shares at a 50% discount to the Market Price of the Company's common shares.

The issue of the Rights is not initially dilutive. However, upon a Flip-in Event occurring and the Rights separating from the Shares, reported earnings per share on a fully diluted or non-diluted basis may be affected. Holders of Rights not exercising their Rights upon the occurrence of a Flip-in Event may suffer substantial dilution.

Certificates and Transferability

Prior to the Separation Time, the Rights will be evidenced by a legend imprinted on certificates for Shares issued from and after the Effective Date and will not be transferable separately from the Shares. Promptly following the Separation Time, separate certificates evidencing the Rights (the "Rights Certificates") will be mailed to holders of record of Shares as of the Separation Time and the separate Rights Certificates will evidence the Rights. From and after the Separation Time, Rights Certificates, which will be transferable and traded separately from the Shares, will evidence the Rights.

Permitted Bids

The requirements for a Permitted Bid include the following:

- (a) the take-over bid must be made by way of a take-over bid circular;
- (b) the take-over bid must be made to all holders of Shares;
- (c) Shares tendered pursuant to the take-over bid may be taken up only after the expiry of not less than 60 days and then only if at such time more than 55% of the Shares held by shareholders other than the bidder, its affiliates and persons acting jointly or in concert with the bidder (“Independent Shareholders”) have been tendered to the take-over bid and not withdrawn;
- (d) shareholders who tender their shares to the take-over bid must be permitted to withdraw their shares prior to the shares being taken up and paid for; and
- (e) if more than 50% of the Shares held by Independent Shareholders are tendered to the take-over bid within the 60 day period, the bidder must make a public announcement of that fact and the take-over bid must remain open for deposits of Shares for an additional 10 business days from the date of such public announcement.

The Rights Plan allows for a competing Permitted Bid (a “Competing Bid”) to be made while a Permitted Bid is in existence. A Competing Bid must satisfy all the requirements of the Permitted Bid except that it may expire on the same date as the Permitted Bid, subject to the statutory requirement that it be outstanding for a minimum period of 35 days.

Waiver and Redemption

The board of directors may, prior to the Flip-in Event, waive the dilutive effects of the Rights Plan in respect of a particular Flip-in Event resulting from a take-over bid made by way of a take-over bid circular to all holders of Shares of the Company, in which event such waiver would be deemed also to be a waiver in respect of any other Flip-in Event occurring under a take-over bid made by way of a take-over bid circular to all holders of Shares. The board of directors may also waive the Rights Plan in respect of a particular Flip-in Event that has occurred through inadvertence, and may, in such circumstances require that the Acquiring Person that inadvertently triggered such Flip-in Event reduce its beneficial holdings to less than 20% of the outstanding Shares of the Company prior to such waiver being granted. With the majority consent of shareholders or Rights holders at any time prior to the occurrence of a Flip-in Event, the board of directors may at its option redeem all, but not less than all, of the outstanding Rights at a price of \$0.0001 each.

Exemption for Investment Advisors

Investment managers (for client accounts), trust companies (acting in their capacities as trustees and administrators), statutory bodies (managing investment funds for employee benefit plans, pension plans, insurance plans or various public bodies), administrators and trustees of pension funds, securities depositories and crown agents, any of whom acquire greater than 20% of the Shares of the Company, are exempted from triggering a Flip-in Event provided that they are not making, or are not part of a group making, a take-over bid.

Supplements and Amendments

The Company is authorized to make amendments to the Rights Plan to correct any typographical error or subject to subsequent ratification by shareholders or Rights holders, to maintain the validity of the Rights Plan as a result of changes in law, or at the request of the Exchange. The Company will issue a news release relating to any significant amendment made to the Rights Plan Agreement prior to the Meeting and will advise the shareholders of any such amendment at the Meeting. Other amendments or supplements to the Rights Plan may be made with the prior approval of shareholders or Rights holders and, if necessary, any stock exchange on which the Shares may be listed.

Grandfathered Persons

Holders of 20% or more of the Shares at the time when the Rights were distributed are recognized for the purposes of the Rights Plan as “grandfathered persons” and, as such, do not constitute Acquiring Persons under the Rights Plan by virtue of their shareholding exceeding the 20% Flip-in Event threshold.

Certain Canadian Federal Income Tax Considerations of the Rights Plan

The Company will not recognize any income for the purposes of the *Income Tax Act* (Canada) (the “ITA”) as a result of the issuance of the Rights. The ITA provides that the value of a right to acquire additional shares of a corporation is not a taxable benefit which must be included in computing income, and is not subject to non-resident withholding tax if the right is conferred on all holders of shares of the corporation. Although the Rights are to be so conferred, the Rights could become void in the hands of certain holders of Shares upon certain triggering events occurring (i.e. a “Flip-in Event”), and, consequently, whether or not the issuance of the Rights is a taxable event is not entirely free from doubt. In any event, no amount must be included in computing income if the Rights do not have a monetary value at the date of issue. The Company considers that the Rights, when issued, will have negligible monetary value, there being only a remote possibility that the Rights will ever be exercised. A holder of Rights may have income or be subject to withholding tax under the ITA if the Rights become exercisable or are exercised. A holder of Rights may be subject to tax in respect of the proceeds of disposition of Rights or common shares issued upon the exercise of Rights.

This statement is of a general nature only and is not intended to constitute nor should it be construed to constitute legal or tax advice to any particular holder of Shares. Shareholders are advised to consult their own tax advisors regarding the consequences of acquiring, holding, exercising or otherwise disposing of their Rights, taking into account their own particular circumstances and any applicable foreign, provincial or territorial legislation.

Shareholder Approval

The Company is seeking shareholder approval at the Meeting by way of ordinary resolution to the Rights Plan. The Company has determined that there are no grandfathered persons and, therefore, all shareholders are entitled to vote on the resolution approving the Rights Plan.

Recommendation of the Board

The board has determined that the adoption of the Rights Plan is in the best interests of the Company and the shareholders. The board unanimously recommends that shareholders vote in favour of the resolution approving the Rights Plan.

The Company has been advised that the directors and senior officers of the Company intend to vote all shares held by them in favour of the resolution approving the Rights Plan.

Unless specified in a proxy form that the Company's common shares represented by the proxy shall be voted against the resolution in respect of the Rights Plan, it is the intention of the persons designated in the enclosed proxy form to vote in favour of the resolution approving the Rights Plan.

General Matters

It is not known whether any other matters will come before the Meeting other than those set forth above and in the Notice of Meeting, but if any other matters do arise, the person named in the Proxy intends to vote on any poll, in accordance with his or her best judgement, exercising discretionary authority with respect to amendments or variations of matters set forth in the Notice of Meeting and other matters which may properly come before the Meeting or any adjournment of the Meeting.

ADDITIONAL INFORMATION

Additional information relating to the Company may be found on SEDAR at www.sedar.com. Financial information about the Company is provided by the Company's comparative annual financial statements to June 30, 2010. Additional financial information concerning the Company may be obtained by any securityholder of the Company free of charge by contacting the Company at 604-687-3520.

BOARD APPROVAL

The contents of this Circular have been approved and its mailing authorized by the directors of the Company.

DATED at Vancouver, British Columbia, the 28th day of October, 2010.

ON BEHALF OF THE BOARD

Donald E. Ranta

Donald E. Ranta,
Chief Executive Officer

SCHEDULE “A”

RARE ELEMENT RESOURCES LTD. (the “Company”)

AUDIT COMMITTEE CHARTER

The audit committee is a committee of the board of directors to which the board delegates its responsibilities for the oversight of the accounting and financial reporting process and financial statement audits.

The audit committee will:

- (a) review and report to the board of directors of the Company on the following before they are published:
 - (i) the financial statements and MD&A (management discussion and analysis) (as defined in National Instrument 51-102) of the Company;
 - (ii) the auditor’s report, if any, prepared in relation to those financial statements,
- (b) review the Company’s annual and interim earnings press releases before the Company publicly discloses this information,
- (c) satisfy itself that adequate procedures are in place for the review of the Company’s public disclosure of financial information extracted or derived from the Company’s financial statements and periodically assess the adequacy of those procedures,
- (d) recommend to the board of directors:
 - (i) the external auditor to be nominated for the purpose of preparing or issuing an auditor’s report or performing other audit, review or attest services for the Company; and
 - (ii) the compensation of the external auditor,
- (e) oversee the work of the external auditor engaged for the purpose of preparing or issuing an auditor’s report or performing other audit, review or attest services for the Company, including the resolution of disagreements between management and the external auditor regarding financial reporting,
- (f) monitor, evaluate and report to the board of directors on the integrity of the financial reporting process and the system of internal controls that management and the board of directors have established,
- (g) monitor the management of the principal risks that could impact the financial reporting of the Company,

- (h) establish procedures for:
 - (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and
 - (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters,
- (i) pre-approve all non-audit services to be provided to the Company or its subsidiary entities by the Company's external auditor,
- (j) review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Company, and
- (k) with respect to ensuring the integrity of disclosure controls and internal controls over financial reporting, understand the process utilized by the Chief Executive Officer and the Chief Financial Officer to comply with Multilateral Instrument 52-109.

Composition of the Committee

The committee will be composed of 3 directors from the Company's board of directors, a majority of whom will be independent. Independence of the Board members will be as defined by applicable legislation and as a minimum each independent committee member will have no direct or indirect relationship with the Company which, in the view of the board of directors, could reasonably interfere with the exercise of a member's independent judgment.

All members of the committee will be financially literate as defined by applicable legislation. If, upon appointment, a member of the committee is not financially literate as required, the person will be provided a three month period in which to achieve the required level of literacy.

Authority

The committee has the authority to engage independent counsel and other advisors as it deems necessary to carry out its duties and the committee will set the compensation for such advisors.

The committee has the authority to communicate directly with and to meet with the external auditors and the internal auditor, without management involvement. This extends to requiring the external auditor to report directly to the committee.

Reporting

The reporting obligations of the committee will include:

1. reporting to the board of directors on the proceedings of each committee meeting and on the committee's recommendations at the next regularly scheduled directors' meeting; and
2. reviewing, and reporting to the board of directors on its concurrence with, the disclosure required by Form 52-110F2 in any management information circular prepared by the Company.

Schedule “B”

RARE ELEMENT RESOURCES LTD. (the “Company”)

BOARD OF DIRECTORS’ MANDATE

Board’s Purpose

The duties and responsibilities of the Directors follow from applicable corporate laws, as well as those duties and responsibilities generally agreed and approved by the Board of Directors. The intent is that the duties and responsibilities guide the Board in complying with all applicable Canadian and U.S. legal and regulatory requirements.

Directors are accountable to the shareholders of the Company.

Board’s Mandate

The Board of Directors shall further the objectives of the Company by directing, supervising and otherwise reviewing and approving the stewardship of the Company.

All material transactions must be reviewed and approved by the Board prior to implementation. Any responsibility that is not delegated to senior management or a Board committee remains with the full Board. One of the Board’s responsibilities is to review and, if thought fit, to approve opportunities as presented by management and to provide guidance to management. The Board relies on management for the preparation of periodic reports, and to provide the support and information necessary to enable the Board to fulfill its obligations effectively.

The Board has the responsibility to participate with management in developing and approving the mission of the business, its objectives and goals, the strategic plans arising, and monitoring subsequent performance against said plans. Strategic issues are reviewed with management and addressed by the full Board at regularly scheduled Board meetings and at meetings specifically called for this purpose. The Board’s strategic planning process involves having regular Board meetings to review reports on the Company’s operations, exploration and development programs, and permits meeting with management on a regular basis, and reviewing business opportunities as presented by management.

The Board also meets to: plan for the future growth of the Company; identify risks of the Company’s business, thus ensuring the implementation of appropriate systems to manage these risks; monitor senior management; and ensure timely disclosure of material transactions through the issuance of news releases and financial statements. The Board reviews financial performance quarterly. Frequency of meetings as well as the nature of agenda items changes depending upon the state of the Company’s affairs and in light of opportunities or risks which the Company faces. When necessary and appropriate, issues may be approved and adopted by the Board by way of Written Resolutions.

Composition

The Board of Directors shall be comprised with a majority of individuals who qualify as unrelated directors.

In deciding whether a particular Director is a “related Director” or an “unrelated Director”, the Board of Directors shall examine the factual circumstances of each Director and consider them in the context of factors considered to be relevant.

Specific Responsibilities and Duties

The Board’s mandate includes the following duties and responsibilities:

1. Reviewing and approving any proposed changes to the Company’s memorandum or articles.
2. Being responsible for, and taking appropriate action with respect to, any take-over bid, proposed merger, amalgamation, arrangement, acquisition of all or substantially all of the assets or any similar form of business combination, including the approval of any agreements, circulars or other documents in connection therewith.
3. Approving payment of distributions to shareholders.
4. Approving any offerings, issuances or repurchases of share capital or other securities.
5. Approving the establishments of credit facilities and any other long-term commitments.
6. Selecting and appointing, evaluation of and (if necessary) termination of the CEO.
7. Succession planning and other human resource issues. The appointment of all corporate officers requires Board authorization.
8. Approving the compensation of the senior executive officers, including performance bonus plans and stock options.
9. Adopting a strategic planning process, approving strategic plans, and monitoring performance against plans.
10. Reviewing and approving annual operational budgets, capital expenditures and corporate objectives, and monitoring performance on each of the above.
11. Reviewing policies and procedures to identify business risks, and ensure that systems and actions are in place to monitor them.
12. Reviewing policies and process to ensure that the Company’s internal control and management information systems are operating properly.
13. Approving the financial statements and MD&A, and making a recommendation to shareholders for the appointment of auditors.
14. Approving the Company’s code of business ethics.
15. Assessing the contribution of the Board, committees and all directors annually, and planning for succession of the Board.
16. Arranging formal orientation programs for new directors, where appropriate.

17. Never engage in or appear to engage in the payment of illegal payments or fees to expedite actions.

Board Meeting Process

The powers of the Board may be exercised at a meeting for which notice has been given and at which a quorum is present or, in appropriate circumstances, by resolution in writing signed by all the directors.

Responsibility for Convening

Regular meetings of the Directors may be called and held at such time at such place as the Board may by resolution from time to time determine. Any Director may call a meeting of Board at any time.

Notice of Meeting

Reasonable notice of the time and place of each meeting shall be given by mail or by telephone or any other method of transmitting legibly recorded messages. A notice of meeting of directors need not specify the purpose of or the business to be transacted at meeting except where the Act requires such purpose or business to be specified.

Quorum

The quorum for the transaction of business at any meeting of the Board shall be a majority of directors or such other number of Directors as the Board may from time determine according to the articles of the Company.

Chairman

The chairman of the board is elected annually at the first meeting of the Directors following the shareholders meeting.

Voting

At all meetings of the Board every resolution shall be decided by a majority of votes cast on the resolution and in case of any equality of votes, the Chairman has a second or casting vote.

Order of Business

The Board shall endeavour to conduct its business effectively and efficiently. Accordingly, it shall be normal procedure to provide Directors with the agenda and materials adequately ahead of time in order that they may arrive at the meeting fully prepared.

Board meetings shall normally proceed as follows:

- Review and approval of the minutes of the proceeding meeting;

- Business arising from the previous minutes;

- Reports of committees;

- President's report, financial and operational reports;

Other business;

Setting the date and time of the next meeting;

Private session for non-executive directors, without the presence of management;

Adjournment.

Minutes of the Meeting

A secretary should be named for each Board and committee meeting and minutes should be circulated after such meeting. Minutes of the committee meetings will be given to each Board member.