

**RARE ELEMENT RESOURCES LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2009**  
**Containing information up to, and including November 27, 2009**

Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the consolidated financial statements of Rare Element Resources Ltd. ("Rare Element Resources" or the "Company"). The information provided herein should be read in conjunction with the Company's unaudited consolidated financial statements and notes for the period ended September 30, 2009 and audited consolidated financial statements and notes for the year ended June 30, 2009.

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

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

The reader is encouraged to review the Company's statutory filings on [www.sedar.com](http://www.sedar.com).

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

**Overall Performance**

The Company's principal activity is the acquisition and exploration of mineral properties and is listed as a Tier 1 company in the TSX Venture Exchange. In November 2009, the Company filed a Form 20F with the US Securities and Exchange Commission. Rare Element Resources currently has a "Blue Sky" exemption in the United States due to its listing with Standard & Poors and trades on the US "pink sheets" market under the symbol "RRLMF". The filing of the Form 20F made Rare Element Resources a fully reporting issuer in the United States and the Board of Rare Element Resources will consider a listing with an exchange in the United States.

The Company was incorporated in the province of British Columbia on June 3, 1999 and acquired Paso Rico Resources Ltd. ("Paso Rico") in 2003. Paso Rico owns the Bear Lodge Property in Wyoming, USA, through its wholly owned subsidiary, Paso Rico (USA), Inc. On June 1, 2006, Paso Rico (USA), Inc. and Newmont North America Exploration Limited ("Newmont"), a subsidiary of Newmont Mining Corporation, signed an agreement to establish a gold exploration venture on the Bear Lodge Property.

Newmont has the right to earn a 65% working interest in Rare Element Resources' Bear Lodge property, excluding any rights to the rare-earth elements and uranium but including rights to gold and other metals, by performing \$5 million in mineral exploration expenditures over five years. Newmont also has the right to earn an additional 15% participating interest by completing a positive feasibility study.

**Bear Lodge Property**

On April 10, 2009, the Company completed a NI 43-101 Resource Report on the Bear Lodge Property. The report presented the current estimated inferred mineral resource of rare-earth elements at Bear Lodge of 9,830,000 tons grading 4.07% rare-earth oxides, or approximately 800 million pounds of rare-earth oxides (see "Rare-earth Exploration" section).

Paso Rico holds a 100% interest in a group of unpatented mineral claims, the Bear Lodge Project property. The property is situated in the Bear Lodge Mountains of Crook County, northeastern Wyoming. These claims were, in part, acquired from Freeport-McMoRan Copper & Gold ("Freeport") by way of a "Mineral Lease and Option

**RARE ELEMENT RESOURCES LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2009**  
**Containing information up to, and including November 27, 2009**

for Deed". Some of the claims and a portion of a defined area of influence surrounding the claims are subject to a production royalty of 2% of Net Smelter Returns ("NSR") payable to Freeport. Paso Rico owns a portion of the claim group outright and those claims are not subject to the NSR. On March 31, 2009, the Company repurchased the NSR for \$50,000, \$27,000 of which was assigned to Newmont. Paso Rico (USA), Inc. also owns a portion of the claim group outright and these claims are not subject to the NSR.

The Bear Lodge property comprises 90 federal unpatented mineral claims and a 640-acre Wyoming state lease for a total of approximately 2,100 acres. There is a sliding scale royalty on certain state lease land due to the State of Wyoming if ore is mined from the state section. All claims are located on federal lands and are subject to annual maintenance fees payable to the United States Bureau of Land Management, which are now, and will continued to be, paid by Newmont for the term of Newmont Agreement (see the section "*Newmont Gold "Sundance" Venture*" below).

**Exploration expenditures on resource properties:**

|   | Balance<br>June 30,<br>2008 | Expenditures<br>for the year | Balance<br>June 30,<br>2009 | Expenditures<br>for the period | Balance<br>September 30, 2009 |
|---|-----------------------------|------------------------------|-----------------------------|--------------------------------|-------------------------------|
| <b>Bear Lodge Property</b>                            |                             |                              |                             |                                |                               |
| Property acquisition costs                            | \$ 17,721                   | \$ 23,000                    | \$ 40,721                   | \$ -                           | \$ 40,721                     |
| Exploration expenditures                              |                             |                              |                             |                                |                               |
| Assays  | 13,374                      | 16,573                       | 29,947                      | 24,224                         | 54,171                        |
| Assessments and taxes                                 | 20,104                      | -                            | 20,104                      | -                              | 20,104                        |
| Drilling  | 459,960                     | 274,712                      | 734,672                     | 227,291                        | 961,963                       |
| Engineering consulting                                | -                           | -                            | -                           | 17,230                         | 17,230                        |
| Environmental costs                                   | -                           | -                            | -                           | 5,001                          | 5,001                         |
| Geochemistry  | -                           | -                            | -                           | 18,820                         | 18,820                        |
| Geological consulting                                 | 227,482                     | 211,277                      | 438,759                     | 131,410                        | 570,169                       |
| Geophysical   | 300                         | -                            | 300                         | -                              | 300                           |
| Metallurgical testing                                 | 93,530                      | 61,500                       | 155,030                     | 43,141                         | 198,171                       |
| Overhead expenses                                     | 10,839                      | 2,685                        | 13,524                      | 6,458                          | 19,982                        |
| Resource estimation                                   | -                           | -                            | -                           | 4,951                          | 4,951                         |
| Staking   | 17,949                      | -                            | 17,949                      | -                              | 17,949                        |
| Survey  | 34,338                      | -                            | 34,338                      | 2,980                          | 37,318                        |
| Travel expenses                                       | 24,018                      | 400                          | 24,418                      | 5,243                          | 29,661                        |
| Wages   | 99,734                      | -                            | 99,734                      | -                              | 99,734                        |
| Total exploration expenditures on Bear Lodge property | \$ 1,019,349                | \$ 590,147                   | \$ 1,609,496                | \$ 486,749                     | \$ 2,096,245                  |

The Company completed an impairment analysis as at September 30, 2009 which considered the indicators of impairment in accordance with Section 3063, "*Impairment of Long-lived Assets*" as well as EIC-126, "*Accounting by Exploration Companies for Exploration Costs*" and AcG-11, "*Enterprises in the Development Stage*".

Management concluded that no impairment charge was required because:

**RARE ELEMENT RESOURCES LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2009**  
**Containing information up to, and including November 27, 2009**

- there have been no significant changes in the legal factors or climate that affects the value of the property;
- all property rights remain in good standing;
- there have been no significant changes in the projections for the property;
- exploration results continue to be positive and the rare-earth-element (“REE”) resource was recently increased;
- the Company intends to continue its exploration and development plans on its property; and
- Sundance project funding for gold exploration continues to be provided by its partner.

*Rare-earth Exploration*

The Bear Lodge Project contains widespread indications of rare-earth elements (“REE”) and precious metals. REE are primarily used in hybrid-electric-vehicles (HEV), which contain REE-bearing nickel-metal-hydride (Ni-MH) batteries and REE “super” magnets within electrical motors and generators; REE are also used in computers, cellular telephones, TV screens, wind turbines, fuel cells, magnetic refrigeration technologies, phosphors, catalysts and numerous other modern specialty technologies.

The mineral claims that comprise the Bear Lodge Project have been explored for REE, as well as precious metals and base metals, by a number of major mining companies during various periods over the past 50 years. These various exploration campaigns have identified a number of REE and precious metals indications that the Company believes warrant further exploration and evaluation.

The Company began exploration of the Bear Lodge Project properties in late 2004, focusing on the same target area previously identified by Hecla Mining Company (“Hecla”) from 1987 through 1991. Twelve core holes, averaging over 1,000 feet per hole, were drilled from 2004 through 2008, ten of which were targeted on the previously known REE-bearing carbonatite dikes, and oxidized equivalents, in the Bull Hill Southwest area; one hole was drilled in the Bull Hill Northwest target; and one hole to the west tested an induced polarization anomaly for REE and gold. Nine of the twelve holes intercepted significant REE intervals and, combined, confirmed and expanded the Bull Hill Southwest mineralized zone.

During the fall of 2008, the Company performed an exploration program, which featured drilling four core holes, three of which were targeted to confirm and expand the historical REE mineralization of the Bull Hill Southwest target and provide samples for continuing metallurgical work. The fourth hole was drilled to test the REE mineralized zone to the northwest, to search for a carbonatite plug, and to test a potential gold target. Highlights of the drill program include relatively thick REE intercepts in three holes and higher grades in drill holes RES 08-1 and 08-3. These results assisted the Company in completing its first NI 43-101 independent resource report. Metallurgical testing is continuing with samples from these drill holes with a goal to determine a commercial method of recovering the REE.

The REE mineralization encountered in three of the four drill holes is primarily contained within the near-surface oxidized equivalents (FMR) of carbonatite dikes that intrude a body of heterolithic intrusive breccia along the southwest flank of Bull Hill, within the Bear Lodge alkaline-igneous complex. The Bear Lodge project contains predominantly the “light” REE (lanthanum, cerium, praseodymium, neodymium, samarium, europium, and gadolinium), and in particular the first five of these. Assays from the REE-mineralized sections of the holes can be found in the Company’s February 4, 2009 news release.

REE metallurgical testing during 2008 made significant strides forward and additional work is in process. Beneficiation tests were successful on oxidized samples and processes are being established to determine the feasibility of producing commercial REE products. On July 15, 2009, the Company announced the

**RARE ELEMENT RESOURCES LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2009**  
**Containing information up to, and including November 27, 2009**

encouraging rare-earth metallurgical test results on the oxide material, resulting in a range of recoveries and pre-concentrate grades, from 70% recovery with a grade 14.25% rare-earth oxide (“REO”) (-500 mesh), to 90% recovery with a concentrate grade of 9.2% REO (-100 mesh). A grade of 14.25% represents better than a three-fold concentration of the REE. More testing is planned to create a concentrate with higher grades and less of the gangue minerals, prior to leaching of the REE minerals.

In March 2009, the Company announced the results of a new National Instrument 43-101-compliant inferred mineral resource estimate of REE contained in the Bull Hill Southwest deposit of 9.83 million tons averaging 4.07% REO, or approximately 800 million pounds of REO. The new resource estimate is derived from a REE database that includes twelve drill holes completed by the Company since 2004 for a total of 13,326 feet, plus sixteen drill holes completed by other companies prior to 2004, for which data is available. Approximately 34% of the inferred mineral resource lies within 100 feet of a drill hole and 69% of the inferred mineral resource is within 200 feet of a drill hole. The new inferred mineral resource estimate focuses only on the dike sets in the Bull Hill Southwest target area, and there is significant additional potential for expansion of the Bull Hill Southwest resource and for definition of REE resources in other areas. Ore Reserves Engineering (“ORE”) of Lakewood, Colorado, provided the Independent Qualified Person responsible for the mineral resource estimate and the Technical Report.

The results of the mineral resource estimate by ORE are summarized at a range of cutoff grades for each of the oxide, transitional/mixed, and sulfide/unoxidized zones, as follows:

**Table 1 Inferred Mineral Resource at Various Cut-Off Grades (%REO)**

| <b>Cutoff Grade<sup>1,3</sup></b> | <b>Oxide</b>     |                          | <b>Transitional</b> |                          | <b>Sulfide</b>   |                          | <b>Total</b>     |                          |
|-----------------------------------|------------------|--------------------------|---------------------|--------------------------|------------------|--------------------------|------------------|--------------------------|
|                                   | <b>Tons</b>      | <b>Grade<sup>1</sup></b> | <b>Tons</b>         | <b>Grade<sup>1</sup></b> | <b>Tons</b>      | <b>Grade<sup>1</sup></b> | <b>Tons</b>      | <b>Grade<sup>1</sup></b> |
| 1.0                               | 5,350,000        | 3.83                     | 1,420,000           | 3.84                     | 4,990,000        | 3.27                     | 11,770,000       | 3.60                     |
| <b>1.5<sup>(3)</sup></b>          | <b>4,560,000</b> | <b>4.29</b>              | <b>1,140,000</b>    | <b>4.50</b>              | <b>4,120,000</b> | <b>3.71</b>              | <b>9,830,000</b> | <b>4.07</b>              |
| 2.0                               | 3,830,000        | 4.78                     | 840,000             | 5.54                     | 3,250,000        | 4.27                     | 7,910,000        | 4.65                     |
| 2.5                               | 3,390,000        | 5.10                     | 760,000             | 5.84                     | 2,810,000        | 4.58                     | 6,970,000        | 4.97                     |
| 3.0                               | 2,490,000        | 5.96                     | 670,000             | 6.26                     | 2,330,000        | 4.97                     | 5,500,000        | 5.58                     |
| 3.5                               | 2,190,000        | 6.35                     | 610,000             | 6.60                     | 1,980,000        | 5.28                     | 4,770,000        | 5.94                     |
| 4.0                               | 1,880,000        | 6.78                     | 480,000             | 7.36                     | 1,350,000        | 5.95                     | 3,710,000        | 6.55                     |
| 4.5                               | 1,600,000        | 7.22                     | 440,000             | 7.65                     | 1,160,000        | 6.22                     | 3,200,000        | 6.92                     |
| 5.0                               | 1,370,000        | 7.63                     | 360,000             | 8.30                     | 860,000          | 6.72                     | 2,580,000        | 7.42                     |

1. REO (rare-earth oxides) include CeO<sub>2</sub>, La<sub>2</sub>O<sub>3</sub>, Nd<sub>2</sub>O<sub>3</sub>, Pr<sub>6</sub>O<sub>11</sub>, and Sm<sub>2</sub>O<sub>3</sub>, listed in relative order of decreasing abundance in the deposit, plus minor quantities of other REO.

2. The resource estimate is classified as Inferred Mineral Resources as defined by CIM and referenced in NI 43-101. A Technical Report with the estimate was filed on SEDAR on April 14, 2009.

**RARE ELEMENT RESOURCES LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2009**  
**Containing information up to, and including November 27, 2009**

3. ORE considers a range of 1.0 to 2.5 per cent REO cut-off grade to be reasonable in preliminary estimation of potentially economic resources. A cutoff grade of 1.5% REO has been selected as the base case.

Resources were estimated using nearest-neighbor assignment. Drill holes were composited to nominal 10-foot intervals for estimation, and grades were not capped. Grades were assigned using a rectangular projection of 300 X 300 X 10 feet, where the longer distance is parallel to the carbonatite/ FMR dike orientation. The resource model blocks are 10 X 10 X 10-foot cubes. Based on current REO prices, the cutoff grade of 1.5% REO was selected near the mid-point of a range of likely cost scenarios.

*Geology & Mineralization:*

REE mineralization occurs in the north-central core of the Bear Lodge alkaline-igneous complex located in northeastern Wyoming. Virtually all of the significant REE occurrences in the Bear Lodge district are controlled by Rare Element Resources' lode claims. Rare-earth mineralized bodies within the Bull Hill area of the district include well-defined, near-surface FMR (iron oxide-manganese oxide-REE) dikes and veins and deeper sulfide-bearing carbonatite (a high-carbonate igneous rock) dikes and veins, with a transitional or mixed zone (oxide + sulfide) in between. The Bull Hill Southwest target is comprised of an FMR-carbonatite dike swarm that strikes northwesterly and dips steeply to the southwest. The dike swarm intrudes heterolithic intrusive breccia of the Bull Hill diatreme. FMR dikes and veins are interpreted to be intensely oxidized and leached equivalents of the carbonatite bodies that are strongly weathered from the surface to depths of about 300-500 feet and moderately weathered for another 100 feet or so. Carbonatite dikes at depth are interpreted to transition toward the surface into FMR bodies and range in size from veinlets to large dikes exceeding 100 feet in width. The Bull Hill Southwest deposit consists of several dike sets in the swarm that is spread across a zone several hundred feet in width. The dikes appear to pinch and swell in both strike and dip directions, and they can be traced in drill holes up to 1000 feet along strike and 1000 feet down dip. Some of the dikes are cut off to the southwest and at depth by a north-northwest-trending, east-dipping fault that is generally coincident with a valley floor. A number of widely dispersed gold occurrences are distributed peripherally to the Bull Hill REE mineralization.

The Company considers the geologic modeling and mineral resource estimation results encouraging for the following reasons:

- Significantly greater tonnage and slightly higher REO grades compare favorably to the prior historical resource estimate.
- The Bull Hill Southwest deposit shows good lateral and vertical continuity of grades within the dike sets.
- The REE mineralization that constitutes the mineral resource is open for expansion toward the surface, at depth, to the southeast, and to the southwest of the fault; and the Company believes that there is room for the mineral resource tonnage to increase significantly.
- Historical drilling identifies other Bull Hill area targets, some possibly with higher grade REE mineralization, including Bull Hill Northwest, Bull Hill Southwest extension, and a conceptual carbonatite plug. These targets have yet to be followed up with a systematic drill program.

The new mineral resource estimate confirms that potentially economic mineral resources are present, and justifies further technical work, including metallurgical testing and drilling. Considerable in-fill definition drilling will be required to increase the confidence level and upgrade the inferred mineral resources to the

**RARE ELEMENT RESOURCES LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2009**  
**Containing information up to, and including November 27, 2009**

indicated category. Step-out drilling has potential to expand the mineral resource and define the boundaries of the mineralization.

*Cutoff Grade & Metallurgy:*

The mineral resource size is sensitive to an assumed cut-off grade, which is, in turn, very sensitive to metallurgical operating costs. The Company is steadily advancing its REE metallurgical studies at Mountain States Research & Development International under the direction of Dr. Roshan Bhappu, P.E., with the objective of developing a cost-efficient and effective metallurgical flowsheet. A metallurgical testing program is being conducted during 2009 on the mineralized core samples collected during 2008 (see news release February 4, 2009).

*Mineral Resources are not Reserves:*

Mineral resources that are not mineral reserves do not have demonstrated economic viability. Mineral resource estimates do not account for minability, selectivity, mining loss and dilution. These mineral resource estimates are inferred mineral resources that are normally considered too speculative geologically to have economic considerations applied to them that would enable them to be categorized as mineral reserves. There is also no certainty that these inferred mineral resources will be converted to measured and indicated mineral resource categories through further drilling, or into mineral reserves once economic considerations are applied.

*Quality Assurance / Quality Control:*

The mineral resource estimate was completed by Mr. Alan C. Noble, P.E., principal engineer of Ore Reserves Engineering, and is based on geological interpretations supplied by the Company to ORE and subsequently modified by ORE. Mr. Noble is an independent qualified person for the purposes of National Instrument 43-101 standards of disclosure for mineral projects of the Canadian Securities Administrators.

The Rare Element Resources' field programs were carried out under the supervision of Dr. James G. Clark, L.Geo, the Company's Vice President of Exploration and a qualified person for the purposes of National Instrument 43-101 standards of disclosure for mineral projects of the Canadian Securities Administrators. He was also a senior geologist and, subsequently, exploration supervisor for Hecla Mining Company during that company's exploration of Bull Hill and the Bear Lodge district during the late 1980's and early 1990's. A detailed QA/QC program was implemented for the 2007 to 2009 drill programs. Dr. Clark has verified the sampling procedures and QA/QC data delivered to ORE and is of the opinion that the data are of good quality and suitable for use in the resource estimate.

A full table of significant drill results from the Company's 2004-2008 exploration programs and maps and sections detailing the drill-hole locations are available at: <http://www.rareelementresources.com>

The Company's comprehensive NI 43-101 compliant Technical Report, incorporating descriptions of all the exploration work and metallurgical testing completed by the Company since the initial exploration NI 43-101-compliant report was issued in 2002, was filed on April 15, 2009. The report also includes recommendations for additional exploration work to expand the REE mineral resource and the metallurgical testing program currently in process.

In August 2009, the Company began a mineral resource expansion program for REE mineralization. The initial ten core holes of the drill program test the up dip extension of oxide mineralization of the Bull Hill Southwest resource that contains the bulk of the REE mineralization. If successful, expansion of the deposit uphill, above

**RARE ELEMENT RESOURCES LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2009**  
**Containing information up to, and including November 27, 2009**

the defined mineral resource area in the uppermost portion of the oxidized carbonatite dikes, has potential to gain substantial additional tonnage of oxidized mineralized material. Two shorter in-fill holes were located between some of the previous drilling with the objective of upgrading part of the resource. Assays for these holes are pending.

A number of drill holes tested the Bull Hill Northwest target, located about 300 meters (1,000 ft) northerly from the Bull Hill Southwest target as offsets to historical Hecla drill-hole WP-2. Angle hole WP-2 intercepted nearly 56 m (186 ft) of near-surface, high-grade REE mineralization. Several closely spaced holes were drilled to determine and test the orientation and continuity of the mineralization. Assays for these holes are pending.

Most holes in the 2009 program were designed to offset known mineralization; however a number of holes were planned to test new target concepts. One of the target concepts is a large REE-mineralized carbonatite plug hypothesized to occur at depth southwest of the Bull Hill diatreme. The Company's geologists recognize the similarities of the Bear Lodge REE-bearing carbonatites with the large Mountain Pass rare-earths deposit in California and will be exploring for an analogous large system. Approximately 5,000 m (16,500 ft) of drilling has been planned for the total 2009 program. The Company has engaged the services of some of the top technical professionals in their fields of expertise to conduct a preliminary economic assessment (scoping study) of the rare-earth-element development potential of the Company's Bull Hill Southwest rare-earths deposit.

On October 13, 2009, the Company announced the identification of an additional REE target area approximately 1,500 feet northwest of the Bull Hill Southwest deposit at the Bear Lodge project. The Company designates this area as the Whitetail Ridge rare-earths exploration target, and it is being prepared for possible drilling later this fall, weather permitting.

Further information can be found in past news releases posted on the Company's Sedar website ([www.sedar.com](http://www.sedar.com)).

During the period ended September 30, 2009, the Company incurred \$486,749 in exploration expenditures on its property. As of September 30, 2009, the Company had incurred a total of \$2,096,245 (June 30, 2009 - \$1,906,496) on exploration work at Bear Lodge.

*Newmont Gold "Sundance" Venture*

On June 1, 2006, the Company's wholly owned subsidiary, Paso Rico (USA), Inc. and Newmont signed an agreement to establish a gold exploration venture on the Company's Bear Lodge, Wyoming property ("Venture"). Newmont has the right to earn a 65% participating interest in the Bear Lodge property, excluding any rights to the REE and uranium, but including rights to gold and other metals if Newmont spends \$5 million on property exploration by 2011.

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

Newmont had staked an additional 116 Federal lode mineral claims and included them as part of the Venture's property. The total Venture area of interest consists of approximately nine square miles, mostly located in the

**RARE ELEMENT RESOURCES LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2009**  
**Containing information up to, and including November 27, 2009**

north portion of the Bear Lodge Mountains. Newmont is the operator of the Venture's gold-exploration program. The Company continues to advance its REE exploration program; however, if the two exploration programs conflict, the Venture, under Newmont, may operate both programs.

In October 2008, the Company announces that the Venture has completed additional geologic mapping, geochemical sampling, and an expanded induced polarization (IP) survey. The Newmont exploration team has made substantial progress in the 2008 program including movement toward gaining exploration permits for a larger drilling program on the property. Using a combination of the new geological, geochemical, and geophysical data, the exploration targets have been enhanced and better defined. Exploration data is being compiled and detailed plans are being formulated for the 2009 exploration program.

Exploration work for 2009 is designed to build on the successful 2006-08 exploration programs and to test the best targets within the Sundance project area. Twenty six drill holes had been completed by Newmont on joint venture ground in 2006-07, and the permit for the Environmental Assessment and Plan of Operation was granted in July 2009, enabling Newmont to commence its expanded drilling program of up to 200 acres of disturbance commencing on July 21, 2009. An initial 20 to 30 drill-hole program began during the summer and will continue into the fall of 2009.

Interpretation of the mapping, sampling, drilling, and geophysical survey results to date has prompted an increasing focus on structural zones through the Taylor, Carbon and Smith targets.

A renewed emphasis on finding high-grade gold mineralization within the Sundance property prompted a review of historical drill holes having better grade mineralization. Higher grade, near surface gold mineralization provides the basis for a comparison of potential deeper high-grade veins at Sundance with those of the Cripple Creek system, which had produced nearly 20 million ounces of gold from deep high-grade veins.

The Company reported that the initial column leach test results for recovery of gold, which may be indicative of potential production recoveries, have yielded 78.4 percent recovery at -3/4 inch crush size, 80.5 percent at -10 mesh (sand size), and 87.9 percent at -200 mesh (fine powder). These tests successfully provide the first indication of how the Sundance gold mineralization might respond to leaching processes. They also provide a basis for fine tuning the leach methodology to optimize the economic extraction of gold. For the further information, see May 29, 2008 news release.

As of June 30, 2009, Newmont's exploration expenditures on the joint venture property are approximately \$2.107 million (\$645,940 in 2006, \$648,784 in 2007, \$638,827 in 2008, and \$127,000 in 2009 to June 30th).

Donald E. Ranta, PhD, PGeo, serves the Board of Directors of the Company as an internal, technically Qualified Person. Technical information in this MD&A has been reviewed by Dr. Ranta as a Qualified Person under National Instrument 43-101.

Alan Noble is the Independent Qualified Person with respect to the mineral resource estimation and is the primary author of the technical report.

The Company maintains a website at [www.rareelementresources.com](http://www.rareelementresources.com).

**Summary of Quarterly Results**

|                 |                           |                    |                   |                   |                           |                    |                   |                   |
|-----------------|---------------------------|--------------------|-------------------|-------------------|---------------------------|--------------------|-------------------|-------------------|
| Expressed In \$ | <b>Sep 09<br/>Quarter</b> | June 09<br>Quarter | Mar 09<br>Quarter | Dec 08<br>Quarter | <b>Sep 08<br/>Quarter</b> | June 08<br>Quarter | Mar 08<br>Quarter | Dec 07<br>Quarter |
|-----------------|---------------------------|--------------------|-------------------|-------------------|---------------------------|--------------------|-------------------|-------------------|

**RARE ELEMENT RESOURCES LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2009**  
**Containing information up to, and including November 27, 2009**

|                                |                  |           |           |           |                  |           |           |           |
|--------------------------------|------------------|-----------|-----------|-----------|------------------|-----------|-----------|-----------|
| Total Revenue                  | <b>8,970</b>     | 9,725     | 6,912     | 7,041     | <b>8,898</b>     | 5,195     | 17,178    | 7,413     |
| Income (Loss)                  | <b>(225,478)</b> | (284,543) | (263,166) | (448,962) | <b>(257,516)</b> | (191,469) | (398,964) | (282,624) |
| Earnings (Loss)<br>Per Share   | <b>(0.01)</b>    | (0.01)    | (0.01)    | (0.02)    | <b>(0.01)</b>    | (0.01)    | (0.02)    | (0.01)    |
| Total Assets                   | <b>8,707,704</b> | 4,034,219 | 2,640,145 | 2,826,269 | <b>3,272,127</b> | 3,394,225 | 3,501,377 | 3,182,703 |
| Total Long-term<br>Liabilities | <b>Nil</b>       | Nil       | Nil       | Nil       | <b>Nil</b>       | Nil       | Nil       | Nil       |
| Cash Dividends<br>Declared     | <b>Nil</b>       | Nil       | Nil       | Nil       | <b>Nil</b>       | Nil       | Nil       | Nil       |

**Results of Operations for the three months ended September 30, 2009 compared to the three months ended September 30, 2008**

The net loss for the three months ended September 30, 2009, totaled \$225,478 compared to loss of \$257,516 in the 2008, a decrease of \$32,038. The basic and diluted losses per share were comparable and totaled \$0.01.

Interest income totaled \$8,970 (2008 - \$8,898) for the period ended September 30, 2009 as a result of interest earned on the funds that the Company held in financial institutions. During the three months ended September 30, 2009, the Company recognized a loss on foreign exchange of \$126,646 (2008 – foreign exchange gain of \$53,400) as the Company held the majority of its cash in Canadian dollars until such time as payment (in US\$) is required.

Excluding the non-cash stock-based compensation expenses of \$112,670 in 2009 and \$81,817 in 2008 and the foreign exchange gains (losses), total general and administrative costs were \$248,424 for the first quarter of fiscal 2010 and \$131,197 for the comparable period, an increase of \$117,227. Investor relations and shareholders' communication increased by \$21,070 and corporate development expenses increased by \$56,958 because the Company was actively keeping the shareholders and potential investors informed about the Company's progress. In addition, accounting and administration fees were increased by \$17,282 as a result of the Company closing two financings in the first quarter of fiscal 2010 and acquiring a new property (see "Subsequent events"). Management fees also increased by \$13,322 due to a bonus paid to an officer of the Company.

**Liquidity**

The Company's working capital as at September 30, 2009 was \$6,156,232 (June 30, 2009 - \$2,345,857). As at September 30, 2009, cash totaled \$6,330,514, an increase of \$3,996,369 from \$2,334,145 as at June 30, 2009. The increase of working capital and cash was due to the funds received pursuant to the closing of two non-brokered private placements for gross proceeds of \$4,424,460 (\$1,800,000 CDN and \$3,000,000 CDN) and \$137,936 on the exercise of options. These cash inflows were offset with the cash used in exploration activities of \$284,006, \$100,000 deposited in a reclamation bond, \$9,745 used on acquisition of exploration equipment, and \$128,622 used in operating activities.

The Company is well positioned to sustain itself in the longer term despite the current stock market volatility because of two main reasons: (1) It has maintained a very cost effective overhead model; and (2) Newmont still has approximately \$2.99 million in expenditures to be made on exploration at Sundance to earn a 65% interest in the project. These factors allow for the Company to keep costs low, to moderate the amount of work done that it has to pay for, and to react quickly and be selective in accepting any further offers of financing. With a total of 29,216,736 common shares currently outstanding and its strong working capital position, the Company is well positioned to last beyond fiscal 2010 without raising additional capital.

**RARE ELEMENT RESOURCES LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2009**  
**Containing information up to, and including November 27, 2009**

**Capital Resources**

The authorized share capital of the Company consists of an unlimited number of common shares without par value.

|                    | No. of Common Shares<br>Issued & outstanding | Share Capital Amount |
|--------------------|--|----------------------|
| June 30, 2009      | 26,264,736                                   | \$ 7,841,832         |
| September 30, 2009 | 28,733,736                                   | \$11,034,225         |
| November 27, 2009  | 29,231,736                                   | \$12,323,525         |

As at September 30, 2009, the Company had 2,729,000 stock options outstanding with exercise prices ranging from \$0.55 CDN to \$2.09 CDN expiring from April 28, 2011 to July 10, 2014. During the period ended September 30, 2009, a total of 269,000 stock options were exercised at prices ranging from \$0.55 CDN to \$0.58 CDN for proceeds of \$137,936. A fair value of \$117,192 was recognized on these exercised options. Subsequent to the period end, 153,000 options were exercised for gross proceeds of \$115,740 CDN and 30,000 options were granted at a price of \$4.49 CDN. If all the remaining outstanding options were exercised, the Company's available cash would increase by \$2,267,530 CDN.

As at September 30, 2009, the Company had 2,600,000 warrants outstanding at a weighted average exercise price of \$2.50 CDN expiring from November 27, 2010 to March 21, 2011. Subsequently, 25,000 warrants were exercised for gross proceeds of \$25,000 CDN. If all the outstanding warrants were exercised, the Company's available cash would increase by \$6,485,000 CDN.

Contributed surplus was \$871,524 as at September 30, 2009 (June 30, 2009 - \$876,046). The increase in contributed surplus represents the fair value of the stock options vested during the year less fair value of the stock options exercised.

The deficit totaled \$5,603,040 as at September 30, 2009 (June 30, 2009 - \$5,377,562). The increase is the result of the net loss of \$225,478 for the period ended September 30, 2009.

**Potential environmental contingency**

The Company's mining and exploration activities are subject to various federal, provincial and state laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations. The ultimate amount of reclamation and other future site restoration costs to be incurred for existing mining interests is uncertain.

**RARE ELEMENT RESOURCES LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2009**  
**Containing information up to, and including November 27, 2009**

**Transactions with Related Parties**

During the three months ended September 30, 2009:

- a) \$39,003 (2008 - \$25,681) was charged for management fees by an officer and director and bonus paid to an officer of the Company. As at September 30, 2009, \$15,110 (June 30, 2009 - \$Nil) was owed to the officer.
- b) \$40,738 (2008 - \$23,092) was charged by a private company controlled by a director and officer of the Company for accounting, management fees and rent. As at September 30, 2009, \$28,289 (June 30, 2009 - \$9,769) was owed to this private company.

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

**Subsequent Events**

- a) On October 30, 2009, the Company acquired 100% of the Eden Lake rare earth elements project from VMS Ventures Inc. for a payment of 300,000 common shares and a 3% Net Smelter Returns (“NSR”) royalty with the underlying owner Strider Resources Limited. The common shares have trading restrictions over an 18-month period. The Company has the right to buy 50% of the 3% NSR for \$1.5 million. Finder’s fees of 20,000 common shares were issued to two parties for this acquisition.
- b) Subsequent to September 30, 2009, 153,000 options were exercised for gross proceeds of \$115,740 CDN and 10,000 warrants were exercised for gross proceeds of \$10,000 CDN.
- c) On October 2, 2009, 30,000 options were granted to an advisor of the Company with an exercise price of \$4.49 CDN expiring October 2, 2014.

**New accounting pronouncements**

The CICA has issued new standards which may affect the financial disclosures and results of operations of the Company. The Company will adopt the requirements on the date specified in each respective section and is considering the impact this will have on the consolidated financial statements.

a) Business combinations, consolidated financial statements and non-controlling interests

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

b) Impaired loans

In August 2009, the CICA amended Section 3025, Impaired loans. This Section has been amended to conform the definition of a loan to that in amended Section 3855 and to include held-to-maturity investments within the scope of this section. These amendments apply to annual financial statements relating to fiscal years beginning on or after November 1, 2008. This standard is not expected to have an impact on the Company’s financial position or results of operations.

**RARE ELEMENT RESOURCES LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2009**  
**Containing information up to, and including November 27, 2009**

c) Comprehensive revaluation of assets and liabilities

In August 2009, the CICA amended Section 1625, Comprehensive revaluation of assets and liabilities. This section has been amended as a result of issuing Business combinations, Section 1582, Consolidated financial statements, Section 1601, and Non-controlling interests, Section 1602, in January 2009. The amendments apply prospectively to comprehensive revaluations of assets and liabilities occurring in fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. If the Company adopts this section for a fiscal year beginning before January 1, 2011, it also adopts Section 1582. The adoption of this standard is not expected to have a material impact on the Company's results of operations or its financial position.

d) Equity

In August 2009, as a result of issuing Section 1602, Non-Controlling Interests, the CICA amended Section 3251, Equity. The amendments apply only to entities that have adopted Section 1602.

e) Financial instruments-recognition and measurement

In August 2009, the CICA amended Section 3855, Financial Instruments-Recognition and Measurement. This section has been amended to add guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category. These amendments apply to reclassifications made on or after July 1, 2009. Earlier adoption is permitted. Also, this section has been amended to:

- change the categories into which a debt instrument is required or permitted to be classified;
- change the impairment model for held-to-maturity financial assets to the incurred credit loss model of Impaired loans, Section 3025; and
- require reversal of previously recognized impairment losses on available-for sale financial assets in specified circumstances.

These amendments apply to annual financial statements relating to fiscal years beginning on or after November 1, 2008. This standard is not expected to have a material impact on the Company's financial condition or operation results.

**Internal Controls Over Financial Reporting**

**Changes in Internal Control Over Financial Reporting ("ICFR")**

No changes occurred in the current period of the Company's ICFR that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

**Risks and Uncertainties**

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

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

The exploration of mineral resources on federal lands in the United States is subject to a comprehensive review, approval and permitting process that involved various federal, state and local agencies. There can be no assurance given that the required approvals and permits for a mining project, if technically and economically

**RARE ELEMENT RESOURCES LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2009**  
**Containing information up to, and including November 27, 2009**

warranted, on the Company's claims can be obtained in a timely or cost-effective manner. The US Congress may enact a law requiring royalties on minerals produced from federal lands, including unpatented claims.

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

The Company competes with larger and better-financed companies for exploration personnel, contractors and equipment. Increased exploration activity has increased demand for equipment and services. There can be no assurance that the Company can obtain required equipment and services in a timely or cost-effective manner. The Company's operations in the United States and financing activities in Canada make it subject to foreign-currency fluctuations and such fluctuations may materially affect its financial position and results.

**International Financial Reporting Standards**

On February 13, 2008, the Canadian Accounting Standards Board ("AcSB") confirmed the mandatory changeover date to International Financial Reporting Standards ("IFRS") for Canadian profit-oriented publicly accountable entities ("PAE's") such as the Company. The AcSB requires that IFRS compliant financial statements be prepared for annual and interim financial statements commencing on or after January 1, 2011. For PAE's with a June 30 year-end, the first unaudited interim financial statements under IFRS will be the quarter ending September 30, 2011, with comparative financial information for the quarter ended September 30, 2010. The first audited annual financial statements will be for the year ending June 30, 2012, with comparative financial information for the year ended June 30, 2011. This also means that all the opening balance sheet adjustments relating to the adoption of IFRS must be reflected in the June 30, 2010 opening balance sheet which will be issued as part of the comparative financial information in the September 30, 2011 unaudited interim financial statements.

The Company intends to adopt these requirements as set out by the AcSB and other regulatory bodies. At this time, the impact of adopting IFRS cannot be reasonably quantified. Nonetheless, the Company has identified several areas relating to IFRS that could materially affect the Company:

a) Impairment

Upon conversion to IFRS, an assessment of whether there is any impairment to mineral properties will have to be made.

b) Mineral resources

At present, the issue of capitalizing exploration expenditures under GAAP appears to be acceptable under IFRS.

c) Business combinations

The effect of IFRS on the Company's present business combination is minimal because the first-time adoption of IFRS has exemptions allowing the new accounting policies on the business combinations be applied prospectively.

d) Foreign currency

The adoption of IFRS will involve the identification of a functional currency. The effect of IFRS on the Company's foreign currency is minimal because the Company's functional currency and reporting currency will stay in the US Dollar with Canadian operations translated into US Dollars. Therefore, the adoption of

**RARE ELEMENT RESOURCES LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2009**  
**Containing information up to, and including November 27, 2009**

IFRS should have a minimal impact on the foreign currency translation. In addition, an exemption is allowed whereby any cumulative translation differences prior to transition date will be deemed to be zero.

e) Income taxes

Although there are many areas where GAAP is similar to IFRS, there are differences as well, such as the differentiation between deferred tax assets and deferred tax liabilities; and whether deferred tax is to be charged to the income statement, equity or goodwill.

The majority of the Company's audit committee is aware of the IFRS conversion and the Company's staff, in conjunction with its CFO, has adequate resources with which to carry out the conversion, as well as to carry on the day-to-day operations of the Company. The Company's staff is taking professional development courses relating to IFRS conversion.

At present, the Company has no contracts, debt covenants, capital requirements or compensation contracts that may be affected by changes to financial reporting because of IFRS.

The actual conversion work will occur in 2009, 2010 and 2011, in anticipation of the preparation of the July 1, 2011 balance sheet that will be required for comparative purposes for all periods ending after June 30, 2011.

**Outlook**

Following completion of the 2008 REE exploration program on the Bear Lodge Project, the Company announced its resource estimate and completed the NI 43-101 Technical Report was sedar filed on April 14, 2009. The Company is following through with the recommendations in the Technical Report to continue the metallurgical testing and drilling with a goal to expand the REE mineralization encountered at Bull Hill Southwest. Due to variable dike thickness and variable continuity encountered by the Company's drilling along strike and down dip, additional drilling will be necessary to delineate the Bull Hill Southwest mineralization, which drilling is currently in process. In addition, drilling to the west of a fault that is interpreted to offset REE mineralization and drilling of other targets is planned.

Other metals occur on the Company's Bear Lodge Property. Previous and current gold exploration has identified numerous geochemical gold anomalies and occurrences in fracture-fault zones and in or near intrusive breccia bodies and has tested a number of targets with widespread drill holes. Based on the approval of a new exploration permit, the Venture is conducting an expanded drilling program in 2009. The Company intends to take advantage of the exploration potential for gold and other metals through the option/joint venture Agreement presently in effect with Newmont. The Newmont gold-exploration venture provides the Company with further options to increase the value of the Company and to advance its programs to evaluate both the gold and REE of the Bear Lodge Property.

**Forward Looking Statements**

Except for statements of historical fact, certain information contained herein constitutes forward-looking statements. Forward looking statements are usually identified by our use of certain terminology, including "will", "believes", "may", "expects", "should", "seeks", "anticipates", "has potential to", or "intends" or by discussions of strategy or intentions. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results or achievements to be materially different from any future results or achievements expressed or implied by such forward-looking statements. Forward-looking statements are statements that are not historical facts, and include but are not limited to, estimates and their underlying assumptions; statements regarding plans, objectives and expectations with respect to the

**RARE ELEMENT RESOURCES LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2009**  
**Containing information up to, and including November 27, 2009**

effectiveness of the Company's business model; future operations, products and services; the impact of regulatory initiatives on the Company's operations; the size of and opportunities related to the market for the Company's products; general industry and macroeconomic growth rates; expectations related to possible joint and/or strategic ventures and statements regarding future performance.

Forward-looking statements used in this discussion are subject to various risks and uncertainties, most of which are difficult to predict and generally beyond the control of the Company. If risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those expected, estimated or projected. Forward-looking statements in this document are not a prediction of future events or circumstances, and those future events or circumstances may not occur. Given these uncertainties, users of the information included herein, including investors and prospective investors are cautioned not to place undue reliance on such forward-looking statements.

Forward-looking statements included or incorporated by reference in this document include statements with respect to:

- The Company's intent of listing with an exchange in the United States;
- The Company's assumptions and estimates used in its Technical Report filed on April 14, 2009, as well as the potential resource estimates and interpretations from that Technical Report;
- The progress, potential and uncertainties of the Company's 2009 rare-earth drill program, metallurgical testing and Newmont's gold-exploration venture drilling program;
- Expectations regarding the ability to raise capital and to continue its exploration and development plans on its property; and
- The Company's future adoption of IFRS.