



**RARE ELEMENT RESOURCES LTD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2010**

**INTRODUCTION**

This is Management's Discussion and Analysis ("MD&A") for Rare Element Resources Ltd. ("Rare Element Resources" or the "Company") and has been prepared based on information known to management as of February 11, 2011. This MD&A is intended to help the reader understand the condensed consolidated unaudited financial statements of Rare Element Resources.

In September 2010, the applicable provincial securities commissions granted the Company exemptive relief to adopt International Financial Reporting Standards ("IFRS") with an adoption date of July 1, 2010 and a transition date of July 1, 2009. This MD&A should be read in conjunction with the condensed consolidated interim financial statements for the six months ended December 31, 2010 and supporting notes. These condensed consolidated interim financial statements have been prepared using accounting policies consistent with IFRS and in accordance with International Accounting Standard 34 ("IAS 34") – Interim Financial Reporting. A reconciliation of the previously disclosed comparative periods' financial statements prepared in accordance with Canadian generally accepted accounting principles ("Cdn GAAP") to IFRS is set out in Note 17 to these condensed financial statements.

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.

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

**FORWARD LOOKING STATEMENTS**

This document may contain "forward-looking information" within the meaning of Canadian securities legislation and "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 (collectively, "forward-looking statements"). These forward-looking statements are made as of the date of this document and the Company does not intend, and does not assume any obligation, to update these forward-looking statements.

Forward-looking statements relate to future events or future performance and reflect Company management's expectations or beliefs regarding future events and include, but are not limited to, statements with respect to the estimation of mineral reserves and mineral resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, success of mining operations, environmental risks, unanticipated reclamation

expenses, title disputes or claims and limitations on insurance coverage. In certain cases, forward-looking statements can be identified by the use of words such as “plans”, “expects” or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases or statements that certain actions, events or results “may”, “could”, “would”, “might” or “will be taken”, “occur” or “be achieved” or the negative of these terms or comparable terminology. By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, risks related to actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of mineral resources; possible variations in ore reserves, grade or recovery rates; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

The following forward looking statements have been made in this MD&A:

- The progress, potential and uncertainties of the Company’s 2010 rare-earth drill program, metallurgical testing and 2010 gold exploration drilling program at the Bear Lodge Property;
- The potential and expectations set out in the NI 43-101 Mineral Resource Report and the PEA on the Bear Lodge Property;
- The success of getting the necessary permits for the drill programs;
- Expectations regarding the ability to raise capital and to continue its exploration and development plans on its properties;
- Plans to complete an updated mineral resource estimate and the Preliminary Prefeasibility level analysis; and
- Plans outlined in the “Outlook” section.

#### **ADDITIONAL INFORMATION**

Financial statements, MD&A’s and additional information relevant to the Company and the Company’s activities can be found on SEDAR at [www.SEDAR.com](http://www.SEDAR.com) and/or on the Company’s website at [www.rareelementresources.com](http://www.rareelementresources.com).

## HIGHLIGHTS

The management team at Rare Element Resources is encouraged by the recent results of Rare Element Resources' exploration efforts and the following are the highlights of those results from 2010 and to the date of this MD&A:

- A substantial increase (approximately 50%) in the rare-earth-element ("REE") mineral resource estimate (tonnage) which was completed in compliance with National Instrument 43-101 in May 2010, after completion of a drilling program in the second half of 2009. (See *Section 3(a) under "Mineral Resources"*.)
- Completion of the 2010 drilling program on the Bear Lodge REE project from June 2010 to November 2010, which included 61 drill holes and an additional 40 large diameter core holes to collect bulk samples for pilot-plant testing, assays from which included the highest grades of REE found to date.
- Advancing a preliminary REE recovery process in July 2010, with 80% estimated recoveries of rare-earth elements from the Bear Lodge deposit to produce a 42-45% rare-earth-oxide (REO) concentrates. (See *Section 3(a) under "Metallurgy"*.)
- The completion of a Preliminary Economic Assessment, in compliance with the National Instrument 43-101, which shows positive economics using 3-year trailing average prices for rare-earths concentrates. (See *Section 3(a) under "Preliminary Economic Assessment"*.)
- Collection of an 8.8 ton sample of REE mineralized material to be used in a pilot plant test in 2011.
- Completion of listing the Company's common shares for trading on the NYSE Amex Stock Exchange headquartered in New York, NY.
- Completion of two significant financings in April, 2010 and December, 2010, to raise aggregate gross proceeds of approximately C\$65 million. As of the date of this MD&A, the Company has 43,170,423 common shares outstanding and approximately \$69 million in cash on hand and no debt.
- Completion of a 34-hole drilling program in November 2010 on the Sundance gold project focusing on three main gold targets which contained the highest gold grades found to date.

## OUTLOOK

Rare Element Resources has sufficient cash on hand to conduct its next three years of exploration and development plans. Rare Element Resources' plans to continue to advance the Bear Lodge rare-earth-element project and the Sundance gold project in Wyoming, USA, during 2011 include the following:

- Completion of the Company's first gold mineral resource estimate based primarily on the results of the gold exploration programs conducted from 2006 to 2010, by March, 2011.
- Assaying the final set of 14 REE drill holes and announcing those results.
- Incorporation of the 2010 REE drilling program results into an updated mineral resource estimate in the second quarter of 2011.
- Selection of a pilot plant facility to complete the 8.8 ton bulk sample processing tests for the REE samples previously collected.
- Further metallurgical testwork, including new sampling, for confirmation and optimization of the REE recovery process developed to date.
- Addition of certain key personnel to transition the team towards the project development stage.
- In June 2011, a drilling program is planned to commence to follow up on the additional target areas for REE at Bear Lodge, including expansion of Bull Hill NW, Bull Hill SW, and Whitetail Ridge mineral resource areas, and to focus on mineral resource expansion and further upgrading of the mineral resource to measured and indicated categories.
- Completion of a pre-feasibility study by the end of 2011 to further define potential mining plans and to assess the economics of the REE project, and which will include the potential economics of establishing a REE extraction and separation plant near the project site.
- Beginning in June 2011, the Company plans to begin another gold-targeted drilling program to expand existing resources, to search for higher grade mineralization, and to discover new deposits.
- Continuing with environmental reviews and the next stages of exploration and development permitting, including certain base-line studies.

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## **1. Background**

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. The Bear Lodge Property has two exploration projects: the rare-earth-elements (“REE”) project known as the “Bear Lodge REE Project” and the gold project known as the “Sundance Gold Project”.

## **2. Overview**

### **2(a) Company Mission and Focus**

Rare Element Resources is focused on exploring and developing economic mineral projects which contain or have the potential to contain rare-earth elements with or without gold. The Company plans to explore advanced-staged exploration projects itself, and to acquire and option out earlier stage exploration projects, while keeping a retained interest.

The main focus of the Company is advancing the Bear Lodge REE project located in Wyoming, USA.

### **2(b) Qualified Person**

Dr. Donald E. Ranta, PhD, PGeo, who is the Company’s President and CEO, is the Qualified Person as defined under National Instrument 43-101 responsible for the technical disclosure in this document. Dr. Ranta has reviewed and approved the contents of this MD&A.

### **2(c) Description of Metal Markets**

REE are used in hybrid-electric-vehicles (HEV), many of 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, compact fluorescent lights, petroleum-refining catalysts and numerous other modern specialty technologies.

The markets for REE are becoming greater in significance over the years as more of these new technologies are developed and these markets are dominated by production from China. China produces over 95% of the world’s rare-earth elements and has recently put additional export restrictions and taxes on REE.

The prices of REE are quoted in different forms on [www.metal-pages.com](http://www.metal-pages.com). Generally speaking, rare earths are sold as individual oxides after separation and are often sold in small sub-groups of similar elements. Prior to separation of the individual elements as metals or as oxides, there are quoted prices for rare-earth concentrates that contain approximately 42% to 45% rare-earth oxides.

According to Metal Pages, the prices of rare earths have generally increased approximately 500% in 2010 after a slight recovery in 2009 from depressed prices in 2008 due to worldwide economic turmoil. For example, according to Metal Pages, the prices of rare earth concentrates have increased from \$4,500 per ton in July 2010 to approximately \$38,000 per ton in December 2010.

Since REE are used for many new technologies, it is estimated that their demand for REE will increase at a rate of nearly 10% per year for the next 5 years and possibly longer [IMCOA, Roskill and Rare Earths Industry Stakeholders, 2011, Dudley J. Kingsnorth].

In the summer of 2010, China further reduced its exports of rare-earth elements by 40% on an annualized basis. This reduction is what prompted the drastic increase in prices in the third and fourth quarters of 2010.

## **2(d) Use of the terms “Mineral Resources” and “Mineral Reserves”**

Any reference in this MD&A to Mineral Resources does not mean Mineral Reserves.

Under NI 43-101, a Mineral Reserve is the economically mineable part of a Measured or Indicated Mineral Resource demonstrated by at least a Preliminary Feasibility Study. This Study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A Mineral Reserve includes diluting materials and allowances for losses that may occur when the material is mined.

Mineral Resources are sub-divided, in order of increasing geologic confidence, into Inferred, Indicated and Measured categories. An Inferred Mineral Resource has a lower level of confidence than that applied to an Indicated Mineral Resource. An Indicated Mineral Resource has a higher level of confidence than an Inferred Mineral Resource but has a lower level of confidence than a Measured Mineral Resource.

The terms “Mineral Reserve,” “Proven Mineral Reserve” and “Probable Mineral Reserve” are Canadian mining terms as defined in accordance with NI 43-101 and the CIM Standards. These definitions differ from the definitions in SEC Industry Guide 7 under the U.S. Securities Act. Under SEC Industry Guide 7, a reserve is defined as part of a mineral deposit which could be economically and legally extracted or produced at the time the reserve determination is made. Under SEC Industry Guide 7 standards, a “final” or “bankable” feasibility study is required to report reserves, the three-year historical average price is used in any reserve or cash flow analysis to designate reserves and the primary environmental analysis or report must be filed with the appropriate governmental authority.

In addition, the terms “Mineral Resource,” “Measured Mineral Resource,” “Indicated Mineral Resource” and “Inferred Mineral Resource” are defined in and required to be disclosed by NI 43-101; however, these terms are not defined terms under SEC Industry Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. Investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves. “Indicated Mineral Resource” and “Inferred Mineral Resource” have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all, or any part, of an Indicated Mineral Resource or Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases. Investors are cautioned not to assume that all or any part of an Inferred Mineral Resource exists or is economically or legally mineable. Disclosure of “contained ounces” in a resource is permitted disclosure under Canadian regulations; however, the SEC normally only permits issuers to report mineralization that does not constitute “reserves” by SEC standards as in place tonnage and grade without reference to unit measures.

Accordingly, information contained in this MD&A filed herewith or incorporated by reference herein contain descriptions of our mineral deposits that may not be comparable to similar information made public by U.S. companies subject to the reporting and disclosure requirements under United States federal securities laws and the rules and regulations promulgated thereunder.

### **CAUTIONARY NOTE TO U.S. INVESTORS REGARDING MINERAL RESOURCE AND MINERAL RESERVE ESTIMATES**

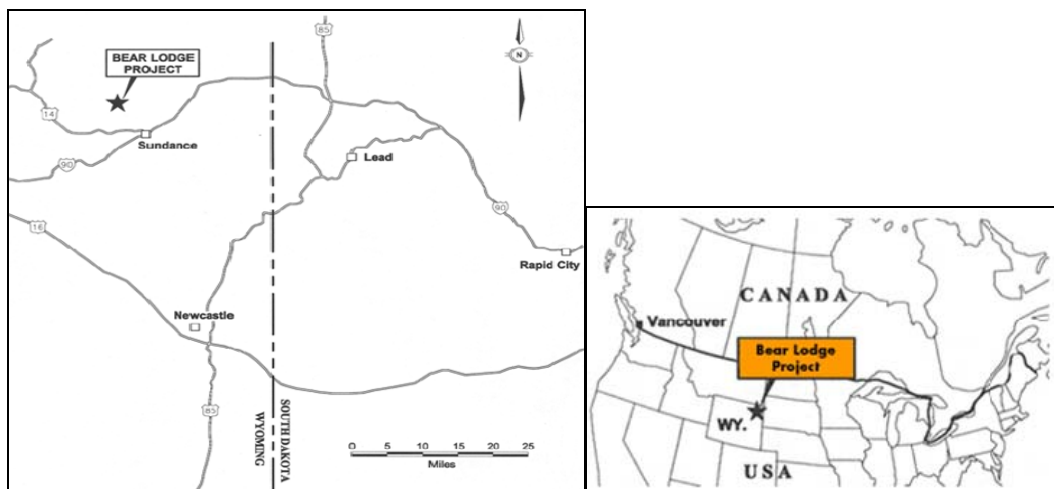
***Cautionary Note – The United States Securities and Exchange Commission (“SEC”) permits U.S. mining companies, in their filings with the SEC, to disclose only those mineral deposits that a company can economically and legally extract or produce. Rare Element Resources uses certain***

*terms such as “measured”, “indicated”, “inferred”, and “mineral resources,” which the SEC guidelines strictly prohibit U.S. registered companies from including in their filings with the SEC.*

### **3. Mineral Properties**

The following is a brief description of the Mineral Properties owned by the Company. Additional information can be obtained from the Rare Element Resources website ([www.rareelementresources.com](http://www.rareelementresources.com)).

#### **3(a) Bear Lodge Property (Wyoming, USA) – REE Project**



#### **Location and ownership**

Paso Rico holds a 100% mineral rights interest in a group of unpatented mineral claims, the Bear Lodge Property which consists of the Bear Lodge REE Project and the Sundance Gold Project. 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 for Deed”. Some of the claims and a portion of a defined area of influence surrounding the claims were previously 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 were not subject to the NSR. On March 31, 2009, the Company re-purchased the NSR for \$50,000.

The total property comprises 489 unpatented mineral claims located on land administered by the U.S. Forest Service and a 640-acre Wyoming state lease for a total of approximately 16 square miles. Upon Newmont's withdrawal from the Sundance Gold Project, it transferred 327 of the claims to the Company in May 2010. 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.

The Bear Lodge REE Project contains predominantly the “light” REE (lanthanum, cerium, praseodymium, neodymium, and samarium) and small but significant quantities of the “heavy” REE (europium, dysprosium and terbium).

### **Mineral Resources**

The Company's comprehensive NI 43-101-compliant Technical Report with an initial resource estimate of REE plus yttrium was dated April 14, 2009. The report incorporated 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. The report also included recommendations for additional exploration work to expand the REE mineral resource and the metallurgical testing program. The recommended work was completed.

On May 26, 2010, the Company reported an updated mineral resource estimate of REE plus yttrium contained in two deposits located in the Bull Hill area of the Bear Lodge project.

The updated resource estimate increased the total pounds of rare-earth oxides ("REO") contained in the Bull Hill deposits by more than 50% from 800 million pounds to 1,210 million pounds at a 1.5% REO cutoff grade (Table 2). The resource was estimated by an independent consultant—Ore Reserves Engineering (ORE).

The updated resource estimate was derived from a REE database that includes thirty-two core drill holes completed by the Company since 2004 for a total of 28,396.5 feet, plus sixteen drill holes, completed by other companies prior to 2004, for which REE data are available. Approximately 36% of the resource is within 100 feet of a drill hole and 75% of the resource is within 200 feet of a drill hole. For comparison, the initial NI 43-101-compliant inferred mineral resource of 9.8 million tons averaging 4.07% rare-earth oxides (REO) was estimated by ORE and reported in a Technical Report dated April 14, 2009. The updated resource estimate focused on the dike sets in both the Bull Hill Southwest and the Bull Hill Northwest target areas (Figure 1). In addition, there was significant potential for expansion of both deposits and for definition of resources in other areas.

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

*Table 1 Total Inferred Tons and Grade of the Various Oxidation Zones at a Range of 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	13,700,000	2.63	4,300,000	2.52	9,600,000	2.70	27,600,000	2.64
<b>1.5<sup>(3)</sup></b>	<b>8,000,000</b>	<b>3.62</b>	<b>2,600,000</b>	<b>3.39</b>	<b>6,900,000</b>	<b>3.29</b>	<b>17,500,000</b>	<b>3.46</b>
2.0	5,600,000	4.45	1,700,000	4.23	4,600,000	4.05	11,900,000	4.26
2.5	4,400,000	5.06	1,300,000	4.93	3,900,000	4.37	9,600,000	4.76
3.0	3,300,000	5.84	930,000	5.71	3,000,000	4.88	7,200,000	5.42
3.5	2,700,000	6.42	800,000	6.13	2,200,000	5.53	5,600,000	6.04
<b>4.0</b>	<b>2,300,000</b>	<b>6.90</b>	<b>690,000</b>	<b>6.50</b>	<b>1,470,000</b>	<b>6.33</b>	<b>4,400,000</b>	<b>6.65</b>
4.5	1,900,000	7.52	570,000	6.96	1,200,000	6.79	3,600,000	7.19
5.0	1,600,000	7.88	460,000	7.48	1,000,000	7.24	3,100,000	7.61

Table 2 Total Inferred Tons and Grade (% REO) with REO Content at 1.5% Cutoff Grade

Cutoff Grade <sup>1,3</sup>	Total		REO Content
	Tons	Grade <sup>1</sup>	Million lbs
1.0	27,600,000	2.64	1,454
<b>1.5<sup>(3)</sup></b>	<b>17,500,000</b>	<b>3.46</b>	<b>1,210</b>
2.0	11,900,000	4.26	1,012
2.5	9,600,000	4.76	913
3.0	7,200,000	5.42	783
3.5	5,600,000	6.04	680
<b>4.0</b>	<b>4,400,000</b>	<b>6.65</b>	<b>590</b>
4.5	3,600,000	7.19	523
5.0	3,100,000	7.61	472

Table 3 Detailed REO percentages by Zone at 1.5% Cutoff Grade

Parameters & % REO	Total All Zones				
	Oxide	Mixed	Sulfide	Total	
Cutoff (%REO)	1.5	1.5	1.5	1.5	
Million Tons Resource	8.0	2.6	6.9	17.5	
Tonnage Factor (ft <sup>3</sup> /ton)	13.7	13.0	11.4	12.7	
%REO	3.62	3.39	3.29	3.46	
Million lbs REO	582	174	454	1,210	
%Cerium Oxide	Ce <sub>2</sub> O <sub>3</sub>	1.66	1.62	1.61	1.63
%Lanthanum Oxide	La <sub>2</sub> O <sub>3</sub>	1.06	1.08	1.11	1.08
%Neodymium Oxide	Nd <sub>2</sub> O <sub>3</sub>	0.52	0.36	0.29	0.41
%Praseodymium Oxide	Pr <sub>2</sub> O <sub>3</sub>	0.16	0.14	0.12	0.14
%Samarium Oxide	Sm <sub>2</sub> O <sub>3</sub>	0.088	0.078	0.074	0.081
%Gadolinium Oxide	Gd <sub>2</sub> O <sub>3</sub>	0.045	0.042	0.037	0.042
%Yttrium	Y <sub>2</sub> O <sub>3</sub>	0.032	0.036	0.021	0.028
%Europium Oxide	Eu <sub>2</sub> O <sub>3</sub>	0.021	0.019	0.017	0.019
%Dysprosium Oxide	Dy <sub>2</sub> O <sub>3</sub>	0.018	0.012	0.011	0.014
%Terbium Oxide	Tb <sub>2</sub> O <sub>3</sub>	0.0075	0.0052	0.0043	0.0059
%Erbium Oxide	Er <sub>2</sub> O <sub>3</sub>	0.0020	0.0018	0.0017	0.0019
%Ytterbium Oxide	Yb <sub>2</sub> O <sub>3</sub>	0.0012	0.0011	0.0010	0.0011
%Lutetium Oxide	Lu <sub>2</sub> O <sub>3</sub>	0.00016	0.00014	0.00013	0.00014
%Holmium Oxide	Ho <sub>2</sub> O <sub>3</sub>	0.0010	0.0008	0.0008	0.0009
%Thulium Oxide	Tm <sub>2</sub> O <sub>3</sub>	0.00015	0.00013	0.00012	0.00014

1. REO (rare-earth oxides) include Ce<sub>2</sub>O<sub>3</sub>, La<sub>2</sub>O<sub>3</sub>, Nd<sub>2</sub>O<sub>3</sub>, Pr<sub>2</sub>O<sub>3</sub>, Sm<sub>2</sub>O<sub>3</sub>, Gd<sub>2</sub>O<sub>3</sub>, Y<sub>2</sub>O<sub>3</sub>, Eu<sub>2</sub>O<sub>3</sub>, Dy<sub>2</sub>O<sub>3</sub>, and Tb<sub>2</sub>O<sub>3</sub>, listed in relative order of decreasing abundance in the deposits, plus minor quantities of other REO (Table 3).
2. The resource estimate is classified as Inferred Mineral Resources as defined by CIM and referenced in NI 43-101.
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 and it is highlighted; a cutoff grade of 4.0% REO is also highlighted to show the high-grade tons above the cutoff.

4. *A detailed program of core sampling and bulk density measurement is being instituted for the 2010 drilling, especially for oxide mineralization which is more difficult to determine.*

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. As additional data are gathered, work will continue to be done on the resources estimates with further evaluation and refinement.

### Geology & Mineralization

Rare-earth-element mineralization occurs in the north-central core of the Bear Lodge alkaline-igneous complex located in northeastern Wyoming. All of the significant REE occurrences in the Bear Lodge district are controlled by Rare Element's lode claims. Rare-earth mineralized bodies within the Bull Hill area of the district include well-defined, near-surface oxidized 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 comprises an FMR-carbonatite dike swarm that strikes northwesterly and dips steeply. 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 and oxidized 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 168 feet in width. The Bull Hill Southwest deposit consists of several dike sets in the swarm that 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 over 1,500 feet along strike and 1,000 feet down dip. Some of the dikes appear to be cut off to the west 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 Bull Hill Northwest deposit has many of the same characteristics as Bull Hill Southwest, but oxidation is somewhat deeper. Current interpretation suggests that the dikes strike northerly and have nearly vertical dips. The dikes cut alkalic silicate rocks, predominantly trachytes and phonolites, and they appear to be part of an FMR/carbonatite dike system that is separate from the Bull Hill SW dike system. The deposit is open to the north and at depth. Additional drilling done during the 2010 program helped to define the orientation of the system and to expand the current resource.

The Company considers the May 2010 geologic modeling and resource estimation results encouraging for the following reasons:

- Significantly greater tonnage but with slightly lower REO grades compares favorably to the April 2009 NI 43-101-compliant 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 Bull Hill SW resource is open for expansion at depth, to the northwest and southeast, and to the west of the West Bull Hill Fault. The Company believes that there is room for the mineral resource tonnage to significantly increase.
- The Bull Hill Northwest area hosts FMR/carbonatite dikes that appear distinct from those at Bull Hill Southwest, thus providing an additional resource area open to the north.
- Historical drilling identifies other Bull Hill area targets, such as Whitetail Ridge, a fault offset to the southwest, and a conceptual carbonatite plug. Drilling of two holes during 2010 in the Whitetail

Ridge target and two more further to the northwest in the Carbon REE target have resulted in favorable REE intercepts.

The updated mineral resource estimate confirms that potentially economic resources are present in the Bull Hill area, and it justifies further technical work including drilling, metallurgical testing, and engineering studies. Considerable in-fill definition drilling is required to increase the confidence level and upgrade the inferred resources to the indicated category. Step-out drilling will likely expand the resource and define the boundaries of the mineralization.

#### Cutoff Grade & Metallurgy

The 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 rare-earth 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. Additional work is being conducted at NAGROM under the direction of Tony Wilkinson and at Hazen Research under the direction of Chris Schultz. The metallurgical testing program will continue through 2011 on an 8.8 ton surface sample collected in 2010 and the mineralized core samples collected during 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 in the inferred mineral resource category. Inferred mineral resources are normally considered too speculative geologically for the application of economic considerations that would enable them to be categorized as mineral reserves; however they are allowed to be included in a preliminary economic assessment. 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

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 and has verified the data disclosed in this section titled "Mineral Resources".

The Rare Element Resources' field programs were carried out under the supervision of Dr. James G. Clark, LGeo, the Company's Vice President of Exploration, and by Dr. Ellen Leavitt, who are both qualified persons for the purposes of National Instrument 43-101 standards of disclosure for mineral projects of the Canadian Securities Administrators. Dr. Clark 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 through 2009 drill programs. The 2009 and 2010 QA/QC programs were organized by Dr. Jeffrey Jaacks. Dr. Jaacks and Dr. Clark have verified the 2009 and 2010 sampling procedures and QA/QC data delivered to ORE. They share 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 2004-2010 exploration programs and maps and sections detailing the drill-hole locations are available at: <http://www.rareelementresources.com>

## **Metallurgy**

In August 2010, the Company announced progress toward defining a potentially commercial metallurgical process for REE-mineral concentration from oxide samples collected on the Bear Lodge REE Project. The favorable metallurgical test results on a large sample of near-surface high-grade oxide mineralization with an average grade of 8.0% REO indicate the following: 1) With scrubbing/attritioning in water, a pre-concentrate is produced with a recovery of approximately 90% and a grade up to 20% REO; the REO resides in the finer fractions (-100 to -500 mesh); 2) Hydrochloric acid leaching of the pre-concentrates in an agitation leach system gives a recovery of about 80 to 85% of the total REO from the original mineralized material in the same general proportions as the original REO distribution; 3) Additional testing is being conducted to confirm and optimize the processing methods.

Metallurgical testwork is being conducted at Mountain States R&D International, Inc. (MSRDI) of Vail, Arizona. Additional confirmatory tests are being conducted at NAGROM, Perth, Australia, under the direction of Tony Wilkinson and at Hazen Research, Golden, Colorado, under the direction of Chris Schultz. Extraction and separation tests are underway at Intellimet LLC of Missoula, Montana. Plans for additional extraction and separation testing are being formulated for ANSTO of Sydney, Australia. Bulk sampling of oxide mineralization from large diameter drill core and from surface trenches is complete and approximately 12 tons of oxide mineralization was collected representing the first five years or so of operation. The bulk sample will be processed in a pilot-plant test in 2011 as part of a planned prefeasibility study.

The metallurgical testing is ongoing on oxide samples. Nearly all of this material is sufficiently close to the surface for potential mining by open pit methods. The current oxide resource (8.0 million tons averaging 3.62% REO) is part of a larger total inferred mineral resource (see section 3(a) under "Mineral Resources"). The oxide mineralization extends from surface to depths of 400 to 500 feet. Excellent exploration potential for expansion of the oxide mineralization was tested in 2010 by a program of step-out drilling, and in-fill drilling was directed at an upgrade of the mineral resource category.

The current testing program conducted on this oxide mineralization is designed to take advantage of the unique type of mineral occurrence of the REE mineralization. The mineralization is characterized by fine-grained REE minerals that variably adhere to the surfaces of the coarser gangue (non-REE-bearing) minerals. The REE minerals in oxide mineralization from the resource area are nearly all from the bastnasite group—listed in decreasing order of abundance: synchysite, parisite, and bastnasite, with generally minor monazite.

### **Preliminary Economic Assessment (PEA)**

Highlights of the Preliminary Economic Assessment (“PEA” or the “Study”) are summarized in the Table 4 below, with additional commentary following.

*Table 4 Preliminary Economic Assessment – Bear Lodge Rare-Earths Project*

	<b>Case 1 (Base Case)</b>	<b>Case 2</b>
	<i>3-year trailing average prices<sup>1</sup></i>	<i>Estimated long-term prices<sup>2</sup></i>
Production Rate (tpd)	1,000	1,000
Mine Life (Years)	15	15
Initial Capital (US\$)	\$87 million	\$87 million
Operating Cost (US\$/ton)	\$213	\$213
Life of mine sustaining capital (US\$)	\$88 million	\$88 million
REO recoveries to concentrates	80%	80%
Annual REO contained in concentrates (tons)	11,400	11,400
Annual Payable Value of REO (US\$)	\$143 million	\$178 million
Annual Operating Cash Flow (US\$)	\$50 million	\$80 million
Internal rate of return (IRR)	40%	60%
After-tax Life-of-mine Cash Flow (US\$) (Undiscounted)	\$598 million	\$978 million
After-tax Net Present Value (US\$) (At 10% discount rate)	\$213 million	\$380 million
After-tax Net Present Value (US\$) (At 15% discount rate)	\$131 million	\$251 million
Payback (years)	3.1	2.4

1. Rare-earth bulk concentrate prices are used in the Study and are based on historic three-year average concentrate prices from Metal-Prices and assembled by the Industrial Minerals Company of Australia (“IMCOA”).

2. Estimated long term prices of bulk concentrates represent a price increase of 25% over the historic three year average concentrate price.

The Study was prepared by independent consultant, John T. Boyd Company (“Boyd”), with the assistance of consultants Mountain States R&D International (“MSRDI”) and Ore Reserves Engineering (“ORE”). New NI 43-101-compliant inferred mineral resource estimates for two of the four known mineralized zones at Bear Lodge (Bull Hill Southwest and Bull Hill Northwest deposits) were prepared by ORE (see section 3(a) under “Mineral Resources”). The Study provides an initial development model and a preliminary economic analysis of the project based on the resources estimated for the two deposits. The final NI 43-101-compliant technical report was filed on SEDAR on November 9, 2010.

The Study was commissioned by the Company in 2009 to evaluate the potential economic viability of recovering rare-earth elements (“REE”) in concentrate, with a future goal to recover individual rare-earth oxides (“REO”), from the resources in the Bull Hill area of the Bear Lodge project. This was in response to growing demand for these elements in environmental and other applications where the REE are vital to the new technologies developed for fuel efficient (“hybrid”) automobiles and plug-in electric vehicles. Many hybrid cars use rechargeable nickel-metal-hydride (Ni-M-H) batteries that contain lanthanum along with electric motors and generators that require high-strength permanent magnets containing neodymium, praseodymium, dysprosium, and terbium. Substantial quantities of all five of these rare-earth elements would be produced by a mine at Bear Lodge, and these five elements would represent nearly 65% of potential saleable products’ value.

### Rare Earths – Markets and Pricing

For an independent analysis of REE markets, including supply and demand forecasts, Boyd relied on a recent confidential report and supporting data produced by IMCOA, an independent industrial minerals research firm based in Perth, Australia and led by Dudley J. Kingsnorth. This report was requested by the Company and provided to Boyd as a basic reference. The IMCOA report forecasts growth in global demand for REE at a rate of nearly 10% per year until 2020, from approximately 125,000 tons in 2010 to 200,000 tons by 2015 to 280,000 tons by 2020, expressed as "TREO" (total rare-earth oxides or the sum of all 14 REE plus yttrium). During this period, primary supply sources located mainly in China are not expected to increase production significantly, creating a growing supply/demand gap. China has been reducing its exports of rare earths for several years and announced a major reduction in exports in early July 2010. These policies have already caused significant price increases for most REE and created opportunities for new primary suppliers to enter the market. Boyd concludes that the Bear Lodge REE resources, which require significant further work to bring to the feasibility level of analysis, represent an attractive potential mine development opportunity for the Company.

### Bear Lodge – Low-cost Open Pit Mining

The development model utilized by Boyd and its associates for the Study contemplates conventional truck and shovel open-pit mine production from the near-surface oxide inferred resources in the Bull Hill SW and NW deposits, which would provide an initial mine life of 15 years. Recent drilling has successfully intersected REE outside the known resources and may support an eventual increase of mine life beyond that contemplated in the Study. All of the mineral resources at Bear Lodge are currently categorized as inferred mineral resources. Mineral Resources that are not mineral reserves do not have demonstrated economic viability. Mineral resource estimates do not account for mineability, selectivity, mining loss and dilution. These mineral resource estimates include 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 categories through further drilling, or into mineral reserves, once economic considerations are applied. Also there is no certainty that this Preliminary Economic Assessment will be realized. An economic assessment will almost certainly change as new information is generated on the mineral resources, mine plan, and processing methodology.

### Bear Lodge – REE Production

In the base case scenario, a conservative production rate beginning at 500 tons per day of mineralized material will progressively increase to 1,000 tons per day by year three. Once full production is achieved, the TREO produced each year would be approximately 11,400 tons (10,400 metric tons) in bulk rare-earth concentrates. Discounted cash flow analysis of this scenario, using 2008 through 2010 REE bulk mixed concentrate prices, and capital and operating costs, yields a 40% Internal Rate of Return (IRR) and a Net Present Value (NPV) of US\$213 million at a 10% discount rate or a US\$131 million NPV at a 15% discount rate on an after-tax basis over a mine life of 15 years. With this Study the Company is contemplating the sale of concentrates in North America to potential refiners/processors, some of which have contacted Rare Element already.

Hydrometallurgical tests for extraction and separation of individual rare-earth oxides are progressing, and the ultimate goal is the production and sale of high-purity oxides of cerium, lanthanum, neodymium, praseodymium, and possibly europium, dysprosium, terbium, and other REO. These products may be sold individually as oxides, or in various combinations such as "Didymium" (Neodymium and Praseodymium), "SEG" (Samarium, Europium and Gadolinium), or as mischmetal (a mix of the rare earth elements).

### Bear Lodge – Rare Earth Prices

The prices used in this Study are based on historic three-year average concentrate prices. It is important to note the following:

1. REO concentrate prices are lower than refined REO prices.
2. Historic REO concentrate prices are significantly lower than the current REO concentrate prices as quoted in Metal Pages. For the Bear Lodge distribution of rare earths, current prices have recently increased approximately 360% from the three-year historic average due to the reduction in exports of REE products from China during the third quarter of 2010, however, it is unknown if the current higher prices are sustainable.
3. A 10% change in the price of REO concentrate would change the Base Case NPV of the project on an after-tax basis by approximately \$58 million at a 10% discount rate, and \$42 million at a 15% discount rate.
4. The sale of concentrates from Bear Lodge would likely be subject to a long-term supply contract for which a price would be set in the contract with one or more buyers. These long-term prices can differ substantially from quoted spot prices for metals with smaller markets such as rare-earth elements.

The price assumptions used by Boyd for the REO concentrates are based on compilations of the past three years that range from US\$4.59 (2008), to \$3.65 (2009), to \$7.54/kg (2010). These concentrates contain approximately 43.5% REO and were derived from deposits that have a similar, but slightly less valuable, REO distribution compared to the Bear Lodge deposits. The 2010 concentrate price is based on Metal-Pages' data through August 31, 2010.

A recent price quote for REE concentrates on an FOB China basis, as reported on September 2, 2010 by Metal-Pages.com, was US\$33.25/kg and on February 3, 2011, is US\$38/kg. The elements needed for high-strength permanent REE magnets include neodymium, praseodymium, dysprosium and terbium; prices were quoted by Metal-Pages (September 2, 2010) at US\$56.75, \$55.75, \$288 and \$595/kg, respectively for those elements (Table 2), and (February 3, 2011) at US\$104.50, \$103.50, \$365 and \$630/kg. Current REE producers seek to increase production of neodymium, praseodymium, dysprosium and terbium to meet the growing demand from magnet manufacturers. This underlines the need for new producers with mineral resources having an REE distribution that is more reflective of current market demand, such as that indicated for the bastnasite-group minerals at Bear Lodge.

The economic model suggested by IMCOA and tested by Boyd envisions a 5% market share capture (10,400 metric tonnes of a 200,000-tonne REO market) specifically for cerium, lanthanum, neodymium, praseodymium, plus significant quantities of other rare earths. This assumes that 2 other mines, one in the USA and one in Australia, plus possibly one or two others will go into production prior to Bear Lodge, and that IMCOA's projections of market growth will allow additional producers of the light and heavy rare earths to successfully market their products by 2015.

REO pricing over the past three years and the prices at September 2, 2010 are shown in Table 5. This information is shown only to indicate the recent increases in prices for individual rare-earth oxides and its potential effect if Bear Lodge progresses into individual REO production. There is no certainty the current prices will be maintained for the duration of the operating life of the Bear Lodge project.

Table 5 REO Prices 2008 through 2010 and Current Prices (9-2-10)

Rare Earth Oxide	Bear Lodge Oxide Zone	2008 Price	2009 Price	2010 Price (8 months)	Recent Price (Sept. 2, 2010)
<u>REO</u>	<u>REO%</u>	<u>\$/kg</u>	<u>\$/kg</u>	<u>\$/kg</u>	<u>\$/kg</u>
Ce <sub>2</sub> O <sub>3</sub>	1.66	4.35	4.20	8.14	36.00
La <sub>2</sub> O <sub>3</sub>	1.06	7.75	5.90	9.65	37.00
Nd <sub>2</sub> O <sub>3</sub>	0.52	27.00	14.85	32.32	56.75
Pr <sub>2</sub> O <sub>3</sub>	0.16	27.00	14.75	31.69	55.75
Sm <sub>2</sub> O <sub>3</sub>	0.088	4.50	4.50	8.00	33.25
Gd <sub>2</sub> O <sub>3</sub>	0.045	9.75	6.50	11.45	40.00
Y <sub>2</sub> O <sub>3</sub>	0.032	15.25	13.50	13.50	34.50
Eu <sub>2</sub> O <sub>3</sub>	0.021	475.00	465.00	551.25	585.00
Dy <sub>2</sub> O <sub>3</sub>	0.018	110.00	105.00	195.00	288.00
Tb <sub>2</sub> O <sub>3</sub>	0.0075	650.00	350.00	494.37	595.00
Others	0.0085				
<b>TOTAL</b>	<b>3.62%</b>				

For the purposes of the PEA, the Company has also shown a case that uses a 25% increase from the three-year trailing average prices used in the Base Case scenario. The Company believes these may more realistically reflect long-term pricing for REO based on market outlook information available at this time. As with the recent pricing for REO, there is no certainty these prices will be maintained for the duration of the operating life of the Bear Lodge Project.

#### Bear Lodge – Capital Costs

Capital cost estimates for the Bear Lodge project are lower than many other rare-earth projects for two principal reasons: 1) infrastructure in the project vicinity is already well established with an excellent road and highway system, nearby railroads, nearby power lines, an available water source, and skilled labor within several local communities; and 2) the metallurgical pre-concentration of rare-earth minerals is a very simple and low-cost process that upgrades the mineralized material for further hydrometallurgical concentration.

The capital cost estimate for the base-case production is \$87 million in construction capital and \$88 million in sustaining capital. This scenario involves development of the Bull Hill deposit at a mining rate of 1000 tons per day (tpd) or 360,000 tons per year (tpy). Operating costs for the project are estimated at \$213 per ton of material milled, with the most significant single cost being reagent consumption in hydrometallurgical processing. The model assumes mining by open pit methods and processing of the mineralized material on site to produce mineral preconcentrates by crushing, attritioning with water, and size separation methods. REE recoveries of 90% are assumed for the mineral preconcentration based on preliminary bench-scale testwork, however these results have yet to be confirmed with pilot-scale tests. The model further assumes construction of a hydrometallurgical plant near the mine site where there is access to low-cost power (estimated at approximately 3 cents per kwh) for the processing of the REE mineral concentrates in order to produce a bulk mixed rare-earth concentrate. Metallurgical recovery to a concentrate is estimated at 90% from the preconcentrate, for overall recoveries of 90% times 90% or approximately 80% into the concentrate. All of these process stages are being tested currently for optimization and reduction of operating costs, and significant progress is being made with potential reduction of reagent costs.

Further testwork is ongoing to extract and separate individual rare-earth oxide products to 99+% purity levels. The Company's ultimate goal is the production and sale of individual high-purity rare-earth oxides (REO), which would require additional capital costs.

#### Bear Lodge – REO Distribution

The REE mineral resources at Bear Lodge are of potentially significant interest to the market because of their relatively high proportions of contained neodymium, praseodymium, europium, dysprosium and terbium. Demand is increasing for these elements in the magnet production and other industries, but they typically occur in lower concentrations in the majority of known REE deposits.

*Table 6 REO Distribution in Oxide Zone of the Bear Lodge Deposits*

Element	Ce	La	Nd	Pr	Sm	Gd	Y	Eu	Dy	Tb	Er	Yb	Lu	Ho	Tm
Assay REO %	1.66	1.06	0.52	0.16	0.088	0.045	0.032	0.021	0.018	0.0075	0.0020	0.0012	0.00016	0.00100	0.00015
Distribution Oxide %	45.86	29.28	14.36	4.42	2.43	1.24	0.88	0.58	0.50	0.21	0.055	0.033	0.004	0.027	0.004
Relative Value %	15.5	20.4	25.4	7.7	1.1	0.8	0.6	17.5	5.3	5.6	-	-	-	-	-

Total Assay REO% = 3.62% for oxide zone mineralization; Ce - cerium, La - lanthanum, Nd - neodymium, Pr - praseodymium, Sm - samarium, Gd - gadolinium, Y - yttrium, Eu - europium, Dy - dysprosium, Tb - terbium, Er - erbium, Yb - ytterbium, Lu - lutetium, Ho - holmium, Tm - thulium.

#### Bear Lodge – PEA Summary

The results of the PEA demonstrate that the Bear Lodge REE project can achieve acceptable after-tax returns on invested capital and therefore warrants further investment to advance the project to a prefeasibility level of analysis. Increased rates of return are potentially achievable through any combination of higher prices, increased product sales, higher resource/reserve grades, lower operating costs, or higher metal recoveries.

Boyd recommends that the Bear Lodge project proceed to a Preliminary Feasibility level analysis. The recommended work includes completion of bulk sampling, pilot plant testing, further drilling of the Bull Hill SW and NW deposits to upgrade more of the REE resources to Measured or Indicated categories of confidence, REO extraction and separation testwork on both the Bull Hill SW and NW deposits, environmental studies, mine permitting, and continuing community engagement.

The estimated cost of this work program is \$15 million with the work to be conducted in two phases. Phase 1 comprises of preparation of an updated mineral resources estimate that includes 2010 drilling results, continued metallurgical testing, and a pilot plant test, which is anticipated to start in the spring of 2011. Phase 1 would include work to be conducted on samples and analyses from the 2010 drilling program. Phase 2 will include another drilling program for further resource expansion, resource definition, and collection of metallurgical samples that will be used in a subsequent full feasibility study. The Phase 2 program will then proceed to more detailed metallurgical testwork and engineering studies, leading to final process design and commercial testing, market studies, environmental studies and mine permitting, community consultation, engineering design, and economic modeling. Phase 2 work is planned to commence in the late spring of 2011, subject to positive results from Phase 1.

#### Risks & Opportunities

The principal risks for the Bear Lodge project are identified as follows:

1. Permitting and regulatory timelines and outcomes;

2. Changes in metallurgical recoveries as testwork continues;
3. Future pricing of REO;
4. Changes to capital and operating costs as studies continue;

The principal opportunities for the project are identified as follows:

1. Drilling in 2010 has intersected significant grades of REO outside the limits of the mineral resources used in the PEA, which could result in increased mineral resources and potentially extend the mine life and/or support a higher production level.
2. Optimization work is advancing and has had some success in developing a more cost-effective and efficient metallurgical processing method than that included in this Scoping Study by Rare Element for the Bull Hill area mineralization, which information was not available in time for this Study.
3. Hydrometallurgical tests for extraction and separation of individual rare-earth oxides is progressing, and the ultimate goal is the production and sale of high-purity oxides of neodymium, praseodymium, dysprosium, terbium, europium, lanthanum, cerium, and other REO.
4. Drilling has encountered large areas of low-grade (1.0-1.5% REO) oxide mineralization adjacent to the higher grade dikes. These areas are not included in the resource estimates and will be the subject of some drilling and metallurgical testing to determine if the material can be upgraded with a simple inexpensive process of screening or screening and washing.

#### Qualified Persons

Michael P. Richardson, P.E. is the independent qualified person from John T. Boyd Company responsible for the Scoping Study (Preliminary Economic Assessment) as well as mine planning, capital and operating cost estimation, and developing the economic models. He also reviewed and approved this section titled "Preliminary Economic Assessment" as well as all sections of the PEA filed on [www.sedar.com](http://www.sedar.com). Alan C. Noble, P.E. of Ore Reserves Engineering, is the independent qualified person responsible for resource estimation. Dr. Ron Roman, P.E. of Mountain State R&D International is the metallurgical engineer and an independent qualified person responsible for the metallurgy, process development, and estimation of the mill capital and operating costs. Dr. James G. Clark, L.Geo., who has direct experience with the project dating back to 1986, is responsible for the geologic, drilling, and sampling data on behalf of the Company. These data and descriptions were reviewed and approved by Mr. Richardson. The full PEA is accessible on SEDAR and the Executive Summary is available on the Company's website.

#### **Recent Updates**

The Company completed its 2010 rare-earth core drilling program and announced encouraging rare-earth element assay results from 45 holes of 61 drilled on September 15, 2010, November 9, 2010, January 10, 2011 and February 7, 2011.

The 2010 core drilling program included the Bull Hill SW resource area, the Bull Hill NW resource area and the Whitetail Ridge target area. The Whitetail Ridge results were marked by potentially significant gold mineralization in addition to the targeted REE mineralization. Select REE assay intervals were also reported from two reverse circulation (RC) drill holes completed during the Company's 2010 Sundance gold exploration program, indicating that REE mineralization is present in two of the gold targeted drill holes 360 meters from the Whitetail Ridge.

Assays are pending for the final fifteen core holes. The May 2010 updated NI 43-101-compliant mineral resource was estimated for the Bull Hill SW and Bull Hill NW resource areas. The objectives of the 2010 drilling program were to expand the Bull Hill SW oxide resource and upgrade the resource category, and to explore for additional REE resources at the Bull Hill NW and Whitetail Ridge target areas.

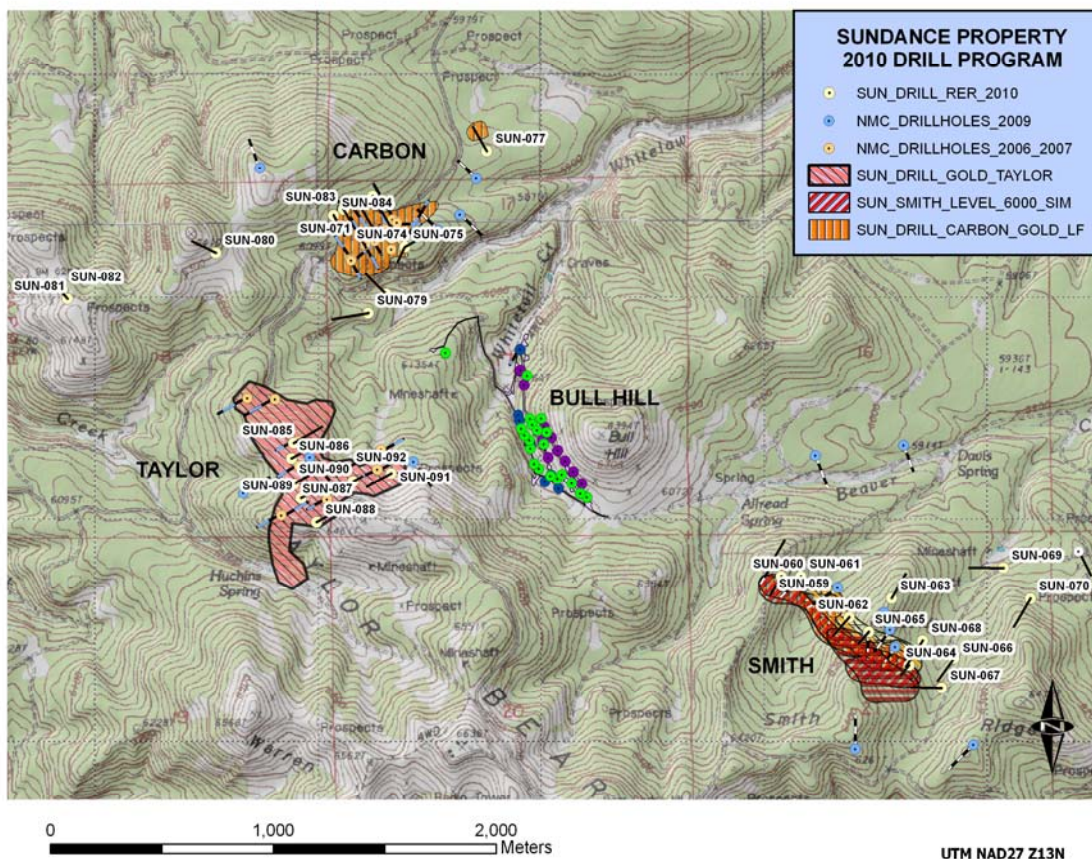
The Company has hired a government and community affairs specialist, Mr. George G. Byers as VP Government and Community Affairs, to advance project development activities on the Bear Lodge REE Project. With the guidance of Mr. Byers, the Company has initiated a program to educate federal, state, and local government officials and community leaders about the quality and quantity of the Bear Lodge rare-earth resources, and about its exceptional exploration and development potential.

Dr. James G. Clark, L. Geo, the Company's Vice President of Exploration, assisted by Dr. Ellen Leavitt, both qualified persons for the purposes of NI 43-101, lead the Bear Lodge REE Project exploration program.

During the six months ended December 31, 2010, the Company incurred \$4,684,275 in exploration expenditures on the Bear Lodge REE Project. As of at December 31, 2010, the Company had incurred a total of \$9,018,289 (June 30, 2010 - \$4,334,014) on exploration work at the Bear Lodge REE Project.

	Balance June 30, 2009	Expenditures	Balance June 30, 2010	Expenditures	Balance December 31, 2010
<b>Bear Lodge REE Project</b>					
Exploration expenditures:					
Assays	\$ 29,947	\$ 251,038	\$ 280,985	\$ 379,378	\$ 660,363
Assessments and taxes	20,104	-	20,104	-	20,104
Camp	-	52,166	52,166	3,248	55,414
Drilling	734,672	1,190,955	1,925,627	2,643,497	4,569,124
Engineering consulting	-	131,207	131,207	427,135	558,342
Environmental costs	-	12,503	12,503	117,017	129,520
Geochemistry	-	74,072	74,072	38,081	112,153
Geological consulting	438,759	570,752	1,009,511	538,107	1,547,618
Geophysical	300	-	300	13,200	13,500
Field supplies	-	923	923	23,889	24,812
Land & claims	-	17,111	17,111	119,222	136,333
Metallurgical testing	155,030	306,378	461,408	153,415	614,823
Overhead expenses	13,524	34,531	48,055	98,124	146,179
Permitting	-	11,103	11,103	23,544	34,647
Property holding costs	40,721	-	40,721	-	40,721
Resource estimation	-	47,478	47,478	9,737	57,215
Scoping study	-	-	-	75,982	75,982
Staking	17,949	-	17,949	-	17,949
Survey	34,338	6,187	40,525	14,623	55,148
Travel expenses	24,418	18,114	42,532	6,076	48,608
Wages	99,734	-	99,734	-	99,734
<b>Total expenditures on Bear Lodge REE Project</b>	<b>\$ 1,609,496</b>	<b>\$ 2,724,518</b>	<b>\$ 4,334,014</b>	<b>\$ 4,684,275</b>	<b>\$ 9,018,289</b>

### 3(b) Bear Lodge Property (Wyoming, USA) – Sundance Project



The plan map above shows the location of the Smith, Carbon, and Taylor gold target areas within part of Rare Element Resources' Sundance Property. The gold targets surround the Bull Hill REE deposit area. The drill-hole collars from the 2010 program are shown in yellow and green. Drill-indicated gold-mineralized areas that contain greater than 300 ppb (>0.3 g/t) gold for each gold target area are shown as ruled polygons.

#### **Location and ownership**

The Sundance Project is located in the Bear Lodge Property. 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 (the "Venture" or the "Sundance Gold Project"). Newmont had the right to earn a 65% participating interest in the Sundance Gold Project, excluding any rights to the REE and uranium.

On May 12, 2010, the Company announced that it signed an agreement with Newmont that Newmont would not exercise its option to acquire a 65% interest in the gold and base metals at the Sundance Gold Project so that the Company maintained its 100% interest in the claims holding the mineral potential within the entire property. All of Newmont's 327 wholly owned claims outside the Venture were transferred to the Company. In consideration for transferring its claims and terminating the Venture, Newmont was granted a right-of-first-refusal on all claims sold or disposed, excluding those containing rare-earth elements, and a 0.5% NSR royalty, for precious and base metals only, on the claims transferred to the Company by Newmont outside of the Venture. The withdrawal agreement honors an

arrangement between Newmont and Bronco Creek Exploration Company (“Bronco Creek”) on Newmont’s formerly wholly owned claims. Bronco Creek will continue to receive minor payments and a retained 0.05% NSR royalty, with a cap, on precious and base metals produced on the transferred claims that were wholly owned by Newmont outside the venture area.

Newmont expended approximately \$2.85 million from 2006 to 2010. Newmont’s withdrawal from the Sundance Gold Project creates an opportunity for the Company to control its own actions on the property at a time when record demand for gold and rare-earth elements is occurring.

The Bear Lodge Property, with the additional claims, now consists of 489 claims and a leased Wyoming State section for a total of approximately 16 square miles. As a result of the withdrawal agreement with Newmont, the Company retains a totally unencumbered rare-earth project and now has 100% interest in all gold and other minerals in the Bear Lodge district. The core group of claims (Venture area) is free of royalties.

### ***Recent Updates***

From July 2010 to November 2010, the Company drilled gold targets on the Sundance Gold Project. Gold exploration activity during 2010 was focused on: 1) detailed definition of known gold-mineralized targets with in-fill drilling, 2) step-off drilling from known mineralization, and 3) discovery of gold mineralization in a new peripheral gold target. The vast majority of the drilling was conducted on near-surface targets with oxide zone mineralization, especially Smith, Taylor, and Carbon. Work was being conducted under a permit that allowed up to 200 acres of disturbance.

Two reverse circulation drill rigs were used to test the gold mineralization with 34 angle drill holes, ranging from 500 to 800 feet in depth. A few deeper holes have been drilled where geological conditions and target concepts warrant testing for high-grade gold mineralization.

On January 6, 2011, the Company announced the final 2010 assay results from seven rotary holes drilled on the Sundance Gold Project (drill holes SUN-086 to SUN-092). A total of thirty-four rotary drill holes containing 21,605 feet (6,585 m) was drilled during 2010 on near-surface targets within oxide zone mineralization at the Smith, Carbon, and, Taylor target areas. Initial drilling results were reported from the Smith target (see news release dated September 21, 2010), and the second news release (November 15, 2010) reported results primarily from the Carbon target. The third release dated January 6, 2011 covers the conclusion of the 2010 drill program with results from the Taylor target area. All of these sets of results were encouraging and the news releases can be viewed at [www.rareelementresources.com](http://www.rareelementresources.com).

Mr. John Ray, B.S., M.S., P.Geo, is leading the Sundance Gold Project exploration program.

During the six months ended December 31, 2010, the Company incurred \$910,237 in exploration expenditures on the Sundance Gold Project. As of at December 31, 2010, the Company had incurred a total of \$1,006,950 (June 30, 2010 - \$96,713) in exploration work at Sundance Gold Project, in addition to Newmont’s expenditures of \$2.85 million over four years.

	Balance June 30, 2009	Expenditures	Balance June 30, 2010	Expenditures	Balance December 31, 2010
<b>Sundance Gold Project</b>					
Property acquisition costs	\$ -	\$ 27,000	\$ 27,000	\$ -	\$ 27,000
Exploration expenditures:					
Assays	-	-	-	129,535	129,535
Camp	-	-	-	620	620
Drilling	-	4,148	4,148	463,372	467,520
Engineering consulting	-	2,050	2,050	27,774	29,824
Environmental costs	-	-	-	1,375	1,375
Geochemistry	-	800	800	15,790	16,590
Geological consulting	-	53,253	53,253	193,481	246,734
Geophysical	-	-	-	13,200	13,200
Field supplies	-	1,438	1,438	12,748	14,186
Land & claims	-	3,080	3,080	7,235	10,315
Overhead expenses	-	2,290	2,290	38,293	40,583
Permitting	-	2,654	2,654	-	2,654
Survey	-	-	-	3,167	3,167
Travel expenses	-	-	-	3,647	3,647
Total expenditures on Sundance Gold Project	\$ -	\$ 96,713	\$ 96,713	\$ 910,237	\$ 1,006,950

### ***Upcoming / Outlook***

The Company sees an immediate opportunity to define a gold mineral resource estimate which is scheduled for completion early in 2011. The exploration goal for near-surface gold mineralization at the Taylor, Smith, and Carbon gold targets is to define and estimate the Company's first gold mineral resource. The Bear Lodge alkaline-igneous complex also has the potential for discovery of deeper, high-grade gold mineralization along structural zones.

### **3(c) Eden Lake Property (Manitoba, Canada)**

#### ***Location and ownership***

On October 30, 2009, the Company acquired 100% of the Eden Lake rare-earth-elements project located in the province of Manitoba, Canada for a payment of 300,000 common shares.

The underlying owner, Strider Resources Limited, retains a 3% NSR royalty with the Company having the right to buy 50% of the NSR at anytime for \$1.5 million CDN.

Finders' fees of 20,000 common shares were issued to two unrelated parties for this acquisition. The common shares issued on the acquisition are subject to trading restrictions over an 18-month period.

On February 23, 2010, the Company granted Medallion Resources Ltd. ("Medallion") an option to acquire a 65% interest in a joint venture to explore and develop the property. The terms of the agreement require Medallion to pay a total of \$1,450,000 CDN in cash (\$50,000 CDN received), issue an aggregate of 1,800,000 shares (200,000 shares were received) and complete \$2,250,000 CDN in the property exploration work commitment expenditures over a five-year period. On October 7, 2010, the Company and Medallion agreed to postpone \$50,000 CDN cash payment to no later than the first anniversary of the agreement. In addition, six new concessions staked by Medallion were also added to the Eden Lake property.

Medallion will be the operator of the exploration program during the option period.

### Recent Updates

In December 2009, Medallion completed a helicopter-borne high-intensity electromagnetic geophysical survey flown over the Eden Lake rare-earth-element (REE) property and in February 2010 Medallion received the basic data and initial interpretation of it.

	Balance June 30, 2009	Expenditures	Balance June 30, 2010	Expenditures	Balance December 31, 2010
<b>Eden Lake Property</b>					
Property acquisition costs	\$ -	\$ 1,007,251	\$ 1,007,251	\$ -	\$ 1,007,251
Option proceeds	-	(48,070)	(48,070)	(44,707)	(92,777)
Foreign exchange movement	-	-	-	61,625	61,625
Total expenditures on Eden Lake property	\$ -	\$ 959,181	\$ 959,181	\$ 16,918	\$ 976,099

### 3(d) Nuiklavik Property (Labrador, Canada)

#### Location and ownership

On January 6, 2010, the Company acquired from Altius Minerals Corp. ("Altius") a 100% interest in 584 mineral claims with rare-earth-element potential located in central Labrador, Canada for a payment of 200,000 shares (issued on January 12, 2010).

Altius will retain a total gross overriding royalty of 2% on the property, of which the Company may purchase 50% at any time for \$2,500,000 CDN. The Company plans to find a partner to explore the Nuiklavik property.

#### Recent Updates

The Company deposited \$203,659 with Newfoundland Exchequer as a security deposit on the fourth year exploration expenditures requirements for the same amount to be completed in 2011.

	Balance June 30, 2009	Expenditures	Balance June 30, 2010	Expenditures	Balance December 31, 2010
<b>Nuiklavik Property</b>					
Property acquisition costs	\$ -	\$ 725,187	\$ 725,187	\$ -	\$ 725,187
Foreign exchange movement	-	-	-	22,714	22,714
Total expenditures on Nuiklavik property	\$ -	\$ 725,187	\$ 725,187	\$ 22,714	\$ 747,901

## 4. Risks and Uncertainties

Below are some of the risks and uncertainties that the Company faces. For a full list of risk factors, please refer to the Company's Form 20-F filed on November 1, 2010 available on the Company's website at [www.rareelementresources.com](http://www.rareelementresources.com).

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 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 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-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.

## **5. Impairment of Long-lived Assets**

The Company completed an impairment analysis as at December 31, 2010 which considered the indicators of impairment in accordance with IAS 36, "*Impairment of Assets*".

Management concluded that no impairment charge was required because:

- there have been no significant changes in the legal factors or climate that affects the value of the properties;
- all property rights remain in good standing;
- the recent increase in prices in the rare-earth elements and gold;
- exploration results continue to be positive for both the Bear Lodge REE Project and the Sundance Gold Project;
- the rare-earth elements resource was recently increased;
- the Company intends to continue its exploration and development plans on its Bear Lodge REE Project and the Sundance Gold Project; and
- Medallion is optioning in to the Eden Lake Property and the Company is actively looking for a partner for the Nuiklavik Property.

## 6. Material Financial and Operations Information

### 6(a) Selected Annual Financial Information

#### Selected Annual Information

	Year ended June 30, 2010	Year ended June 30, 2009	Year ended June 30, 2008
	Under IFRS	Under Cdn GAAP	Under Cdn GAAP
	\$	\$	\$
Total revenues	40,163	17,492	29,786
General and administrative expenses	2,258,207	1,271,679	883,652
Loss for the year	(2,218,044)	(1,254,187)	(853,866)
Loss per share – basic and diluted	(0.08)	(0.05)	(0.04)
Total assets	17,814,634	4,034,219	3,394,225
Total long-term financial liabilities	Nil	Nil	Nil
Cash dividends declared – per share	Nil	Nil	Nil

### 6(b) Summary of Quarterly Results

The following is a summary of the Company's financial results for the last eight quarters:

Expressed In \$	Dec 10 Quarter	Sep 10 Quarter	Jun 10 Quarter	Mar 10 Quarter	Dec 09 Quarter (Restated)	Sep 09 Quarter (Restated)	Jun 09 Quarter	Mar 09 Quarter
	Under IFRS					Under Cdn GAAP		
Total revenue	<b>46,060</b>	25,120	17,119	5,417	<b>8,657</b>	8,970	9,725	6,912
Net loss	<b>(806,474)</b>	(675,740)	(740,569)	(438,596)	<b>(493,957)</b>	(545,193)	(284,543)	(263,166)
Loss per share – basic and diluted	<b>(0.02)</b>	(0.02)	(0.02)	(0.02)	<b>(0.02)</b>	(0.02)	(0.01)	(0.01)
Total assets	<b>79,653,231</b>	20,642,093	17,814,634	10,203,324	<b>9,559,716</b>	8,707,704	4,034,219	2,640,145
Total long-term liabilities	<b>Nil</b>	Nil	Nil	Nil	<b>Nil</b>	Nil	Nil	Nil
Cash dividends declared	<b>Nil</b>	Nil	Nil	Nil	<b>Nil</b>	Nil	Nil	Nil

### 6(c) Review of Operations and Financial Results

#### Results of Operations for the three months ended December 31, 2010 compared to the three months ended December 31, 2009

The net loss for the second quarter of fiscal 2011 totaled \$806,474 compared to loss of \$493,957 in the same period of fiscal 2010, an increase of \$312,517. The basic and diluted losses per share were comparable and totaled \$0.02.

Interest income totaled \$46,060 (2009 - \$8,657) for the three months ended December 31, 2010 as a result of interest earned on the funds that the Company held in financial institutions.

The total general and administrative costs were \$852,534 for the three months ended December 31, 2010 and \$502,614 for the comparable period, an increase of \$349,920. The increase was mostly due to increases in: (a) non-cash stock-based compensation expenses of \$190,113 due to options vested in the period; (b) investor relations and shareholders' communication fees of \$32,763 as the Company was actively keeping the shareholders and potential investors informed about the Company's progress; (c)

transfer and listing fees of \$109,814 and audit and legal fees of \$33,877 as a result of the Company listing on the AMEX and filing Form 20F; (d) management fees increased by \$20,030 and consulting fees increased by \$7,136 due to bonuses paid to two officers of the Company.

During the three months ended December 31, 2010, the Company recognized a gain on foreign exchange differences on translation of foreign operations of \$1,362,688 (2009 – \$193,203) and \$30,302 (2009 - \$Nil) of unrealized gain on available-for-sale marketable securities due to its increased market value. As a result, \$586,516 comprehensive income was recognized in the second quarter of fiscal 2011 while \$300,754 comprehensive loss was recorded in the second quarter during fiscal 2010.

### **Results of Operations for the six months ended December 31, 2010 compared to the six months ended December 31, 2009**

The net loss for the six months ended December 31, 2010, totaled \$1,482,214 compared to loss of \$1,039,150 for the same period in 2009. The basic and diluted losses per share were \$0.05 and \$0.04, respectively.

Interest income was \$71,180 for the six months ended December 31, 2010 and \$17,627 for the same period in 2009 as a result of interest earned on the funds that the Company held in financial institutions.

Excluding the non-cash stock-based compensation expenses of \$755,097 in 2010 and \$429,681 in 2009, depreciation expenses of \$6,209 in 2010 and \$2,017 in 2009, the foreign exchange gains due to operations of \$8,974 and a loss of \$38,281 in 2009, total general and administrative costs were \$801,062 for the six months ended December 31, 2010 and \$586,798 for the same period in 2009. The operating expenses increased by \$214,264 due to increased costs in audit, legal, investor relations and shareholders' communication and transfer agent and filing fees as the Company became listed on the NYSE-AMEX. The other administrative expenditures varied over the periods but the overall effect of the variance was not significant.

Due to an exchange gain on translation of foreign operations of \$1,583,122 (2009 - \$312,022) and an unrealized gain on available-for-sale marketable securities due to its increased market price as of December 31, 2010 of \$60,431 (2009 - \$Nil), the Company recognized \$161,339 of comprehensive income during the six months ended December 31, 2010 (2009 - \$727,128 comprehensive loss).

### **6(d) Liquidity and Capital Resources**

The Company's working capital as at December 31, 2010 was \$65,861,698 (June 30, 2010 - \$11,126,921). As at December 31, 2010, cash totaled \$67,008,719, an increase of \$55,548,243 from \$11,460,476 as at June 30, 2010.

On December 22, 2010, the Company closed a short-form prospectus offering for gross proceeds of \$57,546,000 CDN. The financing consisted of 6,394,000 common shares at a price of \$9.00 CDN per share. The Company paid \$3,452,760 CDN (\$3,417,304) cash commission and issued 383,640 broker's warrants. Each broker's warrant excisable into one common share of the Company at an exercise price of \$9.00 CDN per share until December 22, 2012. A total of \$3,929,065 was incurred for share issue costs.

In addition, during the six-month period ending December 31, 2010, 2,346,638 warrants, 657,000 options, and 151,890 agent's options were exercised for gross proceeds of \$7,121,626.

The Company spent \$4,523,154 on exploration activities and \$311,750 on additional reclamation bond. The Company also spent \$870,785 on its operating activities.

\$1,493,653 was also recorded as an increase in cash and cash equivalents due to the exchange rate changes on cash held in Canadian dollars.

Management estimates that the current cash position and future cash flows from warrants and options and potential financing will be sufficient for the Company to carry out its anticipated exploration and operating plans through 2011.

There may be circumstances where, for sound business reasons, a reallocation of funds may be necessary in order for the Company to achieve its stated business objectives.

### **6(e) Disclosure of Outstanding Share Data**

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

	No. of Common Shares Issued & outstanding	Share Capital Amount
June 30, 2010	32,142,737	\$19,003,005
December 31, 2010	41,692,265	\$78,841,304
February 11, 2011	43,170,423	\$86,308,853

As at December 31, 2010, the Company had 2,579,000 stock options outstanding with exercise prices ranging from \$0.55 CDN to \$4.49 CDN expiring from April 28, 2011 to May 28, 2015. During the six months ended December 31, 2010, a total of 657,000 options were exercised at weighted average exercise price of \$0.79 CDN for gross proceeds of \$504,811. A fair value of \$363,325 was recognized on these exercised options. Subsequent to December 31, 2010, 357,000 options were exercised for gross proceeds of \$289,320 CDN, and 403,000 stock options were granted to a director and officer, and consultants of the Company at a price of \$15.16 CDN for a period of 5 years. If all the remaining outstanding options were exercised, the Company's available cash would increase by \$9,508,970 CDN.

During the six months ended December 31, 2010, 151,890 agent's options were exercised at \$3.50 CDN for proceeds of \$511,520. A fair value of \$310,988 was recognized on these exercised agent's options.

As at December 31, 2010, the Company had 1,450,558 warrants and 383,649 agent's warrants outstanding with exercise prices ranging from \$2.10 CDN to \$9.00 CDN expiring from January 24, 2011 to December 22, 2012. During the six months ended December 31, 2010, a total of 2,346,638 warrants (including 75,945 agent's warrants) were exercised at weighted average exercise price of \$2.67 CDN for gross proceeds of \$6,105,295. A fair value of \$1,743,422 was recognized on these exercised warrants. Subsequently, another 1,054,021 warrants and 67,137 agent's warrants were exercised for gross proceeds of \$5,197,333 CDN. If all the remaining outstanding warrants were exercised, the Company's available cash would increase by \$4,720,578 CDN.

As of date of this MD&A, there were 43,170,423 common shares issued and outstanding and 46,508,463 common shares outstanding on a diluted basis.

The deficit totaled \$9,077,820 as at December 31, 2010 (June 30, 2010 - \$7,595,606). The increase is the result of the net loss of \$1,482,214 for the six months ended December 31, 2010.

### **6(f) Environmental provisions**

An environmental provision of \$100,540 was recognised in the period ended December 31, 2010, in respect of the Company's current obligations to reclaim areas used for exploring the Bear Lodge Property.

### 6(g) 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 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 is uncertain.

### 6(h) Off-Balance Sheet Arrangements

None.

### 6(i) Transactions with Related Parties

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

For the six months ended December 31, 2010

	Short-term employee benefit \$	Other long-term benefit	Termination benefits	Share-based payments \$( <sup>a</sup> )	Total \$
Donald E. Ranta, Chief Executive Officer (c)	149,590	n/a	(b)	Nil	149,590
1. Mark T. Brown Chief Financial Officer	Nil	n/a	n/a	Nil	Nil
Pacific Opportunity Capital Ltd. <sup>(d)</sup>	179,950	n/a	n/a	Nil	179,950

For the six months ended December 31, 2009

	Short-term employee benefit \$	Other long-term benefit	Termination benefits	Share-based payments \$( <sup>a</sup> )	Total \$
Donald E. Ranta, Chief Executive Officer (c)	111,863	n/a	(b)	Nil	111,863
Mark T. Brown Chief Financial Officer	Nil	n/a	n/a	Nil	Nil
Pacific Opportunity Capital Ltd. <sup>(d)</sup>	92,812	n/a	n/a	Nil	92,812

- (a) Comprised of options granted pursuant to the Company's stock option plan. The value of option-based awards is based on the fair value of the awards calculated using the Black-Scholes model at the grant date.
- (b) Under the terms of the management consulting agreement between the Company and Donald E. Ranta, Dr. Ranta is entitled to a payment equal to 3 months remuneration in the event Dr. Ranta is terminated by the Company without notice.
- (c) Dr. Ranta receives a monthly amount of \$12,500 and effectively October 1, 2010, a monthly amount of \$16,667 as management fees. \$50,000 bonus was paid in December 2010. Dr. Ranta also charged an additional \$20,000 for financing and marketing trips during the six months ended December 31, 2010.

- (d) Pacific Opportunity Capital Ltd., a company controlled by the Chief Financial Officer of the Company, charged rent, accounting and management fees for an accounting and administrative team of five people during fiscal 2010 and 2009 respectively. During the six months ended December 31, 2010, an additional \$71,759 was charged for financing and marketing costs.

Related party assets / liabilities

	Services for	As at December 31, 2010	As at June 30, 2010
Amounts due to:			
Pacific Opportunity Capital Ltd.	Rent, management, and accounting services	\$96,330	\$ 12,023
Amounts due from:			
Nil		-	-

**6(j) Financial Instruments**

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

a) Credit risk

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

(i) Trade credit risk

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

(ii) Cash and cash equivalents

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

(iii) Derivative financial instruments

As at December 31, 2010, the Company has no derivative financial instruments. It may in the future enter into derivative financial instruments and in order to manage credit risk, it will only enter into derivative financial instruments with highly rated investment grade counterparties.

b) Liquidity risk

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

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

c) Interest rate risk

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

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

A one percent change in interest rates changes the results of operations by \$658,000.

d) Currency risk

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

A one cent change in the US/CDN dollar currency rate would affect the Company's estimated one-year exploration expenditures by \$165,200.

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

### **6(k) Management of capital risk**

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

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

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

The Company expects its current capital resources will be sufficient to carry its exploration plans and operations through 2012.

IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy.

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 67,008,719	-	-	\$ 67,008,719
Marketable securities	108,011	-	-	108,011
	\$ 67,116,730	-	-	\$ 67,116,730

## **7. Subsequent Events**

Subsequent to December 31, 2010,

- 357,000 stock options were exercised for total proceeds of \$289,320 CDN, 1,054,021 warrants were exercised for total proceeds of \$4,593,100 CDN, and 67,137 broker's warrants were exercised for total proceeds of \$604,233 CDN.
- 403,000 stock options were granted to a director and officer, and consultants of the Company at a price of \$15.16 CDN for a period of 5 years.

## **8. Significant accounting judgments and estimates**

The preparation of the condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The condensed consolidated interim financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated interim financial statements, and may require accounting adjustments based on future occurrences.

Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- the recoverability of amounts receivable and prepayments which are included in the condensed consolidated interim statement of financial position;
- the carrying value of the investment and the recoverability of the carrying value which are included in the condensed consolidated interim statement of financial position;
- the estimated useful lives of property, plant and equipment which are included in the condensed consolidated interim statement of financial position and the related depreciation included in the consolidated statement of comprehensive loss;
- the inputs used in accounting for share purchase option expense in the condensed consolidated interim statement of comprehensive loss;
- the provision for income taxes which is included in the condensed consolidation interim statements of comprehensive loss and composition of deferred income tax assets and liabilities included in the condensed consolidated interim statement of financial position at December 31, 2010;
- the inputs used in determining the net present value of the liabilities for asset retirement obligations included in the condensed consolidated interim statement of financial position; and
- the inputs used in determining the various commitments and contingencies accrued in the condensed

consolidated interim statement of financial position.

## **9. Changes in accounting policies including initial adoption**

### **Conversion to International Financial Reporting Standards**

The Canadian Accounting Standards Board (“AcSB”) confirmed in February 2008 that IFRS will replace Canadian generally accepted accounting principles (“Cdn GAAP”) for publicly accountable enterprises for financial periods beginning on or after January 1, 2011, with the option available to early adopt IFRS from periods beginning on or after January 1, 2009 upon receipt of approval from the Canadian Securities regulatory authorities.

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These are the Company’s first IFRS condensed consolidated interim financial statements for the six-month period ended December 31, 2010 covered by the first IFRS consolidated annual financial statements to be presented in accordance with IFRS for the year ending June 30, 2010. Previously, the Company prepared its consolidated annual and consolidated interim financial statements in accordance with Cdn GAAP.

As stated in Note 2 of the condensed consolidated financial statements, these are the Company’s first condensed consolidated interim financial statements for the six-month period ended December 31, 2010 covered by the first annual condensed consolidated interim financial statements prepared in accordance with IFRS.

The accounting policies in Note 2 of the condensed consolidated financial statements have been applied as follows:

- in preparing the condensed consolidated interim financial statements for the six months ended December 31, 2010;
- the comparative information for the six months ended December 31, 2009;
- the statement of financial position as at June 30, 2010; and
- the preparation of an opening IFRS statement of financial position on the Transition Date, July 1, 2009.

In preparing the opening IFRS statement of financial position, comparative information for the six months ended December 31, 2009 and the financial statements for the year ended June 30, 2010, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP (“Cdn GAAP”).

An explanation of how the transition from Cdn GAAP to IFRS has affected the Company’s financial position, financial performance and cash flows is set out in the following tables.

The guidance for the first time adoption of IFRS are set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. In preparing these financial statements, the Company has elected to apply the following transitional arrangements:

(a) IFRS 1 - Business combinations

IFRS1 indicates that a first-time adopter may elect not to apply IFRS 3 *Business Combinations* retrospectively to business combinations that occurred before the date of transition to IFRS. The

Company takes advantage of this election and applies IFRS 3 to business combinations that occurred on or after July 1, 2009. There is no adjustment required to the July 1, 2009's statement of financial position on the Transition Date.

(b) IFRS 2 – Share-based payment transactions

IFRS 2 *Share-based Payment* has not been applied to equity instruments that were granted on or before November 7, 2002, nor has it been applied to equity instruments granted after November 7, 2002 that vested before July 1, 2009.

IFRS 2, similar to Cdn GAAP, requires the Company to measure share-based compensation related to share purchase options granted to employees at the fair value of the options on the date of grant and to recognize such expense over the vesting period of the options. However, under IFRS 2, the recognition of such expense must be done with a “graded vesting” methodology as opposed to the straight-line vesting method allowed under Cdn GAAP. In addition, under IFRS, forfeitures estimates are recognized in the period they are estimated, and are revised for actual forfeitures in subsequent periods; while under Cdn GAAP, forfeitures of awards are recognized as they occur.

Under IFRS graded vesting methodology, during the three months ended December 31, 2009, the Company would have recorded \$116,115 as share-based payment versus \$81,684 stock-based compensation under CAGAAP. As a result, \$34,431 would be adjusted in the share-based payment expense in the statement of operations and the same amount would be adjusted in the equity settled employee benefit reserve in the statement of equity.

Under IFRS graded vesting methodology, during the six months ended December 31, 2009, the Company would have recorded \$429,681 as share-based payment versus \$194,354 stock-based compensation under CAGAAP. As a result, \$235,327 would be adjusted in the share-based payment expense in the statement of operations and the same amount would be adjusted in the equity settled employee benefit reserve in the statement of equity.

During the year ended June 30, 2010, the Company would have recorded \$1,076,452 as share-based payment versus \$524,497 stock-based compensation under CAGAAP. As a result, \$551,955 would be adjusted in the share-based payment expense in the statement of operations and the same amount would be adjusted in the equity settled employee benefit reserve in the statement of equity.

(c) IAS 27 – Consolidated and Separate Financial Statements

In accordance with IFRS 1, if a company elects to apply IFRS 3 *Business Combinations* retrospectively, IAS 27 *Consolidated and Separate Financial Statements* must also be applied retrospectively. As the Company elected to apply IFRS 3 prospectively, the Company has also elected to apply IAS 27 prospectively.

(d) IAS 23 – Borrowing Costs

IAS 23 *Borrowing costs* has not been applied to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after July 1, 2009.

(e) IAS 16 - Property, plant and equipment

IAS 16 *Property, plant and equipment* allows for property, plant and equipment to continue carried at cost less depreciation, same as under Cdn GAAP.

(f) Reclassification within Equity Section

IFRS requires an entity to present for each component of equity, a reconciliation between the carrying amount at the beginning and end of the period, separately disclosing each change. The Company examined its “contributed surplus” account and concluded that as at the Transition Date, the entire amount of \$876,046 relates to “Equity settled employee benefit reserve”. As a result, the Company

believes that a reclassification would be necessary in the equity section between “Contributed surplus” and the “Equity settled employee benefit reserve” account.

For comparatives, as at December 31, 2009, the entire \$866,603 “contributed surplus” account was reclassified into “Equity settled employee benefit reserve”. Furthermore, as at June 30, 2010, \$1,477,734 “contributed surplus” account was broken down into \$1,166,746 “Equity settled employee benefit reserve” and \$310,988 “Reserves for agents’ options”.

(g) **Cumulative Translation differences**

IFRS requires that the functional currency of each entity of the company be determined separately and record the foreign exchange resulting from the consolidation in equity rather than in the statement of operations. IFRS 1 provides an exemption and allows for such adjustments to be made as of the Transition Date, resulting in no change to the July 1, 2009 financial statements on the Transition Date.

For the three months ended December 31, 2009, the foreign exchange resulting from the consolidation amounted to a gain of \$193,203 resulting in increasing the current period’s loss in the statement of operations and recording an “Exchange reserve” in the Statement of Equity.

For the six months ended December 31, 2009, the foreign exchange resulting from the consolidation amounted to a gain of \$312,022 resulting in increasing the current period’s loss in the statement of operations and recording an “Exchange reserve” in the Statement of Equity.

For the year ended June 30, 2010, the foreign exchange resulting from the consolidation amounted to a loss of \$27,546, resulting in decreasing the current year’s loss in the statement of operations and recording an “Exchange reserve” in the Statement of Equity.

## **10. Future Accounting Pronouncements**

Certain new accounting standards and interpretations have been published that are not mandatory for the December 31, 2010 reporting period. The following standards are assessed not to have any impact on the Company’s financial statements:

- IAS 24, *Related Party Disclosure*: effective for accounting periods commencing on or after January 1, 2011; and
- IFRS 9, *Financial Instruments*: effective for accounting periods commencing on or after January 1, 2013.

## **11. Disclosure Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company’s Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. Management of the Company, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company’s disclosure controls and procedures as at December 31, 2010, as required by Canadian securities law. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of December 31, 2010, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company’s annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 Certification of Disclosure in Issuer’s Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws were recorded, processed, summarized and reported within the time period specified by those laws and that material information was

accumulated and communicated to management of the Company, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow for accurate disclosure to be made on a timely basis.

## **12. Internal Controls over financial reporting**

### **Changes in Internal Control over Financial Reporting**

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Chief Executive Officer and Chief Financial Officer have concluded that there has been no change in the Company's internal control over financial reporting during the period ended December 31, 2010 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. As of December 31, 2010, the Company's internal control over financial reporting was effective.

## **13. Information on the Board of Directors and Management**

### **Directors:**

*Donald E. Ranta, Ph.D., P.Geo*  
*Mark T. Brown, B.Comm, C.A.*  
*Stephen P. Quin, P.Geo*  
*M. Norman Anderson, P. Eng*  
*Norman W. Burmeister, P. Eng*  
*Gregory E. McKelvey, M.S. Geol*

### **Audit Committee members:**

*Gregory E. McKelvey, Stephen P. Quin and Norman W. Burmeister*

### **Nominating, Corporate Governance and Compensation Committee members:**

*Gregory E. McKelvey, Stephen P. Quin, Norman W. Burmeister and M. Norman Anderson*

### **Management:**

*Donald E. Ranta, B.S., M.S., Ph.D., P.Geo – Chief Executive Officer, President*  
*Mark T. Brown, B.Comm, C.A. – Chief Financial Officer*  
*James Clark, B.S., M.S., Ph.D., L.Geo. – Vice President of Exploration*  
*George Byers, B.A., M.U.R.P. – Vice President of Government and Community Affairs*  
*Ellen Leavitt, Ph.D., P. Geo – Chief Geologist – REE*  
*John Ray, B.S., M.S., P.Geo – Chief Geologist – Gold*  
*Winnie Wong, B.Comm (Honours), C.A. – Corporate Secretary*