

RARE ELEMENT RESOURCES LTD.
CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended September 30, 2007
(UNAUDITED)

**NOTICE OF NO AUDITOR REVIEW OF
INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by, and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

RARE ELEMENT RESOURCES LTD.
CONSOLIDATED BALANCE SHEETS
(Expressed in US Dollars)

	September 30 2007	June 30 2007
	(Unaudited)	(Audited)
ASSETS		
CURRENT		
Cash	\$ 1,362,362	\$ 1,085,337
Accounts receivable	31,792	44,428
Prepaid expenses	58,501	49,651
	1,452,655	1,179,416
Equipment (Note 4)	593	673
Investments (Note 5)	15,083	15,083
Mineral properties and deferred exploration costs (Note 3)	837,404	764,147
Reclamation bond (Note 6)	10,000	10,000
	\$ 2,315,735	\$ 1,969,319
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 101,577	\$ 16,456
Due to related parties (Note 8)	14,159	8,257
	115,736	24,713
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 7)	5,212,169	4,973,386
CONTRIBUTED SURPLUS (Note 7)	238,148	240,729
DEFICIT	(3,250,318)	(3,269,509)
	2,199,999	1,944,606
	\$ 2,315,735	\$ 1,969,319
CONTINUANCE OF OPERATIONS (Note 1)		
SUBSEQUENT EVENTS (Note 11)		

APPROVED BY THE BOARD OF DIRECTORS:

“Donald E. Ranta”

Donald E. Ranta

“Mark T. Brown”

Mark T. Brown

RARE ELEMENT RESOURCES LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(Expressed in US Dollars)
FOR THE THREE MONTHS ENDED SEPTEMBER 30
(Unaudited)

	2007	2006
EXPENSES		
Audit and legal	\$ 2,317	\$ 718
Accounting and administrative fees (Note 8)	26,570	27,951
Amortization	80	-
Bank charges	150	387
Foreign-exchange loss (gain)	(192,250)	3,470
Investor relations and shareholder communication	19,918	67,786
Management fees (Note 8)	20,071	18,061
Office and miscellaneous	7,207	7,688
Rent (Note 8)	2,150	1,935
Stock-based compensation	90,329	88,735
Transfer and listing fees	2,123	7,496
Travel	2,144	3,131
	19,191	(227,358)
NET INCOME (LOSS) FOR THE PERIOD	19,191	(227,358)
DEFICIT, BEGINNING OF PERIOD	(3,269,509)	(2,518,013)
DEFICIT, END OF PERIOD	\$ (3,250,318)	\$ (2,745,371)
EARNINGS (LOSS) PER SHARE – BASIC	\$ 0.00	\$ (0.01)
– DILUTED	\$ 0.00	N/A
WEIGHTED AVERAGE NUMBER OF SHARES		
OUTSTANDING – BASIC	21,965,984	18,556,725
– DILUTED	24,841,072	N/A

See accompanying notes to consolidated financial statements

RARE ELEMENT RESOURCES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in US Dollars)
FOR THE THREE MONTHS ENDED SEPTEMBER 30
(Unaudited)

	2007	2006
CASH PROVIDED BY (USED IN) OPERATIONS		
Net loss for the period	\$ 19,191	\$ (227,358)
Items not involving cash:		
Amortization	80	-
Stock-based compensation	90,329	88,735
	<u>109,600</u>	<u>(138,623)</u>
Changes in non-cash working-capital items:		
Accounts receivable	12,635	17,940
Prepaid expenses	(8,850)	(586)
Accounts payable and accrued liabilities	14,197	(10,048)
Due to related parties	5,902	(9,556)
	<u>133,484</u>	<u>(140,873)</u>
INVESTING ACTIVITIES		
Deferred exploration costs	(2,332)	(36,059)
Purchase of equipment	-	(865)
	<u>(2,332)</u>	<u>(36,924)</u>
FINANCING ACTIVITIES		
Cash received for common shares	145,873	971,123
	<u>145,873</u>	<u>971,123</u>
INCREASE IN CASH	277,025	793,326
CASH, BEGINNING OF PERIOD	<u>1,085,337</u>	<u>428,267</u>
CASH, END OF PERIOD	<u>\$ 1,362,362</u>	<u>\$ 1,221,593</u>

Supplemental disclosure of non-cash financing and investing activities:

At September 30, 2007, exploration costs included in accounts payable totaled \$70,925 (2006 - \$Nil).

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

	Balance June 30, 2006	Expenditures for the year	Balance June 30, 2007	Expenditures for the period	Balance September 30, 2007
	(Audited)		(Audited)		(Unaudited)
Bear Lodge Property					
Property acquisition costs	\$ 17,721	\$ -	\$ 17,721	\$ -	\$ 17,721
Exploration expenditures					
Assays	7,637	114	7,751	-	7,751
Assessments and taxes	20,104	-	20,104	-	20,104
Drilling	250,409	73,513	323,922	60,760	384,682
Geological consulting	121,983	46,785	168,768	12,317	181,085
Geophysical	300	-	300	-	300
Metallurgical testing	-	38,530	38,530	-	38,530
Overhead expenses	8,489	1,190	9,679	180	9,859
Staking	17,949	-	17,949	-	17,949
Survey	34,338	-	34,338	-	34,338
Travel expenses	23,935	-	23,935	-	23,935
Wages	99,734	-	99,734	-	99,734
Total exploration expenditures on Bear Lodge property	602,599	160,132	762,731	73,257	835,988
Kipawa Property					
Exploration expenditures					
Geological consulting	4,949	-	4,949	-	4,949
Staking	1,308	-	1,308	-	1,308
Write-down of property	-	(4,841)	(4,841)	-	(4,841)
Total exploration expenditures on Kipawa property	6,257	(4,841)	1,416	-	1,416
TOTAL EXPENDITURES	\$ 608,856	\$ 155,291	\$ 764,147	\$ 73,257	\$ 837,404

See accompanying notes to consolidated financial statements

RARE ELEMENT RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007
(Expressed in US Dollars)
(Unaudited)

1. NATURE OF OPERATIONS

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

These consolidated financial statements have been prepared on a going-concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interim financial statements

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and follow the same accounting policies and methods of application as the annual financial statements. These interim consolidated financial statements do not include in all respects the annual disclosure requirements of generally accepted accounting principles and should be read in conjunction with the most recent annual statements.

Basis of presentation and principles of consolidation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are inclusive of the accounts of the Company and Paso Rico Resources Ltd. (“Paso Rico”), together with those of Paso Rico’s wholly-owned subsidiaries, Minera Santa Regina, S.A. de C.V., Compania Minera Real de las Lomas, S.A. de C.V. and Paso Rico (USA), Inc. The Company is in the process of winding down the two Mexican companies.

Use of estimates

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

Foreign currency translation

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

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

RARE ELEMENT RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007
(Expressed in US Dollars)
(Unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Mineral properties and deferred exploration costs

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

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

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

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

Amortization

The Company provides for amortization on its computer equipment at 45% declining balance (one-half of the rate is taken in the year of acquisition and disposition).

Income taxes

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

RARE ELEMENT RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2007
(Expressed in US Dollars)
(Unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Loss per share

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

Comparative figures

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

Stock-based compensation

The Company recognizes compensation expense for all stock options granted using the fair value based method of accounting. Any cash paid on the exercise of stock options is added to the stated value of common shares.

Asset retirement obligations

The Company recognizes a liability for an asset retirement obligation when it is determinable and calculates the liability based upon undiscounted future payments. A corresponding amount is added to the carrying amount of the related long-lived asset, and this amount is subsequently allocated to expenses over its expected life. Adjustments will also be made in subsequent periods to changes in asset retirement obligations due to changes in estimates. As at June 30, 2007, the Company did not have any asset retirement obligations.

Retirement of long-lived assets

Long-lived assets are assessed for impairment when events and circumstances warrant, when the carrying amounts of the assets exceeds its estimated undiscounted net cash flow from use or its fair value, at which time the impairment is charged to earnings.

RARE ELEMENT RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007
(Expressed in US Dollars)
(Unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

New Accounting Policies

Effective July 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments - Recognition and Measurement; and Section 3865, Hedges, retroactively without restatement. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated. The adoption of these Handbook Sections had no impact on opening deficit.

Under Section 3855, financial instruments must be classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading, financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income.

Upon adoption of these new standards, the Company designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Accounts receivable and income taxes receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable, accrued liabilities, due to/from related parties and joint venture partners are classified as other financial liabilities. The Company had neither available-for-sale, nor held-to-maturity instruments during the three months ended September 30, 2007.

The Company had no "other comprehensive income or loss" transactions during the three months ended September 30, 2007 and no opening or closing balances for accumulated other comprehensive income or loss.

RARE ELEMENT RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007
(Expressed in US Dollars)
(Unaudited)

3. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS

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

	September 30 2007	June 30 2007
Bear Lodge Property	\$ 835,988	\$ 762,731
Kipawa Property	1,416	1,416
	<u>\$ 837,404</u>	<u>\$ 764,147</u>

Bear Lodge Property

The Company, through its wholly owned subsidiary, Paso Rico (USA), Inc., holds a 100% interest in a group of unpatented mineral claims, known as the Bear Lodge Property. The property is situated in the Bear Lodge Mountains of northeast Wyoming. These claims were, in part, acquired from Phelps Dodge Exploration Company ("Phelps Dodge") by way of a "Mineral Lease and Option 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 Phelps Dodge. Paso Rico (USA), Inc. owns a portion of the claim group outright and these claims are not subject to the NSR.

In September 2005, the Company staked 20 additional claims at the property. The property now comprises 90 federal unpatented mineral claims and a 640-acre Wyoming state lease for a total of approximately 2,100 acres.

On June 1, 2006, Paso Rico (USA), Inc. and Newmont North America Exploration Limited ("Newmont"), a subsidiary of Newmont Mining Corporation, signed an agreement to establish a gold-exploration venture on the Company's Bear Lodge, Wyoming property ("Venture"). Under the term sheet, Newmont has the right to earn a 65% participating interest in the Bear Lodge property, excluding any rights to the rare-earth elements and uranium, but including rights to gold and other metals, 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 to 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 the proceeds from production.

Newmont staked an additional 116 Federal lode mineral claims, which are included as part of the Venture's property.

RARE ELEMENT RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007
(Expressed in US Dollars)
(Unaudited)

3. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS, Continued

Bear Lodge Property, Continued

Newmont is the operator of the gold-exploration program. The Company will continue to operate its rare-earth-element exploration program; however, if the two exploration programs conflict, the Venture, under Newmont, may choose to operate both programs.

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

Kipawa Property

In April 2006, the Company acquired by staking 26 claims, totaling approximately 1,531 hectares. The property is located in Quebec, 90 km northwest of North Bay, Ontario. The Company wrote off \$4,841 in fiscal 2007 in light of the sale of the property subsequently for \$1,500 CDN (\$1,416) (Note 11).

4. EQUIPMENT

	September 30 2007	June 30 2007
Computer equipment	\$ 864	\$ 864
Accumulated amortization	(271)	(191)
Net book value	<u>\$ 593</u>	<u>\$ 673</u>

5. INVESTMENTS

During fiscal 2007, the Company sold to Almaden Minerals Ltd. ("Almaden") its 2% Net Smelter Return royalty ("NSR") on a Mexican property which has been previously written off by the Company. The NSR was sold for \$20,000 and 25,000 Almaden warrants exercisable at a price of \$3.00 CDN until March 20, 2010. A fair value of \$15,083 was assigned to these warrants and was estimated using the Black-Scholes Option Pricing Model based on the following assumptions of a risk free interest rate of 3.98%, a volatility rate of 52.42% and an expected time to exercise of 3 years.

6. RECLAMATION BOND

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

In August 2006, an additional bond of \$10,000 was set up in the name of Paso Rico (USA), Inc., but it was paid by Newmont and covers Newmont's gold-exploration reclamation work. It will revert to Newmont, if and when Newmont completes its reclamation.

RARE ELEMENT RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007
(Expressed in US Dollars)
(Unaudited)

7. SHARE CAPITAL

Authorized – unlimited number of common shares without par value.

Issued and outstanding:	Number of Shares	Amount	Contributed Surplus
Balance as at June 30, 2006	18,273,425	\$ 3,463,293	\$ 116,579
Issued for cash:			
Private placement (Note 7a)	1,666,698	897,917	-
Exercise of warrants (Notes 7a and b)	1,076,766	337,550	-
Exercise of options (Note 7c)	687,500	158,634	-
Fair value of the options exercised	-	115,992	(115,992)
Stock-based compensation	-	-	240,142
Balance as at June 30, 2007	21,704,389	4,973,386	240,729
Issued for cash:			
Exercise of warrants (Note 7a)	41,667	29,868	-
Exercise of options (Note 7d)	302,500	116,005	-
Fair value of the options exercised	-	92,910	(92,910)
Stock-based compensation	-	-	90,329
Balance as at September 30, 2007	22,048,556	\$ 5,212,169	\$ 238,148

- (a) During the year ended June 30, 2007, the Company closed a non-brokered private placement of 1,666,698 units at \$0.60 CDN per unit for gross proceeds of \$897,917 (\$1,000,021 CDN). Each unit comprises one common share and one-half of a non-transferable share purchase warrant. A whole warrant may be exercised to purchase one additional common share of the Company at \$0.75 CDN per share until March 22, 2008. 129,166 of these warrants were exercised during fiscal 2007, and 41,667 warrants were exercised in the period ended September 30, 2007.
- (b) During the year ended June 30, 2007, 947,600 warrants were exercised at \$0.30 CDN.
- (c) During the year ended June 30, 2007, a total of 687,500 options at prices ranging from \$0.20 CDN to \$0.55 CDN were exercised. A fair value of \$115,992 was recognized on these exercised options.
- (d) During the period ended September 30, 2007, a total of 302,500 options at prices ranging from \$0.25 CDN to \$0.55 CDN were exercised. A fair value of \$92,910 was recognized on these exercised options.

RARE ELEMENT RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007
(Expressed in US Dollars)
(Unaudited)

7. SHARE CAPITAL, Continued

Stock Options

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

	Number of Shares	Weighted Average Exercise Price (CDN\$)
Outstanding, June 30, 2006	2,580,000	0.37
Granted	440,000	0.55
Cancelled	(250,000)	0.55
Exercised	(687,500)	0.26
Outstanding, June 30, 2007	2,082,500	0.42
Granted	350,000	1.00
Exercised	(302,500)	0.35
Outstanding, September 30, 2007	2,130,000	0.52

At September 30, 2007, the following options were outstanding:

Expiry Date	Number of Options	Exercise Price (CDN\$)
October 31, 2008*	780,000	0.35
July 24, 2010	200,000	0.25
April 28, 2011**	380,000	0.55
January 10, 2012***	420,000	0.55
September 1, 2012	350,000	1.00
	2,130,000	

*Subsequently, 10,000 of these options were exercised.

**Subsequently, 30,000 of these options were exercised.

***Subsequently, 14,000 of these options were exercised.

Stock-based compensation

The fair value of options reported as compensation expense has been estimated using the Black-Scholes Option Pricing Model using the following assumptions:

Risk-free interest rate	4.08%
Annualized volatility	88%
Expected dividend yield	Nil
Expected option life in years	4 years

Based on these variables, stock-based compensation expense for the options vested during the period ended September 30, 2007 was \$90,329 (2006 – \$88,735).

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

RARE ELEMENT RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007
(Expressed in US Dollars)
(Unaudited)

7. SHARE CAPITAL, Continued

Warrants

The following table summarizes the Company's warrant activity:

	Number of Shares	Weighted Average Exercise Price (CDN\$)
Outstanding, June 30, 2006	947,600	0.30
Exercised	(1,076,766)	0.35
Granted	833,349	0.75
Outstanding, June 30, 2007	704,183	0.75
Exercised	41,667	0.75
Outstanding, September 30, 2007	662,516	0.75

At September 30, 2007, the following warrants were outstanding:

Expiry Date	Number of Warrants	Exercise Price (CDN\$)
March 22, 2008	662,516	0.75

Subsequently, 5,000 of these warrants were exercised

8. RELATED PARTY TRANSACTIONS

During the three months ended September 30, 2007, \$20,071 (2006 - \$18,061) was charged for management fees by a private company controlled by the president. As at September 30, 2007, \$Nil (June 30, 2007 - \$Nil) was owed to this private company.

During the three months ended September 30, 2007, \$28,720 (2006 - \$29,886) was charged by a private company controlled by one of the directors for accounting, administrative fees and rent. As at September 30, 2007, \$14,159 (June 30, 2007 - \$8,257) was owed to this private company.

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

RARE ELEMENT RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007
(Expressed in US Dollars)
(Unaudited)

9. COMMITMENTS AND CONTINGENCIES

Potential environmental contingency

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

10. SEGMENTED INFORMATION

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

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

	Canada	United States	Total
<u>As at September 30, 2007</u>			
Assets	\$ 1,429,303	\$ 886,072	\$ 2,315,375
<u>As at June 30, 2007</u>			
Assets	\$ 1,156,505	\$ 812,814	\$ 1,969,319
<u>For the three months ended</u>			
<u>September 30, 2007</u>			
Income (Loss) for the period	\$ 19,440	\$ (249)	\$ 19,191
Capital expenditures	\$ -	\$ 73,257	\$ 73,257
<u>For the three months ended</u>			
<u>September 30, 2006</u>			
Loss for the period	\$ 227,068	\$ 290	\$ 227,358
Capital expenditures	\$ -	\$ 36,059	\$ 36,059

RARE ELEMENT RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007
(Expressed in US Dollars)
(Unaudited)

11. SUBSEQUENT EVENTS

On October 1, 2007, the Company granted a total of 725,000 options at a price of \$1.00 CDN to a new president and consultants.

On October 12, 2007, the Company signed a sale and purchase agreement to sell the Kipawa property for \$1,500 CDN in cash.

On November 5, 2007, the Company completed a non-brokered private placement for \$1,075,000 CDN. The offering consists of 1,075,000 units at \$1.00 CDN per unit. Each unit comprises one common share and one-half of a non-transferable share-purchase warrant. A whole warrant may be exercised to purchase one additional common share of the Company at \$1.35 CDN per share, for a period of eighteen months from the private-placement closing date.

Subsequently, a total of 54,000 stock options and 5,000 warrants were exercised at a price ranging from \$0.35 CDN to \$0.75 CDN.
