

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2017

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-34852



Rare Element Resources

**RARE ELEMENT RESOURCES LTD.**

(Exact Name of Registrant as Specified in its Charter)

**BRITISH COLUMBIA**

(State of other jurisdiction of incorporation or organization)

**N/A**

(I.R.S. Employer Identification No.)

**P.O. Box 271049**

**Littleton, Colorado**

(Address of principal executive offices)

**80127**

(Zip Code)

**(720) 278-2460**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Number of issuer's common shares outstanding as of November 2, 2017: 79,591,880

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## REPORTING CURRENCY, FINANCIAL AND OTHER INFORMATION

All amounts in this report are expressed in thousands of United States (“U.S.”) dollars, unless otherwise indicated.

Financial information is presented in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”).

References to “Rare Element,” the “Company,” “we,” “our,” and “us” mean Rare Element Resources Ltd., our predecessors and consolidated subsidiaries, or any one or more of them, as the context requires.

### Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains “forward-looking information” within the meaning of Canadian securities legislation and “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 (collectively, “forward-looking statements”). Any statements that express or involve discussions with respect to business prospects, predictions, expectations, beliefs, plans, intentions, projections, objectives, strategies, assumptions, future events, performance or exploration and development efforts using words or phrases (including negative and grammatical variations) such as, but not limited to, “expects,” “anticipates,” “plans,” “estimates,” “intends,” “forecasts,” “projects,” “believes,” “seeks,” or stating that certain actions, events or results “may,” “could,” “would,” “should,” “likely,” “might” or “will” be taken, occur or be achieved are not statements of historical fact and may be forward-looking statements. Although we believe that our plans, intentions and expectations reflected in these forward-looking statements are reasonable, we cannot be certain that these plans, intentions or expectations will be achieved. Actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements contained in this Quarterly Report. Forward-looking statements in this Quarterly Report include, but are not limited to, statements regarding the following:

- the impact of the Synchron investment on our future operational plans and financing plans;
- the narrowed focus or suspension of the Company’s near-term operational and permitting activities;
- our ability to resume suspended operational and permitting activities successfully;
- expectations regarding the ability to raise capital or secure strategic or joint venture partners and to continue development plans at our Bear Lodge REE Project or exploration of our Sundance Gold Project (together, the “Projects”);
- the timing and potential conclusions of future feasibility studies on the Bear Lodge REE Project;
- our ability and the timing to obtain the necessary permits and licenses, including environmental, project development, mining, beneficiation and processing operations permits;
- our ability and timing to exercise our right to purchase certain non-mineral lands for stockpile storage and processing operations.

Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors that could cause actual events or results to differ materially from our expectations, either expressed or implied, and include, among other, the factors referenced in the “Risk Factors” section of our Annual Report on Form 10-K for the period ended December 31, 2016, including, without limitation, risks associated with:

- our ability to maintain relationships and meet our obligations with significant investors or attract future investors or strategic partners;
- our ability to maintain our interest in our patent-pending intellectual property and related technical information licensed to third parties;
- our ability to obtain additional financial resources on acceptable terms or at all, in order to (i) maintain our assets, (ii) conduct our Projects’ activities and (iii) maintain our general and administrative expenditures at acceptable levels;
- whether we deregister our common shares under the Exchange Act and/or list our common shares on another securities exchange;
- depressed and volatile mineral markets, including fluctuations in demand for, and prices of, rare earth products and gold, including the potential impact of the Chinese-dominated rare earth market;

- our lack of production from our mineral properties;
- our history of losses and numerous uncertainties that could affect the profitability or feasibility of our Projects;
- the potential outcome of future feasibility studies that may indicate that the Projects' economics are less favorable than previously expected;
- our ability to resume our currently suspended federal and state permitting efforts for the Bear Lodge REE Project in a timely and cost effective manner;
- the permitting, exploration, development and operation of our Projects;
- increased costs affecting our financial condition;
- establishing adequate distribution channels to place our future suite of products;
- competition in the mining, rare earth and gold industries, including an increase in global supplies or predatory pricing and dumping by our competitors;
- technological advancements, substitutes, and the establishment of new uses and markets for rare earth products;
- the specific product(s) from the Bear Lodge REE Project potentially having a limited number of customers, which could limit our bargaining power, product pricing, and profitability;
- our proprietary, patent-pending, rare earth processing technology encountering infringement, unforeseen problems, or unexpected costs in deployment or scaling up to commercial application;
- mineral reserve and mineral resource estimation;
- the permitting, licensing and regulatory approval processes for our planned operations;
- our ability to exercise our right to purchase certain non-mineral lands for stockpile storage and processing operations and ability to acquire another location if necessary;
- opposition to any of our Projects from third parties;
- continued compliance with current environmental regulations and the possibility of new legislation, environmental regulations or permit requirements adverse to the mining industry, including measures regarding reclamation, water protection, land use and climate change;
- our dependence on and the potential difficulty of attracting and retaining key personnel, consultants and qualified management;
- any shortage of equipment and supplies;
- mining and resource exploration, development and recovery being a potentially hazardous activity;
- operating in the resource industry, which can be highly speculative and subject to market forces outside of our control;
- title to our properties or mining claims;
- insurance for our operations that could become unavailable, unaffordable or commercially unreasonable or exclude from coverage certain risks to our business;
- negative impacts to our business or operations from market factors;
- our land reclamation and remediation requirements;
- information technology system disruptions, damage or failures;

- effects of proposed legislation on the mining industry and our business;
- our executive officers, directors and consultants being engaged in other businesses;
- costs associated with any unforeseen litigation;
- enforcement of civil liabilities in the United States and elsewhere;
- our common shares continuing not to pay cash dividends;
- our securities, including in relation to both company performance and general security market conditions;
- the OTCQB standards and the “penny stock” rules and the impact on trading volume and liquidity due to our listing on the OTCQB marketplace;
- tax consequences to U.S. shareholders related to our potential status as a “passive foreign investment company”; and
- other factors, many of which are beyond our control.

This list is not exhaustive of the factors that might affect our forward-looking statements. Although we have attempted to identify important factors that could cause actual results to differ materially from those described in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary, possibly materially, from those anticipated, believed, estimated or expected. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. Except as required by law, we disclaim any obligation to revise or update any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. **We qualify all of the forward-looking statements contained in this Quarterly Report on Form 10-Q by the foregoing cautionary statements.** We advise you to carefully review the reports and documents we file from time to time with the U.S. Securities and Exchange Commission (the “SEC”), particularly our Annual Report on Form 10-K. The reports and documents filed by us with the SEC are available at [www.sec.gov](http://www.sec.gov).

**PART I – FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**RARE ELEMENT RESOURCES LTD.  
CONSOLIDATED BALANCE SHEETS**

(Expressed in thousands of U.S. dollars, except shares outstanding)

	<u>September 30, 2017</u> (unaudited)	<u>December 31, 2016</u> (audited)
<b>ASSETS:</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 544	\$ 927
Prepaid expenses and other	78	81
<b>Total Current Assets</b>	<u>622</u>	<u>1,008</u>
Equipment, net	92	106
Investment in land	600	600
<b>Total Assets</b>	<u>\$ 1,314</u>	<u>\$ 1,714</u>
<b>LIABILITIES:</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 76	\$ 65
Asset retirement obligation, current portion	–	152
<b>Total Current Liabilities</b>	<u>76</u>	<u>217</u>
Asset retirement obligation, non-current portion	241	205
Repurchase option	600	600
<b>Total Liabilities</b>	<u>917</u>	<u>1,022</u>
<b>Commitments and Contingencies</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Common shares, no par value - unlimited shares authorized; shares outstanding September 30, 2017 and December 31, 2016 - 52,941,880	104,140	103,640
Additional paid in capital	23,657	23,626
Accumulated deficit	(127,400)	(126,574)
<b>Total Shareholders' Equity</b>	<u>397</u>	<u>692</u>
<b>Total Liabilities and Shareholders' Equity</b>	<u>\$ 1,314</u>	<u>\$ 1,714</u>

See accompanying notes to consolidated interim financial statements

**RARE ELEMENT RESOURCES LTD.**  
**CONSOLIDATED UNAUDITED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
(Expressed in thousands of U.S. dollars, except share and per share amounts)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Operating expenses:</b>				
Exploration and evaluation	\$ (208)	\$ (176)	\$ (228)	\$ (338)
Corporate administration	(150)	(235)	(723)	(2,345)
Asset retirement obligation revision	–	–	116	–
Impairment of land	–	(380)	–	(380)
Depreciation	(4)	(8)	(14)	(31)
Total operating expenses	<u>(362)</u>	<u>(799)</u>	<u>(849)</u>	<u>(3,094)</u>
<b>Non-operating income/(expenses):</b>				
Interest income	–	–	–	1
Gain/(loss) on currency translation	1	(1)	23	16
Gain on sale of equipment	–	1	–	8
Total non-operating income/(expenses)	<u>1</u>	<u>–</u>	<u>23</u>	<u>25</u>
<b>Net loss</b>	<u>\$ (361)</u>	<u>\$ (799)</u>	<u>\$ (826)</u>	<u>\$ (3,069)</u>
<b>LOSS PER SHARE - BASIC AND DILUTED</b>	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.06)
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	52,941,880	52,941,880	52,941,880	52,941,880

See accompanying notes to consolidated interim financial statements

**RARE ELEMENT RESOURCES LTD.**  
**CONSOLIDATED UNAUDITED STATEMENTS OF CASH FLOWS**  
(Expressed in thousands of U.S. dollars)

	For the nine months ended September 30,	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss for the period	\$ (826)	\$ (3,069)
<b>Adjustments to reconcile net loss for the period to net cash and cash equivalents used in operating activities:</b>		
Depreciation	14	31
Gain on sale of equipment	–	(8)
Impairment of land	–	380
Asset retirement obligation revision	(116)	–
Stock-based compensation	31	67
	(897)	(2,599)
<b>Changes in working capital</b>		
Prepaid expenses and other	3	169
Accounts payable and accrued liabilities	11	(845)
<b>Net cash and cash equivalents used in operating activities</b>	(883)	(3,275)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of equipment	–	91
<b>Net cash and cash equivalents provided by investing activities</b>	–	91
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Advance payment for common share issuance	500	–
<b>Net cash and cash equivalents provided by investing activities</b>	500	–
<b>Decrease in cash and cash equivalents</b>	(383)	(3,184)
<b>Cash and cash equivalents - beginning of the period</b>	927	3,881
<b>Cash and cash equivalents - end of the period</b>	\$ 544	\$ 697

See accompanying notes to consolidated interim financial statements

## **1. NATURE OF OPERATIONS**

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

Rare Element has historically been focused on advancing the Bear Lodge REE Project and the Sundance Gold Project both located near the town of Sundance in northeast Wyoming. The Bear Lodge REE Project consists of several large disseminated REE deposits and a proposed hydrometallurgical plant to be located near Upton, Wyoming. The Sundance Gold Project contains an inferred mineral resource primarily composed of three main gold targets within the area of the Bear Lodge property. Because of the more recent focus on the REE deposit’s potential and volatile economic conditions for gold, no drilling or exploration on the Sundance Gold Project has been conducted since the end of 2011.

The Company previously announced extensive cost-cutting measures and the placement of the Bear Lodge REE Project on care-and-maintenance to enable us to move the Bear Lodge REE Project forward when market conditions improve. The Company is considering an updated work plan to (i) further progress pilot plant testing of our proprietary technology for rare earth processing and separation, (ii) progress engineering work on an alternative high-grade mine plan, and (iii) determine the timing for the resumption of permitting efforts following receipt of the proceeds from the Synchron investment on October 2, 2017 (discussed in Note 4).

In 2017, the Company began to further review the gold potential of the Bear Lodge property. The area with gold potential is mostly separate from the known rare earth deposits, including the Bull Hill deposit. There may be, however, significant gold occurrences in some of the identified satellite rare earth deposits. Only further exploration will define the extent of overlapping occurrences, if any.

The Company previously reported a going concern doubt in its Form 10-K for the year ended December 31, 2016 and subsequent quarterly filings in 2017. Due to the Synchron investment, the Company no longer has a significant doubt as to its ability to continue as a going concern. However, even with the Synchron investment, we do not have sufficient funds to fully complete feasibility studies, permitting, development and construction of the Bear Lodge REE Project. Therefore, the achievement of these activities will be dependent upon future financings, off-take agreements, joint ventures, strategic transactions, or sales of various assets. There is no assurance, however, that we will be successful in completing such a financing or transaction.

## **2. BASIS OF PRESENTATION**

In accordance with U.S. GAAP for interim financial statements, these consolidated financial statements do not include certain information and note disclosures that are normally included in annual financial statements prepared in conformity with U.S. GAAP. Accordingly, these unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements as of December 31, 2016, which were included in our Annual Report on Form 10-K for the year ended December 31, 2016. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (which are of a normal, recurring nature) necessary to present fairly in all material respects our financial position as of September 30, 2017, and the results of our operations for the three and nine months ended September 30, 2017 and 2016 and cash flows for the nine months ended September 30, 2017 and 2016 in conformity with U.S. GAAP. Interim results of operations for the three and nine months ended September 30, 2017 may not be indicative of results that will be realized for the full year ending December 31, 2017.

### 3. EQUIPMENT

	September 30, 2017			December 31, 2016		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Computer equipment	\$ 61	\$ 61	\$ -	\$ 61	\$ 61	\$ -
Furniture	13	13	-	13	13	-
Geological equipment	437	354	83	437	344	93
Vehicles	87	78	9	87	74	13
	<u>\$ 598</u>	<u>\$ 506</u>	<u>\$ 92</u>	<u>\$ 598</u>	<u>\$ 492</u>	<u>\$ 106</u>

### 4. SHAREHOLDERS' EQUITY

#### *Strategic Investment*

On August 18, 2017, the Company and General Atomics Uranium Resources, LLC, executed a term sheet for the purchase of common shares of the Company and the grant of an option to purchase common shares, and intellectual property rights (the "Term Sheet"). The Term Sheet provided that, upon the terms and subject to the conditions set forth in the Term Sheet, among other things, (i) General Atomics Uranium Resources, LLC or one or more of its affiliates ("General Atomics") would pay \$500 in cash (the "Preliminary Payment") to the Company within three business days of the execution of the Term Sheet; (ii) the Company and General Atomics would enter into an investment agreement (the "Investment Agreement"), an option agreement ("Option Agreement") and an intellectual property rights Agreement ("IP Rights Agreement), all discussed below, for \$4,752 in cash, less the Preliminary Payment, at the closing of the transaction.

On October 2, 2017, the Company and Synchron, a subsidiary of General Atomics Technologies Corporation ("Synchron") completed the transaction in accordance with the following terms. Pursuant to an Investment Agreement the Company: (i) issued to Synchron 26,650,000 common shares of the Company, which constitute approximately 33.5% of the issued and outstanding common shares of the Company, (ii) received \$4,752 in cash less the Preliminary Payment; and (iii) granted Synchron an option (the "Option") to purchase approximately an additional 15.49% of the Company's fully diluted common shares immediately after the exercise for an aggregate exercise price of an additional \$5,040. Synchron's ownership percentage after exercising the Option is limited to 49.9% of the Company's common shares issued and outstanding. The Option is exercisable for a period up to four years from the initial investment. Additionally, the parties executed an IP Rights Agreement, whereby Synchron received rights to use and improve the Company's intellectual property relating to our patents-pending and related technical information.

The Company made customary representations and warranties in the Investment Agreement. The representations and warranties of the parties survive the closing of the transactions contemplated by the Investment Agreement until the earliest to occur of (i) the fourth anniversary of such closing and (ii) the exercise date of the Option. The assertions embodied in the representations and warranties were made solely for purposes of the Investment Agreement between the Company and Synchron and may be subject to important qualifications and limitations agreed to by the parties in connection with the negotiated terms. Moreover, some of those representations and warranties were made as of a specific date, are subject to a contractual standard of materiality different from those generally applicable to shareholders and that have been used for the purpose of allocating risk between the Company and Synchron rather than establishing matters as facts. The Company's shareholders are not third-party beneficiaries under the Investment Agreement and should not rely on the representations and warranties or any descriptions thereof as characterizations of the actual state of facts or conditions of the Company, Synchron or any of their respective subsidiaries or affiliates.

Pursuant to and subject to the terms and conditions of the Investment Agreement, Synchron is entitled to nominate two directors for appointment or election to the Company's board of directors, where the board is comprised of six or seven directors following such appointment. If the Option is exercised in full and Synchron continues to own the Acquired Shares, then Synchron is entitled to nominate one additional director for appointment or election to the Company's board of directors. Synchron has not yet designated any persons for appointment or election to the Company's board of directors.

Pursuant to and subject to the terms and conditions of the Investment Agreement, absent a waiver approved by the Company's board of directors with the concurrence of a majority of Synchron's director designees, the Company may not take the following major actions without the approval of the holders of a majority of the common shares then outstanding: (i) authorizing the issuance of additional shares of capital stock of the Company; (ii) incurring indebtedness in excess of

\$1,000; (iii) entering into any transaction or series of related transactions involving the acquisition of any assets or equity interests or the disposition of the Company's assets, in each case involving consideration in excess of \$1,000; or (iv) authorizing any dividend or distribution. In addition, pursuant to and subject to the terms and conditions of the Investment Agreement, Synchron has (A) the right to purchase its pro rata share of any common shares that are issued by the Company in connection with any financing, (B) certain customary piggyback registration rights for the common shares of the Company held by Synchron and (C) certain information and indemnification rights.

Pursuant to the IP Rights Agreement, Synchron was granted certain rights to the Company's intellectual property relating to our patents-pending and related technical information. Subject to the terms and conditions of the IP Rights Agreement, Synchron was granted a perpetual non-exclusive license in the Company's intellectual property which, upon exercise of the Option, will become exclusive to Synchron and its affiliates, subject to all rights in the intellectual property retained by the Company. The Company made certain representations and warranties as to the current status of its intellectual property at the time of the license grant. In addition, pursuant to and subject to the terms and conditions of the IP Rights Agreement, Synchron (i) will receive a royalty-free exclusive right to the Company's intellectual property if the Option is exercised in full but (ii) will be required to pay a commercially reasonable royalty to the Company for its intellectual property if Synchron does not exercise the Option prior to its expiration.

### ***Outstanding Warrants***

In connection with a registered direct offering of the Company shares that closed on April 29, 2015, the Company issued warrants each exercisable for one of the Company's common shares. In addition, the Company issued warrants to a placement agent in connection with the offering, under the same terms as those issued to investors. The exercise price and exercise period are outlined below:

Financing	Investor Warrants	Placement Agent Warrants	Total Warrants	Exercise Price	Expiration Date
April 29, 2015 offering	2,615,385	261,539	2,876,924	\$0.85	4/29/18

The value of the warrants issued to the placement agent (non-employee) for its services in connection with the April 29, 2015 offering was recorded as a cost of equity. The Company used a Black-Scholes option pricing model with inputs including a market price of the Company's common shares of \$0.72, an exercise price of \$0.85, a three-year term, volatility of 81.0%, a risk-free rate of 0.91% and no assumed dividends. The value of the warrants issued to the placement agent for its services in connection with the April 29, 2015 offering was estimated at \$91.

## **5. ADDITIONAL PAID-IN CAPITAL**

### ***Stock-based compensation***

As of September 30, 2017, we have 3,591,400 options outstanding and exercisable that were issued under the 10% Rolling Stock Option Plan ("RSOP").

The fair value of each employee stock option award is estimated at the grant date using a Black-Scholes option pricing model and the price of our common shares on the date of grant. The significant assumptions used to estimate the fair value of stock options awarded during the nine months ended September 30, 2017, using a Black-Scholes option pricing model are as follows:

Risk-free interest rate	0.8%
Expected volatility	133.37%
Expected dividend yield	nil
Expected term in years	5.0
Estimated forfeiture rate	nil

The compensation expense recognized in our consolidated financial statements for the three months ended September 30, 2017 and 2016 for stock option awards was \$nil and \$11, respectively, and \$31 and \$67 for the nine months ended September 30, 2017 and 2016, respectively. As of September 30, 2017, all outstanding stock options were vested and all related compensation expense was recognized.

The following table summarizes our stock option activity for each of the nine months ended September 30, 2017 and 2016:

	2017		2016	
	Number of Stock Options	Weighted Average Exercise Price	Number of Stock Options	Weighted Average Exercise Price
Outstanding, beginning of period	3,694,900	\$ 0.94	4,578,700	\$ 3.99
Granted	150,000	0.15	–	–
Cancelled/Expired	(253,500)	2.98	(1,938,300)	6.70
Outstanding, end of period	3,591,400	\$ 0.76	2,640,400	\$ 2.25
Exercisable, end of period	3,591,400	\$ 0.76	2,440,360	\$ 2.39
Weighted-average fair value per share of options granted during period	\$ 0.15		n/a	

## 6. COMMITMENTS AND CONTINGENCIES

Our commitments and contingencies include the following item:

### *Potential environmental contingency*

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

## 7. ASSET RETIREMENT OBLIGATION REVISION

During the nine months ended September 30, 2017, we reduced our asset retirement obligation by \$116 based on a revision of our previous estimate. The Wyoming Department of Environmental Quality concurred that the completed reclamation work was in compliance with its standards and the estimated amount for the remainder of the reclamation activities was \$241.

As we do not expect to incur any asset retirement obligation activities which would further reduce our obligation during the next 12 months, we have reclassified the current portion of our asset retirement obligation to long-term.

## 8. IMPAIRMENT OF LAND

During the three months ended September 30, 2016, due to the ongoing discussions regarding valuation subsequently reflected in the Asset Purchase Agreement (the “Asset Purchase Agreement”) between Rare Element Resources, Inc., a Wyoming corporation and a wholly owned subsidiary of the Company, and Whitelaw Creek, a Wyoming limited liability company (“Whitelaw Creek”), we evaluated the carrying value of our Section 16 real property at the Bear Lodge REE Project located in Wyoming based on the sale price of \$600 per the Asset Purchase Agreement. As a result, we reduced the carrying value of the land by \$380 to \$600. Subsequent to September 30, 2016, on October 26, 2016, the asset sale to Whitelaw Creek was consummated, and the Company received proceeds of approximately \$595, representing the purchase price less closing costs and fees. See Note 5 to the consolidated financial statements for the year ended December 31, 2016 for completed discussion of this transaction.

## 9. SUBSEQUENT EVENT

On October 2, 2017, we closed a strategic investment with Synchron whereby we received a total of \$4,752 by issuing 26,650,000 common shares and executing an Investment Agreement, Option Agreement and IP Rights Agreement. See Note 4 for a complete discussion of this transaction.

## **ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following management’s discussion and analysis of the consolidated financial results and condition of Rare Element Resources Ltd. (collectively, “we,” “us,” “our,” “Rare Element” or the “Company”) for the three and nine months ended September 30, 2017, has been prepared based on information available to us as of November 10, 2017. This discussion should be read in conjunction with the unaudited Consolidated Financial Statements for the three and nine months ended September 30, 2017 and notes thereto included herewith and the audited Consolidated Financial Statements of Rare Element for the year ended December 31, 2016, and the related notes thereto filed with our Annual Report on Form 10-K, which have been prepared in accordance with U.S. GAAP. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including, but not limited to, those set forth elsewhere in this report. See “Cautionary Note Regarding Forward-Looking Statements.”

*All currency amounts are expressed in thousands of U.S. dollars, unless otherwise noted.*

### **Outlook**

The Company continues the implemented cost-conservation measures. Given the completion of the Synchron investment on October 2, 2017 (discussed in “Liquidity and Capital Resources—Strategic Investment” below), The Company is considering an updated work plan to (i) further progress pilot plant testing of our proprietary technology for rare earth processing and separation, (ii) progress engineering work on an alternative high-grade mine plan, and (iii) determine the timing for the resumption of permitting efforts. The Company will additionally continue with certain limited reclamation activities in 2017 as required and appropriate.

### **Results of Operations**

#### **Summary**

Our consolidated net loss for the three months ended September 30, 2017 was \$361, or \$0.01 per share, as compared with our consolidated net loss of \$799, or \$0.02 per share, for the same period in 2016. Our consolidated net loss for the nine months ended September 30, 2017 was \$826, or \$0.02 per share, as compared with our consolidated net loss of \$3,069, or \$0.06 per share, for the same period in 2016.

For the three months ended September 30, 2017, the decrease in consolidated net loss of \$438 from the prior period was primarily the result of a decrease in impairment charges of \$380 and corporate administration expenses of \$85, partially offset by an increase in exploration and evaluation expenses of \$32.

For the nine months ended September 30, 2017, the decrease in consolidated net loss of \$2,243 from the prior period was primarily the result of a decrease in impairment charges of \$380, a decrease in exploration and evaluation expenses of \$110 and a decrease in corporate administration expenses of \$1,622 and a decrease in our asset retirement obligation of \$116.

#### **Exploration and evaluation**

Exploration and evaluation costs were \$208 and \$228 for the three and nine months ended September 30, 2017, respectively, as compared with \$176 and \$338 for the three and nine months ended September 30, 2016, respectively. The variance for the nine months ended September 30, 2017 compared to September 30, 2016 was the result of decreased activities on the Bear Lodge REE Project as we suspended the majority of permitting activities while continuing the work necessary to maintain our permits.

#### **Corporate administration**

Corporate administration costs were \$150 and \$723 for the three and nine months ended September 30, 2017, as compared with \$235 and \$2,345 for the three and nine months ended September 30, 2016. During the nine months ended September 30, 2016, corporate administration costs included one-time expenses of \$950 incurred in placing the Bear Lodge REE Project on care-and-maintenance and severing all but one of our full-time employees.

### **Asset retirement obligation revision**

During the nine months ended September 30, 2017, we reduced our asset retirement obligation by \$116 based on a revision of our previous estimate. The Wyoming Department of Environmental Quality concurred that the completed reclamation work was in compliance with its standards and the estimated amount for the remainder of the reclamation activities was \$241. There were no such reductions during the three and nine months ended September 30, 2016 or the three months ended September 30, 2017.

### **Impairment of land**

On October 20, 2016, we executed an Asset Purchase Agreement whereby the Company agreed to sell the Section 16 real property to a private party, retaining a five-year repurchase option. During the three and nine months ended September 30, 2016, due to the ongoing discussions regarding valuation subsequently reflected in the Asset Purchase Agreement, we evaluated the carrying value of our Section 16 real property at the Bear Lodge REE Project located in Wyoming. As a result, we reduced the carrying value of the land by \$380 to \$600 in the third quarter of 2016. On October 26, 2016, the parties closed the asset sale, and the Company received proceeds of approximately \$595, representing the purchase price less closing costs and fees.

There were no impairment charges in the nine-month period ended September 30, 2017.

## **Financial Position, Liquidity and Capital Resources**

### **Operating Activities**

Net cash used in operating activities was \$883 for the nine months ended September 30, 2017, as compared with \$3,275 for the same period in 2016. The decrease of \$2,392 in cash used is primarily the result of decreased spending on exploration and evaluation activities and corporate administration, partially offset by timing in vendor payments affecting accounts payable.

### **Investing Activities**

Net cash provided by investing activities was nil for the nine months ended September 30, 2017, as compared with \$91 for the nine months ended September 30, 2016. The cash received in the 2016 period was related to the sale of small equipment and office furniture.

### **Financing Activities**

Net cash provided by financing activities was \$500 for the nine months ended September 30, 2017, as compared with nil for the nine months ended September 30, 2016. The cash received in the 2017 period was related to the strategic investment discussed in “Liquidity and Capital Resources—Strategic Investment”.

## **Liquidity and Capital Resources**

At September 30, 2017, our total current assets were \$622, as compared with \$1,008 at December 31, 2016, which is a decrease of \$386. The decrease in total current assets is primarily due to a decrease in the combination of cash and cash equivalents in the amount of \$383 due to funding operations, including an increase in prepaid expenses. Our working capital as at September 30, 2017 was \$546, as compared with \$791 at December 31, 2016. The decrease in working capital is primarily due to funding our operations, partially offset by the non-cash asset retirement obligation revision, discussed above.

We had previously placed the Bear Lodge REE Project under care-and-maintenance, and all permitting activities had been suspended. Additionally, corporate cost containment measures were implemented to preserve remaining cash balances as we pursued additional financings, asset sales and/or strategic alternatives, including joint ventures and the potential sale of all, or a portion of, the Bear Lodge REE Project and/or the Sundance Gold Project. As a result of the closing of the Synchron investment on October 2, 2017, the Company is considering an updated work plan to (i) further progress pilot plant testing of our proprietary technology for rare earth processing and separation, (ii) progress engineering work on an alternative high-grade mine plan, and (iii) determine the timing for the resumption of permitting efforts.

The Company previously reported a going concern doubt in its Form 10-K for the year ended December 31, 2016 and subsequent quarterly filings in 2017. Due to the Synchron investment, the Company no longer has a significant doubt as to

its ability to continue as a going concern. However, even with the Synchron investment, we do not have sufficient funds to fully complete feasibility studies, permitting, development and construction of the Bear Lodge REE Project. Therefore, the achievement of these activities will be dependent upon future financings, off-take agreements, joint ventures, strategic transactions, or sales of various assets. There is no assurance, however, that we will be successful in completing such a financing or transaction.

### *Strategic Investment*

On August 18, 2017, the Company and General Atomics Uranium Resources, LLC, executed a term sheet for the purchase of common shares of the Company and the grant of an option to purchase common shares, and intellectual property rights (the "Term Sheet"). The Term Sheet provided that, upon the terms and subject to the conditions set forth in the Term Sheet, among other things, (i) General Atomics Uranium Resources, LLC or one or more of its affiliates ("General Atomics") would pay \$500 in cash (the "Preliminary Payment") to the Company within three business days of the execution of the Term Sheet; (ii) the Company and General Atomics would enter into an investment agreement (the "Investment Agreement"), an Option Agreement ("Option Agreement") and an intellectual property rights Agreement ("IP Rights Agreement), all discussed below, for \$4,752 in cash, less the Preliminary Payment, at the closing of the transaction.

On October 2, 2017, the Company and Synchron, a subsidiary of General Atomics Technologies Corporation ("Synchron") completed the transaction in accordance with the following terms. Pursuant to an Investment Agreement the Company: (i) issued to Synchron 26,650,000 common shares of the Company, which constitute approximately 33.5% of the issued and outstanding common shares of the Company, (ii) received \$4,752 in cash less the Preliminary Payment; and (iii) granted Synchron an option (the "Option") to purchase approximately an additional 15.49% of the Company's fully diluted common shares immediately after the exercise for an aggregate exercise price of an additional \$5,040. Synchron's ownership percentage after exercising the Option is limited to 49.9% of the Company's common shares issued and outstanding. The Option is exercisable for a period up to four years from the initial investment. Additionally, the parties executed an IP Rights Agreement, whereby Synchron received rights to use and improve the Company's intellectual property relating to our patents-pending and related technical information. The Company will complete the proceeds allocation between the Investment Agreement, the Option Agreement and the IP Rights Agreement during the fourth quarter of 2017.

The Company made customary representations and warranties in the Investment Agreement. The representations and warranties of the parties survive the closing of the transactions contemplated by the Investment Agreement until the earliest to occur of (i) the fourth anniversary of such closing and (ii) the exercise date of the Option. The assertions embodied in the representations and warranties were made solely for purposes of the Investment Agreement between the Company and Synchron and may be subject to important qualifications and limitations agreed to by the parties in connection with the negotiated terms. Moreover, some of those representations and warranties were made as of a specific date, are subject to a contractual standard of materiality different from those generally applicable to shareholders and that have been used for the purpose of allocating risk between the Company and Synchron rather than establishing matters as facts. The Company's shareholders are not third-party beneficiaries under the Investment Agreement and should not rely on the representations and warranties or any descriptions thereof as characterizations of the actual state of facts or conditions of the Company, Synchron or any of their respective subsidiaries or affiliates.

Pursuant to and subject to the terms and conditions of the Investment Agreement, Synchron is entitled to nominate two directors for appointment or election to the Company's board of directors, where the board is comprised of six or seven directors following such appointment. If the Option is exercised in full and Synchron continues to own the Acquired Shares, then Synchron is entitled to nominate one additional director for appointment or election to the Company's board of directors. Synchron has not yet designated any persons for appointment or election to the Company's board of directors

Pursuant to and subject to the terms and conditions of the Investment Agreement, absent a waiver approved by the Company's board of directors with the concurrence of a majority of Synchron's director designees, the Company may not take the following major actions without the approval of the holders of a majority of the common shares then outstanding: (i) authorizing the issuance of additional shares of capital stock of the Company; (ii) incurring indebtedness in excess of \$1,000; (iii) entering into any transaction or series of related transactions involving the acquisition of any assets or equity interests or the disposition of the Company's assets, in each case involving consideration in excess of \$1,000; or (iv) authorizing any dividend or distribution. In addition, pursuant to and subject to the terms and conditions of the Investment Agreement, Synchron has (A) the right to purchase its pro rata share of any common shares that are issued by the Company in connection with any financing, (B) certain customary piggyback registration rights for the common shares of the Company held by Synchron and (C) certain information and indemnification rights.

Pursuant to the IP Rights Agreement, Synchron was granted certain rights to the Company's intellectual property relating to our patents-pending and related technical information. Pursuant to and subject to the terms and conditions of the IP Rights Agreement, Synchron was granted a perpetual non-exclusive license in the Company's intellectual property which, upon exercise of the Option, will become exclusive to Synchron and its affiliates, subject to all rights in the intellectual property retained by the Company. The Company made certain representations and warranties as to the current status of its intellectual property at the time of the license grant. In addition, pursuant to and subject to the terms and conditions of the IP Rights Agreement, Synchron (i) will receive a royalty-free exclusive right to the Company's intellectual property if the Option is exercised in full but (ii) will be required to pay a commercially reasonable royalty to the Company for its intellectual property if Synchron does not exercise the Option prior to its expiration.

### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

### **Contractual Obligations**

During the nine months ended September 30, 2017, there were no material changes to the contractual obligations disclosed in Item 7 of Part II in our December 31, 2016 Form 10-K.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Market risk.** Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Our market risk is comprised of commodity price risk.

**Commodity price risk.** We are indirectly exposed to commodity price risk of rare earth products and gold, which are, in turn, influenced by the price of and demand for the end products produced with rare earth and gold mineral resources. A significant decrease in the global demand for these products may have a material adverse effect on our business. None of our mineral properties are in production, and we do not currently hold any commodity derivative positions.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures**

As of the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation was carried out under the supervision of, and with the participation of the Chief Executive Officer ("CEO") and Principal Financial Officer ("PFO"), of the effectiveness of the design and operations of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on that evaluation, the CEO and the PFO have concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective in ensuring that (i) information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our CEO and PFO, as appropriate to allow timely decisions regarding required disclosure.

### **Changes in Internal Controls**

There has been no change in our internal control over financial reporting during the quarter ended September 30, 2017, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

We are not aware of any material pending or threatened litigation or of any proceedings known to be contemplated by governmental authorities that are, or would be, likely to have a material adverse effect upon us or our operations, taken as a whole.

### ITEM 1A. RISK FACTORS

During the three months ended September 30, 2017, other than the risks described below, there were no material changes to the risk factors disclosed in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2016 or in Item 1A of Part II of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017.

***Our largest shareholder beneficially owns a significant percentage of our common shares and an option to purchase additional shares, has significant influence on our major corporate decisions, including veto power over some matters, and could take actions that could be adverse to other shareholders, any of which could adversely affect the market price of our common shares.***

On August 18, 2017, we executed a term sheet with General Atomics relating to a strategic investment in the Company. On October 2, 2017, we closed the transaction and entered into an Investment Agreement, Option Agreement and an IP Rights Agreement with Synchron. As a result of the transaction, Synchron acquired approximately 33.5% of the common shares issued and outstanding of the Company, with an option to purchase such number of common shares that constitute an additional approximately 15.5% of the fully diluted common shares of the Company. The Investment Agreement grants certain rights to Synchron, including approval rights for certain corporate actions and the right to nominate for appointment two or three directors to the Company's board, depending on whether the Option is exercised, all as described in Note 4 to the consolidated financial statements for the quarter ended September 30, 2017 in this current report on Form 10-Q.

As a result of the foregoing, Synchron has significant influence on our major corporate decisions and matters requiring shareholder approval. These rights, along with the concentration of ownership and voting power with Synchron, (i) may make it more difficult for any other holder or group of holders of our common shares to be able to significantly influence the way we are managed or the direction of our business and (ii) may make it more difficult for another company to acquire us and for shareholders to receive any related takeover premium unless Synchron approves the acquisition. The interests of Synchron with respect to matters potentially or actually involving or affecting us, such as future acquisitions, financings, and other corporate opportunities, and attempts to acquire us, may conflict with the interests of our other shareholders. The ability of Synchron to influence certain of our major corporate decisions may harm the market price of our common shares by delaying, deferring, or preventing transactions that are or are perceived to be in the best interest of other shareholders or by discouraging third-party investors.

Similarly, the Option may harm the market price of our common shares because it grants Synchron the right to purchase approximately 15.5% of our fully diluted common shares at the time it is exercised for a fixed price, regardless of the then-market price of our common shares or the number of fully diluted common shares then outstanding.

***By granting a license in our intellectual property rights, we may be limited in our ability to protect our intellectual property rights, which could adversely impact our competitive position or results of operations.***

On October 2, 2017, we entered into an IP Rights Agreement with Synchron pursuant to which Synchron was granted certain perpetual rights to the Company's intellectual property relating to our patents-pending and related technical information. As a result of the transactions contemplated by the IP Rights Agreement, we may be forced to enforce or defend our intellectual property rights against infringement and unauthorized use, and to protect our trade secrets. Further, by granting a license to use our intellectual property, we may be limited in our ability to protect our intellectual property rights by legal recourse or otherwise. In defending our intellectual property rights, we may place our intellectual property at risk of being invalidated, held unenforceable, narrowed in scope or otherwise limited, any of which could have a material adverse effect on our business and financial condition. Our inability to preserve or maintain an interest in certain intellectual property rights could adversely impact our competitive position or results of operations.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

We consider health, safety and environmental stewardship to be a core value for Rare Element.

Pursuant to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), issuers that are operators, or that have a subsidiary that is an operator, of a coal or other mine in the United States are required to disclose in their periodic reports filed with the SEC information regarding specified health and safety violations, orders and citations, related assessments and legal actions, and mining-related fatalities under the regulation of the Federal Mine Safety and Health Administration (“MSHA”) under the Federal Mine Safety and Health Act of 1977 (the “Mine Act”). During the period ended September 30, 2017, the Company was not subject to regulation by MSHA under the Mine Act.

**ITEM 5. OTHER INFORMATION**

None.

## ITEM 6. EXHIBITS

<u>Exhibit Number</u>	<u>Description of Exhibits</u>
10.1+*	Term Sheet for Purchase of Common Shares, Options and Intellectual Property Rights, dated August 18, 2017, by and between Rare Element Resources Ltd. and General Atomics Uranium Resources, LLC
10.2+*	Sixth Amendment to Severance Compensation Agreement with Randall J. Scott, dated August 29, 2017
10.3+	Investment Agreement by and between Rare Element Resources Ltd. and Synchron, dated October 2, 2017
10.4+	Common Share Purchase Option, dated October 2, 2017
10.5+	Intellectual Property Rights Agreement by and between Rare Element Resources Ltd. and Synchron, dated October 2, 2017
10.6+*	Seventh Amendment to Severance Compensation Agreement with Randall J. Scott, dated November 2, 2017 (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed with the SEC on November 7, 2017)
31.1+	Certification of Chief Executive Officer pursuant to Rule 13a-14 promulgated under the Securities and Exchange Act of 1934, as amended
31.2+	Certification of Principal Financial Officer pursuant to Rule 13a-14 promulgated under the Securities and Exchange Act of 1934, as amended
32.1++	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2++	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS+	XBRL Instance Document
101.SCH+	XBRL Taxonomy Extension Schema Document
101.CAL+	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF+	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB+	XBRL Taxonomy Extension Label Linkbase Document
101.PRE+	XBRL Taxonomy Extension Presentation Linkbase Document

+ Filed herewith.

++ Furnished herewith.

\* Indicates a management contract or compensatory plan or arrangement.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### **RARE ELEMENT RESOURCES LTD.**

By: /s/ Randall J. Scott  
**Randall J. Scott**  
President, Chief Executive Officer and Director  
(Principal Executive Officer)

Date: November 13, 2017

By: /s/ Adria Hutchison  
**Adria Hutchison**  
Principal Financial Officer

Date: November 13, 2017

**TERM SHEET FOR PURCHASE OF COMMON SHARES, OPTIONS AND  
INTELLECTUAL PROPERTY RIGHTS**

**August 18, 2017**

Except as expressly provided in the Binding Provisions of this term sheet ("Term Sheet"), no legally binding obligations or liabilities will be created until definitive agreements are executed and delivered by the Parties.

**Parties:**

General Atomics Uranium Resources, LLC, a Delaware limited liability company (or one or more affiliates, the "Investor"); and

Rare Element Resources Ltd., a British Columbia corporation (the "Company") and together with Investor, the "Parties").

**Transactions:**

The following, together with the transaction described in the Section entitled “**Preliminary Payment**” below, are collectively referred to as the “Proposed Transactions”:

- (a) Investor and the Company would enter into an agreement (the “Investment Agreement”) pursuant to which Investor would acquire 26,650,000 common shares to be issued by the Company (the “Common Shares”), free and clear of any liens or encumbrance, which as of the date hereof would constitute approximately 33.5% of the fully-diluted Common Shares of the Company’s capital stock issued and outstanding (such Shares, the “Acquired Shares”).
- (b) The Company would also grant to Investor an option (the “Option”) to purchase an additional 24,175,000 Common Shares (the “Option Shares”), free and clear of any liens or encumbrance, which, together with the Acquired Shares, would constitute approximately 49% of the fully-diluted Common Shares of the Company’s capital stock issued and outstanding. The Option will include appropriate anti-dilution protections so that the Option Shares and Acquired Shares will together constitute approximately 49% of the fully-diluted Common Shares of the Company’s capital stock issued and outstanding at the time the Option is exercised (assuming that the Acquired Shares have not been sold or transferred by Investor).
- (c) Investor and the Company would enter into an Intellectual Property Rights Agreement (the “IP Rights Agreement”) to grant Investor rights to the Company’s intellectual property (whether at common law, statutory or otherwise) relating to rare earth processing and separation (the “IP Rights”), as defined in and on the terms and conditions of the IP Rights Agreement set forth below.

Investor and the Company agree that the form of the Transactions may be altered with their mutual agreement so as to ensure that such Transactions do not raise adverse tax issues to both the Company and Investor.

**Acquired Shares Closing and Purchase Price:**

The Investment Agreement shall provide that Investor shall pay \$4,752,000 (the “Acquired Shares Price”), less any Preliminary Payment, as defined herein, at the closing (the “Acquired Shares Closing”) for the Acquired Shares. Payment for the Acquired Shares shall be made in cash by wire transfer of immediately available funds to an account designated in writing by the Company.

**Terms of Options:**

- (a) The Option shall be exercisable until the fourth anniversary of the Acquired Shares Closing (“Option Period”), for the Option Shares, which, together with the Acquired Shares, would constitute approximately 49% of the outstanding Common Shares of the Company’s capital stock on a fully-diluted basis. The Option will include appropriate anti-dilution protections so that the Option Shares and Acquired Shares will together constitute approximately 49% of the outstanding Common Shares of the Company’s capital stock on a fully-diluted basis at the time the Option is exercised (assuming that the Acquired Shares have not been sold or transferred by Investor). The total exercise price of the Option Shares shall be \$5,040,000, and payment therefor shall be made in cash by wire transfer of immediately available funds to an account designated in writing by the Company upon the closing for the Option Shares (the “Option Shares Closing”).
- (b) The Option may only be exercised one time and in full during the applicable Option Period.

**Preliminary Payment:**

Within three business days of the execution of this Term Sheet, Investor shall pay, in cash by wire transfer of immediately available funds to an account designated in writing by the Company, \$500,000 (the “Preliminary Payment”).

- a. Upon execution of the Investment Agreement, the amount of the Preliminary Payment shall be credited toward the payment due to the Company from the Investor for the Acquired Shares at the Acquired Shares Closing.
- b. In the event an Investment Agreement is not executed between the Company and the Investor, the Company shall, within five business days of the termination of the Exclusivity Period, as defined herein, or upon written notice from the Investor that it does not wish to enter into an Investment Agreement, whichever occurs first, issue 3,125,000 Common Shares (the “Preliminary Shares”) to the Investor.
- c. If Preliminary Shares are issued to the Investor, the Parties agree to negotiate in good faith a registration rights agreement with respect to such Preliminary Shares.

The Company represents and warrants to the Investor that the Preliminary Shares, if and when issued and delivered to the Investor, will be duly authorized, validly issued, fully paid and nonassessable and the issuance of the Preliminary Shares will not be subject to any preemptive or similar rights.

**Exclusivity:**

Upon execution of this Term Sheet, and until the earlier of the Acquired Shares Closing or 90 days after the execution of this Term Sheet (the “Exclusivity Period”), the Company will not (and it will cause representatives and affiliates not to), directly or indirectly, (i) submit, solicit, initiate, encourage or discuss any proposal or offer from any person or entity or enter into any agreement, arrangement or understanding or accept any offer relating to or consummate any (A) reorganization, liquidation, dissolution or recapitalization of the Company, (B) merger, consolidation or acquisition involving the Company, (C) sale of any assets of the Company outside the ordinary course of business or any sale of capital stock or other equity interests in the Company or (D) similar transaction or business combination involving the Company or its business or material assets or (ii) furnish any information with respect to or facilitate in any other manner any effort or attempt by any person or entity (other than the Investor) to do any of the foregoing.

**Investment Agreement  
Conditions Precedent:**

The Acquired Shares Closing will be subject to customary conditions including, without limitation, the following:

- (a) the absence of any judgment, injunction, order or decree which restrains or enjoins or otherwise prohibits the Acquired Shares Closing;
- (b) receipt of all necessary approvals and consents required of third parties and any regulatory or governmental authorities on terms and conditions satisfactory to the Parties acting reasonably;
- (c) approval of the Company's shareholders, if required by applicable law or at the reasonable discretion of the board of directors of the Company (the "Board");
- (d) approval by the Board of the Investment Agreement and the transactions contemplated thereby;
- (e) executed indemnification agreement(s), in a form reasonably acceptable to Investor, for each of the Investors' representatives designated to the Board pursuant to the terms of the Investment Agreement.; and
- (f) compliance in all material respects by each Party with its covenants and material accuracy of representations and warranties provided for in the Investment Agreement.

The Acquired Shares Closing will not be subject to any conditions relating to financing arrangements for Investor.

**Investment Agreement  
Generally; Hold Period:**

The Parties shall enter into the Investment Agreement, which shall include the terms summarized in this Term Sheet and such other representations, warranties, conditions, covenants, indemnities and other terms that are customary for transactions of this kind and are not inconsistent with this Term Sheet. The Investment Agreement would also contain an agreement by Investor that it will not sell any Acquired Shares or Options Shares in the United States or in Canada for the respective statutory hold period applicable to such shares in each such jurisdiction.

**Investment Agreement  
Governance and  
Nomination Provisions;  
Preemptive Rights;  
Registration Rights:**

The Investment Agreement shall contain the following key terms which will apply following the Acquired Shares Closing and as long as Investor owns at least approximately 33% of the outstanding capital stock of the Company on a fully-diluted basis:

(a) **Governance.** Investor shall have the right to designate two directors for appointment or election to the Board (any Investor appointee, an “Investor Director Designee”), where the Board is comprised of six or seven directors following such appointment (or the same or any higher percentage of appointees to the Board where the Board is comprised of more than seven directors). If the Option is exercised, then Investor shall have the right to designate one additional director for appointment or election to the Board, resulting in three total Investor Director Designees of a seven-member Board (or the same or any higher percentage of appointees to the Board where the Board is comprised of more than seven directors). Following the Acquired Shares Closing, the Company will take such action as is necessary to appoint the Investor’s designees to fill any Board vacancies with the applicable number of Investor Director Designees and to nominate and support for election in the same manner as all other nominees proposed by the Company (including causing such designees’ names to be included in the slate of nominees proposed by the Company to its shareholders for election as directors and soliciting proxies in favour of the election of such designees in the event that the Company intends to solicit any such proxies in connection with an annual or special shareholders meeting where directors are elected), and the Company shall recommend a “for” vote to its shareholders in respect of such Investor Director Designees at each annual and special meeting where directors are elected. Similarly, Investor will support the nominees of the Company and vote “for” the Company’s director nominees in connection with the 2017 and 2018 annual shareholders meeting.

(b) **Approval of Certain Actions.** Absent a waiver approved by the Board with the concurrence of the Investor Director Nominees, the approval of the shareholders shall be required in order for the Company to take the following major actions:

1. authorizing the issuance of additional shares of capital stock, however, if Investor does not exercise the Option within the Option Period, the concurrence of the Investor Director Nominees is not required for issuance of additional shares of capital stock so long as the Board, by majority vote, so approves;
2. incurring any material indebtedness or making any loan; 7
3. entering into any material transaction involving the acquisition of any assets and/or equity interests or the sale, lease, license or other disposition of any portion of

**Tax Matters:**

The Parties shall agree to (i) on or prior to the date of the Acquired Shares Closing, an allocation of the Acquired Shares Price among the Acquired Shares, the Option and the IP Rights Agreement and (ii) an allocation of any other payment as required by applicable law.

The Company agrees to advise Investor whether or not the Company or any of its subsidiaries is a “controlled foreign corporation” (a “CFC”) within the meaning of Section 957 of Internal Revenue Code of 1986, as amended (the “Code”), or a “passive foreign investment company” within the meaning of Section 1297 of the Code (a “PFIC”), in each case for the most recently ended taxable year of the Company, (a) on or prior to the date of the Acquired Shares Closing, (b) promptly upon request by Investor, and (c) within 90 days following the end of each such taxable year. In addition, the Company agrees to provide Investor in a timely fashion with any information (including access to the Company personnel and advisors) reasonably requested by Investor in order to make required reports, determinations and filings with applicable taxing authorities related to its investment in the Company, including, without limitation, (x) U.S. Internal Revenue Service filings relating to the Company’s status as a CFC or PFIC, (y) determinations as to the Company’s status as a CFC or PFIC, and (z) determinations of Investor’s pro rata portion of the Company’s Subpart F Income (for purposes of the Code) or Investor’s pro rata share of the Company’s earnings and profits pursuant to section 1293 of the Code. At the request of Investor, the Company shall take any required or appropriate action to enable Investor to make a timely and valid qualified electing fund (“QEF”) election, pursuant to Section 1295 of the Code, with respect to the Company if the Company is (or is later determined to be) a PFIC.

**IP Rights Agreement:**

The Parties shall enter into an IP Rights Agreement to grant Investor the IP Rights, subject to the terms and conditions of the IP Rights Agreement set forth below.

Pursuant to and subject to the terms and conditions of the IP Rights Agreement, Investor shall be entitled to the following:

- (a) use of the IP Rights on a royalty-free (subject to (d) below), unlimited basis for any and all purposes and applications for a perpetual term;
- (b) rights to information regarding improvements, testing and results as long as an Investor Director Designee is on the Board;
- (c) the right to enhance or progress the intellectual property of the Company for rare earth and other applications; and
- (d) the license granted to Investor shall be deemed fully paid-up unless the Investor fails to exercise the Option.

Pursuant to and subject to the terms and conditions of the IP Rights Agreement, the Company shall be entitled on a royalty-free, unlimited and perpetual basis to the right to use all improvements to the intellectual property of the Company relating to rare earth processing and separation made or acquired by Investor. Such rights to improvements to the Company's intellectual property shall be solely for use by the Company and shall not be transferred to any third party. The Investor shall own all right, title and interest to any improvements made by or for Investor (subject to the license rights granted to the Company).

During the Option Period, the Investor IP Rights Agreement will be on a non-exclusive basis and will not provide for a separate licensing fee from Investor to the Company; provided, however, that the Company may not grant any rights to third parties that extend beyond the Option Period. However:

- (a) if the Option is not exercised prior to its expiration, then any extension of the IP Rights Agreement beyond the Option Period shall become subject to an annual licensing fee from Investor to the Company, which amount shall be set at a commercially reasonable fee as determined by an independent expert, or
- (b) if the Option is exercised, the Investor IP Rights Agreement will be on an exclusive basis (as to third parties) for a perpetual term, shall not be subject to a licensing fee and the license in favor of the Investor pursuant to the Investor IP Rights Agreement shall be deemed fully paid-up.

**Short Sales; Standstill:** Investor agrees that for the period ending on the earlier of (a) one year following the date of a binding letter of intent or term sheet and (b) the Acquired Shares Closing without the prior written consent of the Company, neither Investor nor any of Investor's affiliates will, directly or indirectly, alone or in concert with others (i) engage in any short selling of the securities of the Company or (ii) purchase, offer or agree to purchase or sell, or announce an intention to purchase or sell any securities (or beneficial ownership thereof) or assets of the Company or any of its subsidiaries or rights or options to acquire the same, other than the Option, or seek or propose to influence or control the Company's management, Board, policies or affairs.

**Due Diligence:** The consummation of an Investment Agreement is subject to customary closing conditions, including the completion of full due diligence which will include review of financial, compliance, legal, operational and intellectual property matters relating to the Company, as well as any other matters deemed appropriate by the Investor.

**Transaction Timing:** As soon as reasonably practicable after the execution of this term sheet, the Parties shall commence to negotiate the Investment Agreement, the IP Rights Agreement and all related ancillary agreements (collectively, the "Definitive Agreements").

The Parties agree in good faith to do all things reasonably possible to finalize and execute the Definitive Agreements by 5:00 p.m. Mountain Time on August 31, 2017 (or such longer period as the Parties agree is necessary to negotiate and finalize the Definitive Agreements). The Parties agree to set a date for the Acquired Shares Closing as soon as practicable following execution of the Definitive Agreements.

**Governing Law; Waiver  
of Jury Trial:**

This term sheet shall be governed by and construed in accordance with the internal laws of the State of New York, without giving effect to any choice or conflict of law provision or rule (whether of the State of New York or any other jurisdiction) that would cause the application of laws of any jurisdiction other than those of the State of New York. EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY THAT MAY ARISE UNDER THIS LETTER OR THE DEFINITIVE AGREEMENTS IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES AND, THEREFORE, SUCH PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LEGAL ACTION ARISING OUT OF OR RELATING TO THIS TERM SHEET, THE DEFINITIVE AGREEMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

**Expenses:**

Each of the Parties will pay its own costs and expenses incurred in connection with the Proposed Transactions (including the fees and expenses of any of its advisors).

**No Binding Agreement:**

This Term Sheet does not reflect any form of legally binding commitment or obligation on the part of either Party or its affiliates, except with regard to the sections titled “**Preliminary Payment**”, “**Exclusivity**”, “**Tax Matters**”, “**Governing Law; Waiver of Jury Trial**”, “**Expenses**”, “**Company Authorization of Term Sheet and Enforceability of Binding Provisions**” and “**No Binding Agreement**” (collectively, the “Binding Provisions”). No contract or agreement providing for any transaction involving any capital stock or otherwise with respect to the assets of the Company or the Proposed Transactions, joint venture, partnership or fiduciary relationship shall be deemed to exist between the Parties or any of their affiliates unless and until final definitive agreements with respect to the Proposed Transactions have been executed and delivered and only thereafter as and to the extent specified therein. The Parties hereby acknowledge and agree that (a) the terms in this Term Sheet do not contain all material terms to be negotiated as part of the Definitive Agreements or otherwise with respect to the Proposed Transactions, (b) no oral agreement, public or private statements or course of conduct or dealings between the Parties and/or their affiliates may be introduced as evidence that there exists any binding contract or commitment or a joint venture or partnership between the Parties with respect to any of the transactions contemplated hereby, other than the Binding Provisions, (c) neither Party and/or any of its affiliates may bring any claim or action against the other Party and/or any of its affiliates and/or any of their officers, directors, employees, consultants or advisors as a result of a failure to agree on or enter into any Definitive Agreements, or as a result of a termination of this Term Sheet and (d) neither Party shall be justified in relying on any provision of this Term Sheet (other than the Binding Provisions), in connection with the transactions hereby.

**Company Authorization  
of Term Sheet and  
Enforceability of Binding  
Provisions:**

Each Party represents and warrants to the other Party that it has all requisite power and authority to execute and deliver this Term Sheet, to consummate the transactions contemplated by the Binding Provisions and to perform all the terms and conditions of the Binding Provisions to be performed by such Party. The execution and delivery of this Term Sheet, the performance of all terms and conditions contained in the Binding Provisions to be performed by the Company and the consummation of the transactions contemplated by the Binding Provisions, including the issuance and delivery of the Preliminary Shares to the Investor (if the Preliminary Shares are issued), have been duly authorized and approved by all requisite corporate action on the part of the Company. This Term Sheet has been, and upon execution and delivery by the Parties of this Term Sheet, will be, duly executed and delivered by each Party and the Binding Provisions constitute the valid and binding obligations of each Party enforceable against the other Party in accordance with the terms of such Binding Provisions, except as such enforceability may be limited to bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally and to general equitable principles.

[Remainder of page intentionally left blank]

The undersigned hereby acknowledge and accept the terms of the Term Sheet and intend to be bound solely by the Binding Provisions of this Term Sheet as set forth above.

**COMPANY:**

RARE ELEMENT RESOURCES LTD.

By /s/ *Randall J. Scott*

Name: Randall J. Scott

Title: President and CEO

**INVESTOR:**

GENERAL ATOMICS URANIUM RESOURCES, LLC

By /s/ *David Roberts*

Name: David Roberts

Title: President and CEO

**Exhibit 10.2*****PERSONAL AND CONFIDENTIAL***

August 29, 2017

Randall Scott

RE: Extension of salary status - Randall J. Scott

Randy,

This letter agreement confirms the discussion and agreement between you and Rare Element Resources, Inc. (the "Company") regarding the continuation of the adjusted salary and term as set forth in the letter agreement dated June 7, 2017. As we agreed, your salary will continue to be \$14,000 per month as of September 1, 2017 for a period of two months while you focus your efforts on completing the pending investor agreement and overseeing the administration of the Company. You will continue as the Company's President and Chief Executive Officer working from your home office, devoting as much time as necessary to achieve the key objectives of the Company.

It is currently expected your ongoing employment and your salary would be evaluated further by the end of October 2017, and if the pending investment agreement has not been successfully closed within that time period, it is expected that the Board of Director's will implement further cost cutting measures.

Your Severance Compensation Agreement dated April 23, 2013, as amended, remains unchanged by this letter agreement with the exception of the base salary adjustment. We look forward to working with you to achieve the Company's key objectives in this time period.

Please sign below your acceptance of this amendment.

Kind Regards,

/s/ Gerald Grandey  
Gerald Grandey  
Chairman of the Board

Accepted and Agreed on this 29th day of August, 2017.

/s/ Randall J. Scott  
Randall J. Scott

**INVESTMENT AGREEMENT**  
**BY AND BETWEEN**  
**RARE ELEMENT RESOURCES LTD.**  
**AND**  
**SYNCHRON**  
**DATED AS OF OCTOBER 2, 2017**

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## INVESTMENT AGREEMENT

This INVESTMENT AGREEMENT (this “Agreement”), is entered into as of October 2, 2017 (the “Closing Date”) by and between Rare Element Resources Ltd., a company incorporated under the laws of the Province of British Columbia (the “Company”), and Synchron, a California corporation (the “Investor”). Each of the Company and Investor are referred to herein as a “Party” and together as “Parties.”

### RECITALS

WHEREAS, the Company desires to sell to Investor, and Investor desires to purchase from the Company, securities of the Company, subject to the terms and conditions set forth herein;

WHEREAS, the Company and Investor desire to set forth certain agreements herein pursuant to which Investor will be granted certain governance, preemptive, registration and other rights; and

WHEREAS, concurrent with the execution of this Agreement, (i) the Company and Investor will enter into that certain Intellectual Property Rights Agreement pursuant to which Investor will be granted certain rights in and to the Company’s intellectual property relating to rare earth processing and separation (the “IP Rights Agreement”) and (ii) the Company will issue that certain Option (as defined below) pursuant to which Investor will be entitled to purchase common shares of the Company.

### AGREEMENTS

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein, and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

#### ARTICLE I DEFINITIONS

Section 1.1 Definitions. In addition to the terms defined elsewhere in this Agreement, for all purposes of this Agreement, the following terms have the meanings set forth in this Section 1.1:

“Acquired Shares” means 26,650,000 Common Shares.

“Acquired Shares and Option Price” is defined in Section 2.1.

“Action” is defined in Section 3.10.

“Affiliate” means, with respect to a specified Person, any other Person, whether now in existence or hereafter created, directly or indirectly controlling, controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, “control” (including, with correlative meanings, “controlling,” “controlled by” and “under common control

with”) means the power to direct or cause the direction of the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise.

“Agreement” is defined in the preamble to this Agreement.

“Blackout Period” means any period during which the filing of a Registration Statement would be prohibited by the terms of a customary “lock-up” or “market stand-off” provision included in an underwriting agreement relating to an underwritten offering.

“Board of Directors” means the board of directors of the Company.

“Business Day” means any day except any Saturday, any Sunday, any day which is a federal legal holiday in the United States or any day on which banking institutions in the State of New York are authorized or required by law or other governmental action to close.

“Canadian Transfer Restriction” is defined in Section 4.5(f).

“CFC” is defined in Section 5.9(b).

“Closing” means the closing of the purchase and sale of the Acquired Shares and issuance of the Option pursuant to Section 2.1.

“Closing Date” is defined in the preamble to this Agreement.

“Code” means the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder.

“Commission” means the U.S. Securities and Exchange Commission.

“Common Share Equivalents” means any securities of the Company or the Subsidiaries which would entitle the holder thereof to acquire at any time Common Shares, including any debt, preferred stock, right, option, warrant or other instrument that is at any time convertible into or exercisable or exchangeable for, or otherwise entitles the holder thereof to receive, Common Shares.

“Common Shares” means the common shares of the Company, no par value per share, and any other class of securities into which such securities may hereafter be reclassified or changed.

“Company” is defined in the preamble to this Agreement.

“Confidentiality Agreement” means the confidentiality agreement, dated as of May 7, 2017, between the Company and Investor.

“control” is defined in the definition of the term “Affiliate.”

“Disclosure Schedules” means the Disclosure Schedules of the Company delivered concurrently herewith.

“Effective Date” means the time and date that a Registration Statement is first declared effective by the Commission or otherwise becomes effective.

“Effectiveness Period” means the earlier of (a) two (2) years after the initial effective date of such registration statement and (b) the time at which there are no longer any Registrable Securities outstanding.

“Equity Securities” is defined in Section 5.4(a).

“Evaluation Date” is defined in Section 3.18.

“Excepted Offering” means the issuance of (a) Equity Securities to employees, officers, consultants or directors of the Company pursuant to any equity incentive plan; (b) Equity Securities in connection with a stock split or similar transaction; (c) Equity Securities issuable upon the conversion, exercise or exchange of Equity Securities outstanding on the date of this Agreement; and (d) the Option.

“Exchange Act” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

“Expiration Date” is defined in Section 5.1(e).

“FCPA” means the Foreign Corrupt Practices Act of 1977, as amended.

“Form S-4” means a registration statement on Form S-4 under the Securities Act or such successor forms thereto permitting registration of securities under the Securities Act.

“Form S-8” means a registration statement on Form S-8 under the Securities Act or such successor forms thereto permitting registration of securities under the Securities Act.

“Fully Diluted Pro Rata Ownership Percentage” means, (a) with respect to an Offering, the same pro rata fully diluted equity ownership percentage in the Company that Investor had immediately prior to the consummation of such Offering, (b) with respect to the determination of the Expiration Date under Section 5.1, the pro rata fully diluted equity ownership percentage in the Company that Investor had on the date of such determination, and (c) with respect to the determination of the Preemptive Rights Expiration Date under Section 5.4(c), the pro rata fully diluted equity ownership percentage in the Company that Investor had on the date of such determination. In calculating Investor’s fully diluted equity ownership percentage in the Company pursuant to this Agreement, the Company shall make reasonable, good faith estimates of the shares issuable upon exercise, vesting or similar events relating to compensatory awards, which estimates shall be submitted to the Board of Directors for review and approval, where the number of Equity Securities issuable upon such exercise, vesting or similar event cannot yet be determined at the date of such calculation, including by assuming vesting of such awards at target levels of performance and the continued employment of employees holding awards subject to time vesting, *provided* that the Option Shares shall not be included in the calculation of Investor’s fully diluted equity ownership percentage unless and until the Option is exercised in full.

“GAAP” is defined in Section 3.8.

“Holder” means (a) Investor unless and until Investor ceases to hold any of the Acquired Shares, any Option Shares or any Registrable Securities and (b) any Affiliate of Investor holding Registrable Securities and to which rights and obligations under this Agreement have been assigned in compliance with Section 6.6.

“Intellectual Property Rights” is defined in Section 3.15.

“Investor” is defined in the preamble to this Agreement.

“Investor Director Designee” is defined in Section 5.1(a).

“Investor Indemnified Party” is defined in Section 5.11.

“IP Rights Agreement” is defined in the recitals to this Agreement.

“Liens” means a lien, charge, pledge, security interest, encumbrance, right of first refusal or first offer, preemptive right, prior assignment, hypothec, mortgage, encroachment, option, occupancy right, covenant, encumbrance or other restriction of any kind.

“Losses” is defined in Section 5.11(a).

“Material Adverse Effect” means a fact or state of facts, circumstance, change, effect, occurrence or event that, individually or in the aggregate, is or is reasonably likely to be material and adverse to (1) the legality, validity, or enforceability of the Transaction Documents, (2) operations, assets, business, condition (financial or otherwise), results of operations or liabilities of the Company and the Subsidiaries, taken as a whole, or (3) the Company’s ability to perform in any material respect on a timely basis its obligations under any Transaction Document.

“Material Permits” is defined in Section 3.13.

“Money Laundering Laws” is defined in Section 3.27.

“Non-Public Information” is defined in Section 5.5(f)(xi).

“OFAC” is defined in Section 3.26.

“Offering” is defined in Section 5.4(b).

“Offering Notice” is defined in Section 5.4(b).

“Option” means the option to purchase Common Shares delivered to Investor in accordance with Section 2.3, which option, unless exercised or sooner terminated in accordance with the terms of the option, shall be exercisable on or after the Closing Date until and including the day that is four (4) years after the Closing Date (the “Option Period”).

“Option Period” is defined in the definition of the term “Option.”

“Option Shares” means the Common Shares issuable upon exercise of the Option.

“Party” or “Parties” is defined in the preamble to this Agreement.

“PCMLTFA” is defined in Section 4.7.

“Person” means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof) or other entity of any kind.

“PFIC” is defined in Section 5.9(b).

“Piggyback Notice” is defined in Section 5.5(a).

“Piggyback Registration” is defined in Section 5.5(a).

“Piggyback Request” is defined in Section 5.5(a).

“Preemptive Rights Expiration Date” is defined in Section 5.4(c).

“Preliminary Payment” means the \$500,000 paid by Investor on August 22, 2017 in cash by wire transfer of immediately available funds to an account designated in writing by the Company in accordance with the Term Sheet.

“Proceeding” means an action, claim, suit, investigation or proceeding (including an informal investigation or partial proceeding, such as a deposition), lawsuit, arbitration, litigation, citation, summons, subpoena, whether at law or in equity, whether commenced or threatened.

“Prospectus” means the prospectus included in a Registration Statement (including a prospectus that includes any information previously omitted from a prospectus filed as part of an effective Registration Statement in reliance upon Rule 430A, Rule 430B or Rule 430C promulgated under the Securities Act), as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Registrable Securities covered by a Registration Statement and all other amendments and supplements to the Prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such Prospectus.

“Registrable Securities” means (a) the Acquired Shares, (b) the Option Shares, and (c) any Common Shares issued or issuable with respect to any shares described in subsections (a) and (b) above by way of a stock dividend or stock split or in exchange for or upon conversion of such shares or otherwise in connection with a combination of shares, distribution, recapitalization, merger, consolidation, other reorganization or other similar event with respect to the Common Shares (it being understood that, for purposes of this Agreement, a Person shall be deemed to be a holder of Registrable Securities whenever such Person has the right to then acquire or obtain from the Company any Registrable Securities, whether or not such acquisition has actually been effected); *provided, however*, that Registrable Securities shall not include (i) any Acquired Shares or Option Shares that have been registered under the Securities Act and disposed of pursuant to an effective registration statement; (ii) any Acquired Shares or Option

Shares that have been sold pursuant to Rule 144 other than to a transferee or purchaser in accordance with Section 6.6; (iii) any Acquired Shares or Option Shares that have become eligible for sale pursuant to Rule 144 without volume or manner-of-sale restrictions and without the requirement for the Company to be in compliance with the current public information requirement under Rule 144(c)(1), as set forth in a written opinion letter to such effect, addressed, delivered and reasonably acceptable to the Transfer Agent and the holder of such securities; (iv) any Acquired Shares or Option Shares that have been otherwise transferred to a Person other than a wholly owned subsidiary of Investor; and (v) any Acquired Shares or Option Shares that cease to be outstanding (whether as a result of repurchase and cancellation, conversion or otherwise).

“Registration Expenses” is defined in Section 5.5(g).

“Registration Statement” means a registration statement in a form that permits the resale of the Registrable Securities under the Securities Act, and including any Prospectus, amendments and supplements to each such registration statement or Prospectus, including pre- and post-effective amendments, all exhibits thereto, and all material incorporated by reference or deemed to be incorporated by reference in such registration statement.

“Representatives” means, as to any Person, such Person’s Affiliates, and its and their respective directors, officers, employees, managing members, general partners, agents, and consultants (including attorneys, financial advisors, and accountants).

“Required Approvals” is defined in Section 3.5.

“Restraints” is defined in Section 2.5(a)(i).

“Rule 144” means Rule 144 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended or interpreted from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same purpose and effect as such Rule.

“Rule 424” means Rule 424 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended or interpreted from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same purpose and effect as such Rule.

“SEC Reports” is defined in Section 3.8.

“Securities” means the Acquired Shares, the Option and the Option Shares.

“Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

“Selling Expenses” means all underwriting discounts, selling commissions and stock transfer taxes applicable to the sale of Registrable Securities and fees and disbursements of counsel for any Holder.

“Shares” means the Common Shares issued or issuable to Investor pursuant to this Agreement.

“Short Sales” means all “short sales” as defined in Rule 200 promulgated under Regulation SHO under the Exchange Act, whether or not against the box, and forward sale contracts, options, puts, calls, short sales, “put equivalent positions” (as defined in Rule 16a-1(h) under the Exchange Act) and similar arrangements, and sales and other transactions through non-U.S. broker dealers or foreign regulated brokers.

“Subsidiary” means any subsidiary of the Company as set forth on Schedule 3.1, and shall, where applicable, also include any direct or indirect subsidiary of the Company formed or acquired after the date hereof.

“Suspension Period” is defined in Section 5.5(i).

“Term Sheet” means that certain Term Sheet for Purchase of Common Shares, Options and Intellectual Property Rights by and between the Company and Investor, dated as of August 18, 2017.

“Trading Day” means a day on which the principal Trading Market is open for trading.

“Trading Market” means any of the following markets or exchanges on which the Common Shares are listed or quoted for trading on the date in question: OTCQB, OTCQX, OTCPink, NYSE MKT, Toronto Stock Exchange, TSX Venture Exchange, Nasdaq Capital Market, Nasdaq Global Market, Nasdaq Global Select Market and New York Stock Exchange (or any successors to any of the foregoing).

“Transaction Documents” means collectively, this Agreement, the Option, the IP Rights Agreement and any other documents or agreements executed in connection with the transactions contemplated hereunder.

“Transfer Agent” means Computershare Trust Company of Canada, the current transfer agent of the Company, with a mailing address of 510 Burrard Street, 3rd Floor, Vancouver, British Columbia, V6C 3B9, Canada and a facsimile number of (604) 689-8144, and any successor transfer agent of the Company.

## **ARTICLE II AGREEMENT TO SELL AND PURCHASE**

Section 2.1 Sale and Purchase. Subject to the terms and conditions of this Agreement, the Company hereby agrees to issue to Investor at the Closing the Acquired Shares and the Option. The amount Investor shall pay to the Company as consideration for the Acquired Shares and the Option shall be \$4,752,000 (the “Acquired Shares and Option Price”), of which (a) Five Hundred Thousand U.S. Dollars (\$500,000) has been paid prior to the date hereof in the form of the Preliminary Payment and (b) Four Million Two Hundred and Fifty Two Thousand U.S. Dollars (\$4,252,000) shall be paid in accordance with Section 2.4(b).

Section 2.2 Closing. Pursuant to the terms of this Agreement, the consummation of the issuance of the Acquired Shares and the Option hereunder shall occur simultaneously with the execution of this Agreement. Unless otherwise directed by Investor, settlement of the Acquired Shares shall occur via physical delivery of a certificate representing the Acquired Shares. The Parties agree that the Closing may occur via delivery of electronic copies of the Transaction Documents and the closing deliverables contemplated hereby and thereby. Unless otherwise provided herein, all proceedings to be taken and all documents to be executed and delivered by the Parties at the Closing will be deemed to have been taken and executed simultaneously, and no proceedings will be deemed to have been taken nor documents executed or delivered until all have been taken.

Section 2.3 Company Closing Deliverables. Upon the terms and subject to the conditions of this Agreement, at or prior to the Closing, the Company shall deliver or cause to be delivered to Investor each of the following:

- (a) this Agreement duly executed by the Company;
- (b) (i) evidence satisfactory to Investor of the issuance of the Acquired Shares in book-entry form, registered in the name of Investor or (ii) a certificate representing the Acquired Shares, registered in the name of Investor;
- (c) the Option duly executed by the Company;
- (d) a cross receipt in respect of the Company's receipt of the Acquired Shares and Option Price, the Investor's receipt of a certificate representing the Acquired Shares, registered in the name of Investor, and the Investor's receipt of the Option, duly executed by the Company (the "Cross Receipt");
- (e) the IP Rights Agreement duly executed by the Company; and
- (f) indemnification agreements, in a form reasonably acceptable to Investor, for each of Investor's Representatives designated to the Board of Directors, each of which agreement shall have been duly executed by the Company.

Section 2.4 Investor Closing Deliverables. Upon the terms and subject to the conditions of this Agreement, at or prior to the Closing, Investor shall deliver or cause to be delivered to the Company each of the following

- (a) this Agreement duly executed by Investor;
- (b) an amount equal to Four Million Two Hundred and Fifty Two Thousand U.S. Dollars (\$4,252,000) in cash by wire transfer of immediately available funds to an account designated in writing by the Company at least two days prior to the Closing Date;
- (c) the Cross Receipt, duly executed by Investor;
- (d) the IP Rights Agreement duly executed by Investor; and

- (e) a duly completed and executed IRS Form W-9.

Section 2.5 Closing Conditions.

(a) The obligations of each Party hereunder in connection with the Closing are subject to the following condition being met:

- (i) No applicable law, order, decree, injunction (whether preliminary or permanent), judgment or ruling enacted, promulgated, issued, entered, amended or enforced by any Person (collectively, “Restraints”) shall be in effect enjoining, restraining, preventing or prohibiting consummation of the transactions contemplated hereby or making the consummation of the transactions contemplated hereby illegal; and

- (ii) All approvals and consents required to be obtained from third parties and any regulatory or governmental authorities by the Company or the Investor prior to the Closing in connection with the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby by the Company or the Investor shall have obtained, in each case on terms and conditions satisfactory to the Parties acting reasonably.

(b) The obligations of the Company hereunder in connection with the Closing are subject to the following conditions being met:

- (i) The representations and warranties of Investor contained in ARTICLE IV that are qualified by materiality or Material Adverse Effect shall be true and correct as of the Closing Date, and all other representations and warranties shall be true and correct in all material respects as of such Closing Date, in each case as though made at and as of such Closing Date (except that representations made as of a specific date shall be required to be true and correct as of such date only);

- (ii) All obligations, covenants and agreements of Investor required to be performed at or prior to the Closing Date shall have been performed in all material respects; and

- (iii) The delivery by Investor of the items set forth in Section 2.4.

(c) The obligations of Investor hereunder in connection with the Closing are subject to the following conditions being met:

- (i) The representations and warranties of the Company contained in ARTICLE III that are qualified by materiality or Material Adverse Effect shall be true and correct as of the Closing Date, and all other representations and warranties shall be true and correct in all material respects as of such Closing Date, in each case as though made at and as of such Closing Date (except that representations made as of a specific date shall be required to be true and correct as of such date only);

(ii) All obligations, covenants and agreements of the Company required to be performed at or prior to the Closing Date shall have been performed in all material respects;

(iii) Investor shall have received evidence of the approval by the Board of this Agreement and the transactions contemplated hereby, in form and substance satisfactory to Investor (acting reasonably); and

(iv) The delivery by the Company of the items set forth in Section 2.3.

### **ARTICLE III REPRESENTATIONS AND WARRANTIES OF THE COMPANY**

Except as set forth in the Disclosure Schedules, which Disclosure Schedules shall be deemed a part hereof and shall qualify any representation or warranty made herein to the extent of the disclosure contained in the corresponding section of the Disclosure Schedules, the Company hereby makes the following representations and warranties to Investor as of the Closing Date (unless as of a specific date therein):

Section 3.1 Subsidiaries. All of the direct and indirect subsidiaries of the Company are set forth on Schedule 3.1. Except as set forth on Schedule 3.1, neither the Company nor any Subsidiary owns, beneficially or of record, any equity interest of any kind in any other Person. The Company is, directly or indirectly, the record and beneficial owner of all of the capital stock or other equity interests of each Subsidiary free and clear of any Liens, and all of the issued and outstanding shares of capital stock of each Subsidiary are validly issued and are fully paid, non-assessable and free of preemptive and similar rights to subscribe for or purchase securities, except for the preemptive rights provided to Investor pursuant to Section 5.4.

Section 3.2 Organization and Qualification. The Company and each of the Subsidiaries is an entity duly incorporated or otherwise organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization, with the requisite power and capacity to own and use its properties and assets and to carry on its business as currently conducted. Neither the Company nor any Subsidiary is in violation nor default of any of the provisions of its respective certificate or articles of incorporation, bylaws or other organizational or charter documents. Each of the Company and the Subsidiaries is duly qualified to conduct business and is in good standing in each jurisdiction in which the nature of the business conducted or property owned, leased or licensed or otherwise held by it makes such qualification necessary in all material respects and no Proceeding has been instituted in any such jurisdiction revoking, limiting or curtailing or seeking to revoke, limit or curtail such power and authority or qualification.

Section 3.3 Authorization; Enforcement. The Company has the requisite corporate power and capacity to enter into and to consummate the transactions contemplated by this Agreement and each of the other Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery of this Agreement and

each of the other Transaction Documents by the Company and the consummation by it of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action on the part of the Company and no further action is required by the Company, the Board of Directors or the Company's shareholders in connection herewith or therewith other than in connection with the Required Approvals. This Agreement and each other Transaction Document to which the Company is a party has been (or upon delivery will have been) duly executed by the Company and, when delivered in accordance with the terms hereof and thereof, will constitute the valid and binding obligation of the Company enforceable against the Company by Investor in accordance with its terms, except (a) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (b) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (c) insofar as indemnification and contribution provisions may be limited by applicable law.

Section 3.4 No Conflicts. The execution, delivery and performance by the Company of this Agreement and the other Transaction Documents to which it is a party, the issuance and sale of the Securities and the consummation by it of the transactions contemplated hereby and thereby do not and will not (a) conflict with or violate any provision of the Company's or any Subsidiary's certificate or articles of incorporation, bylaws or other organizational or charter documents, or (b) conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, result in the creation of any Lien upon any of the properties or assets of the Company or any Subsidiary, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a Company or Subsidiary debt or otherwise) to which the Company or any Subsidiary is a party or by which any property or asset of the Company or any Subsidiary is bound or affected, or (c) subject to the Required Approvals and assuming the accuracy of Investor's representations set forth in Section 4.5, conflict with or result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which the Company or a Subsidiary is subject (including U.S. federal securities laws and regulations), or by which any property or asset of the Company or a Subsidiary is bound or affected; except in the case of clause (c), such as could not be reasonably expected to result in a Material Adverse Effect.

Section 3.5 Filings, Consents and Approvals. The Company is not required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or other Canadian or U.S. federal, state, local or other governmental authority or other Person in connection with the execution, delivery and performance by the Company of the Transaction Documents, other than (a) the filing required pursuant to Section 5.10 and (b) the filings under applicable securities laws in Canada (collectively, the "Required Approvals").

Section 3.6 Issuance of the Securities. The Securities are duly authorized and, when issued and paid for in accordance with the applicable Transaction Documents, will be

duly and validly issued, fully paid and, in the case of the Acquired Shares, nonassessable, free and clear of all Liens imposed by the Company. The Option Shares, when issued in accordance with the terms of the Option, will be validly issued, fully paid and nonassessable.

Section 3.7 Capitalization. The authorized share capital of the Company consists of an unlimited number of Common Shares. The capitalization of the Company is as set forth on Schedule 3.7, including the number and type of Common Share Equivalents outstanding, the exercise price or issuance price, as applicable and vested percentage, as applicable, of such Common Share Equivalents. The Company has not issued any capital stock since its most recently filed periodic report under the Exchange Act, other than pursuant to the exercise of employee stock options under the Company's stock option plans, the issuance of Common Shares to employees pursuant to the Company's employee stock purchase plans and pursuant to the conversion and/or exercise of Common Share Equivalents outstanding as of the date of the most recently filed periodic report under the Exchange Act. Except for the preemptive rights provided to Investor pursuant to Section 5.4 and as disclosed in Schedule 3.7, no Person has any right of first refusal, preemptive right, right of participation, redemption right, repurchase right, or any other right of any kind that obligates the Company or any Subsidiary to issue or sell any shares of capital stock or other securities of the Company or any Subsidiary. Except as set forth on Schedule 3.7 and as a result of the purchase and sale of the Securities, there are no outstanding options, warrants, scrip rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities, rights or obligations convertible into or exercisable or exchangeable for, or giving any Person any right to subscribe for or acquire, any Common Shares, or contracts, commitments, understandings or arrangements by which the Company or any Subsidiary is or may become bound to issue additional Common Shares or Common Share Equivalents. The issuance and sale of the Securities will not obligate the Company to issue Common Shares or other securities to any Person (other than Investor) and will not result in a right of any holder of Company securities to adjust the exercise, conversion, exchange or reset price under any of such securities. Except as set forth on Schedule 3.7, the Company does not have any stock appreciation rights or "phantom stock" plans or agreements or any similar plan or agreement. All of the outstanding shares of capital stock of the Company are duly authorized, validly issued, fully paid and nonassessable, have been issued in compliance with all Canadian and U.S. federal and state securities laws, and none of such outstanding shares was issued in violation of any preemptive rights or similar rights to subscribe for or purchase securities. No further approval or authorization of any shareholder, the Board of Directors or others is required for the issuance and sale of the Securities. Except for this Agreement, there are no shareholders agreements, voting agreements or other similar agreements with respect to the Company's capital stock to which the Company is a party or, to the knowledge of the Company, between or among any of the Company's shareholders.

Section 3.8 SEC Reports; Financial Statements. The Company has filed all reports, schedules, forms, statements and other documents required to be filed by the Company under the Exchange Act, including pursuant to Section 13(a) or 15(d) thereof, for the one (1) year preceding the date hereof (or such shorter period as the Company was

required by law or regulation to file such material) (the foregoing materials, including the exhibits thereto and documents incorporated by reference therein being collectively referred to herein as the “SEC Reports”) on a timely basis or has received a valid extension of such time of filing and has filed any such SEC Reports prior to the expiration of any such extension. As of their respective dates, the SEC Reports complied in all material respects with the requirements of the Exchange Act, and none of the SEC Reports, when filed, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The financial statements of the Company included in the SEC Reports comply in all material respects with applicable accounting requirements and the rules and regulations of the Commission with respect thereto as in effect at the time of filing. Such financial statements have been prepared in accordance with U.S. generally accepted accounting principles applied on a consistent basis during the periods involved (“GAAP”), except as may be otherwise specified in such financial statements or the notes thereto and except that unaudited financial statements may not contain all footnotes required by GAAP, and fairly present in all material respects the financial position of the Company and its consolidated Subsidiaries as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal year-end audit adjustments.

Section 3.9 Material Changes; Undisclosed Events, Liabilities or Developments. To the knowledge of the Company, there are no liabilities or obligations of the Company or any Subsidiary of any kind whatsoever, whether accrued, contingent, absolute, determined, determinable or otherwise, other than (a) liabilities or obligations disclosed in any financial statements of the Company filed with the Commission, (b) liabilities or obligations incurred in the ordinary course of business consistent with past practice, (c) liabilities or obligations incurred in connection with the transactions contemplated hereby, and (d) liabilities or obligations that would not be reasonably expected to have, individually or in the aggregate, a Material Adverse Effect. Since the date of the latest audited financial statements included within the SEC Reports, except as specifically disclosed in a subsequent SEC Report filed prior to the date hereof, (a) there has been no event, occurrence or development that has had or that could reasonably be expected to result in a Material Adverse Effect, (b) the Company has not altered its method of accounting, (c) the Company has not declared or made any dividend or distribution of cash or other property to its shareholders or purchased, redeemed or made any agreements to purchase or redeem any shares of its capital stock and (d) the Company has not issued any equity securities to any officer, director or Affiliate, except pursuant to existing Company stock option plans. The Company does not have pending before the Commission any request for confidential treatment of information. Except for the issuance of the Securities contemplated by this Agreement or as set forth on Schedule 3.9, no event, liability, fact, circumstance, occurrence or development has occurred or exists or is reasonably expected to occur or exist with respect to the Company or its Subsidiaries or their respective businesses, prospects, properties, operations, assets or financial condition that would be required to be disclosed by the Company under applicable securities laws at the time this representation is made or deemed made that has

not been publicly disclosed at least one (1) Trading Day prior to the date that this representation is made.

Section 3.10 Litigation. There is no claim, action, suit, inquiry, notice of violation, arbitration, mediation, assessment or reassessment, proceeding or investigation, whether civil, criminal, administrative or investigative, pending or, to the knowledge of the Company, threatened against or affecting the Company, any Subsidiary or any of their respective properties before or by any court, arbitrator, governmental or administrative agency or regulatory authority (U.S. federal, state, county, local or foreign) (collectively, an “Action”). Neither the Company nor any Subsidiary, nor any director or officer thereof, is the subject of any Action involving a claim of violation of or liability under federal or state securities laws or a claim of breach of fiduciary duty. To the knowledge of the Company, there is not pending or contemplated, any investigation by the Commission involving the Company or any current or former director or officer of the Company. Neither the Company nor any Subsidiary nor any of their respective assets or properties is subject to any material outstanding judgment, order, writ, injunction or decree.

Section 3.11 Labor Relations. No labor dispute exists or, to the knowledge of the Company, is imminent with respect to any of the employees of the Company. None of the Company’s or its Subsidiaries’ employees is a member of a union that relates to such employee’s relationship with the Company or such Subsidiary, and neither the Company nor any of its Subsidiaries is a party to a collective bargaining agreement, and the Company and its Subsidiaries believe that their relationships with their employees are good. To the knowledge of the Company, no executive officer of the Company or any Subsidiary is, or is now reasonably expected to be, in violation of any material term of any employment contract, confidentiality, disclosure or proprietary information agreement or non-competition agreement, or any other contract or agreement or any restrictive covenant in favor of any third party, and the continued employment of each such executive officer does not subject the Company or any of its Subsidiaries to any liability with respect to any of the foregoing matters. The Company and its Subsidiaries are in compliance in all material respects with all U.S. federal, state, local and foreign laws and regulations relating to employment and employment practices, terms and conditions of employment and wages and hours.

Section 3.12 Compliance. Neither the Company nor any Subsidiary (a) is in default under or in violation of, in any material respect, (and no event has occurred that has not been waived that, with notice or lapse of time or both, would result in a material default by the Company or any Subsidiary under), nor has the Company or any Subsidiary received notice of a claim that it is in default under or that it is in violation of, any indenture, loan or credit agreement or any other agreement or instrument to which it is a party or by which it or any of its properties is bound (whether or not such default or violation has been waived), (b) is in violation of any judgment, decree or order of any court, arbitrator or other governmental authority rendered against and binding on the Company or any Subsidiary in any material respect or (c) is or has been in violation in any material respect of any statute, rule, ordinance or regulation of any governmental authority, including all foreign, U.S. federal, state and local laws relating to taxes,

environmental protection, occupational health and safety, product quality and safety and employment and labor matters.

Section 3.13 Regulatory Permits. The Company and the Subsidiaries possess, and are in compliance in all material respects with, all material certificates, authorizations, licenses, consents, classifications, registrations and permits issued by the appropriate U.S. federal, state, local or foreign regulatory authorities necessary to conduct their respective businesses as currently conducted (“Material Permits”), and neither the Company nor any Subsidiary has received any notice of proceedings relating to the revocation or modification of any Material Permit.

Section 3.14 Title to Assets. The Company and the Subsidiaries have good and marketable title in fee simple to all real property owned by them and good and marketable title in all personal property owned by them that is material to the business of the Company and the Subsidiaries, in each case free and clear of all Liens, except for (a) Liens as do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by the Company and the Subsidiaries and (b) Liens for the payment of U.S. federal, state or other taxes, for which appropriate reserves have been made in accordance with GAAP and the payment of which is neither delinquent nor subject to penalties. Any real property and facilities held under lease by the Company and the Subsidiaries are held by them under valid, subsisting and enforceable leases with which the Company and the Subsidiaries are in compliance in all material respects.

Section 3.15 Intellectual Property. The Company and the Subsidiaries have, or have rights to use, all patents, patent applications, trademarks, trademark applications, service marks, trade names, trade secrets, inventions, copyrights, licenses and other intellectual property rights and similar rights necessary or required for use in connection with their respective businesses as described in the SEC Reports (collectively, the “Intellectual Property Rights”), other than such Intellectual Property Rights that are not material to the respective businesses of the Company or any of its Subsidiaries. Except for communications with patent and trademark offices regarding the Company’s prosecution of its applications, neither the Company nor any Subsidiary has received, since the date of the latest audited financial statements included within the SEC Reports, a written notice of a claim or otherwise has any knowledge that the Intellectual Property Rights violate or infringe upon the rights of any Person. To the knowledge of the Company, all such Intellectual Property Rights are enforceable by the Company and there is no existing infringement by another Person of any of the Intellectual Property Rights. The Company and its Subsidiaries have taken reasonable security measures to protect the secrecy, confidentiality and value of all of their intellectual properties.

Section 3.16 Insurance. The Company and the Subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which the Company and the Subsidiaries are engaged, including, but not limited to, directors and officers insurance coverage. The third party insurance policies of the Company and the Subsidiaries are in full force and effect in accordance with their terms and the Company and the Subsidiaries are not in

material default under the terms of any such policy. As of the date hereof, the Company has no knowledge of threatened termination of any of such policies.

Section 3.17 Transactions with Affiliates and Employees. Except as set forth in the SEC Reports, none of the officers or directors of the Company or any Subsidiary and, to the knowledge of the Company, none of the employees of the Company or any Subsidiary, is presently a party to any transaction with the Company or any Subsidiary (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, providing for the borrowing of money from or lending of money to or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Company, any entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee, shareholder, member or partner, in each case in excess of \$120,000 other than for (a) payment of salary or consulting fees for services rendered, (b) reimbursement for expenses incurred on behalf of the Company and (c) other employee benefits, including stock option agreements under any stock option plan of the Company.

Section 3.18 Sarbanes-Oxley; Internal Accounting Controls. The Company and the Subsidiaries are in compliance with any and all applicable requirements of the Sarbanes-Oxley Act of 2002 that are effective as of the date hereof, and any and all applicable rules and regulations promulgated by the Commission thereunder that are effective as of the Closing Date. The Company and the Subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurance that (a) transactions are executed in accordance with management's general or specific authorizations, (b) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain asset accountability, (c) access to assets is permitted only in accordance with management's general or specific authorization, and (d) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. The Company and the Subsidiaries have established disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and the Subsidiaries and designed such disclosure controls and procedures to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. The Company's certifying officers have evaluated the effectiveness of the disclosure controls and procedures of the Company and the Subsidiaries as of the end of the period covered by the most recently filed periodic report under the Exchange Act (such date, the "Evaluation Date"). The Company presented in its most recently filed periodic report under the Exchange Act the conclusions of the certifying officers about the effectiveness of the disclosure controls and procedures based on their evaluations as of the Evaluation Date. Since the Evaluation Date, there have been no changes in the internal control over financial reporting (as such term is defined in the Exchange Act) of the Company and its Subsidiaries that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting of the Company and its Subsidiaries.

Section 3.19 Certain Fees. No brokerage or finder's fees or commissions are or will be payable by the Company or any Subsidiary to any broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other Person with respect to the transactions contemplated by the Transaction Documents. Investor shall have no obligation with respect to any fees or with respect to any claims made by or on behalf of other Persons for fees of a type contemplated in this Section that may be due in connection with the transactions contemplated by the Transaction Documents.

Section 3.20 Investment Company. The Company is not and immediately after receipt of payment for the Acquired Shares will not be an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

Section 3.21 Registration Rights. Except for the registration rights provided to Investor pursuant to Section 5.5, no Person has any right to cause the Company or any Subsidiary to effect the registration under the Securities Act of any securities of the Company or any Subsidiary.

Section 3.22 Maintenance Requirements. The Common Shares are registered pursuant to Section 12(g) of the Exchange Act, and the Company has taken no action designed to, or which to its knowledge is likely to have the effect of, terminating the registration of the Common Shares under the Exchange Act nor has the Company received any notification that the Commission is contemplating terminating such registration.

Section 3.23 Tax Status. Except for matters that would not, individually or in the aggregate, have or reasonably be expected to result in a Material Adverse Effect, the Company and its Subsidiaries each (a) has made or filed all U.S. federal, state and local income, all Canadian federal, provincial, and local income, and other taxes and all foreign income and franchise tax returns, reports and declarations required by any jurisdiction to which it is subject, (b) has paid all taxes and other governmental assessments and charges that are material in amount, shown or determined to be due on such returns, reports and declarations and (c) has set aside on its books provision reasonably adequate for the payment of all material taxes for periods that have occurred subsequent to the periods to which such returns, reports or declarations apply. There are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and the officers of the Company or of any Subsidiary know of no basis for any such claim. At no time in the sixty (60) months immediately preceding the Closing Date has more than fifty percent (50%) of the value of the Common Shares been derived directly or indirectly from one or any combination of real or immovable property situated in Canada, Canadian resource properties, timber resource properties or options in respect of, or interests in, or for civil law rights in, such property whether or not the property exists.

Section 3.24 Foreign Corrupt Practices. Neither the Company nor any Subsidiary, nor to the knowledge of the Company or any Subsidiary, any agent or other person acting on behalf of the Company or any Subsidiary, has (a) directly or indirectly, used any corporate funds for unlawful contributions, gifts, entertainment or other unlawful expenses related to foreign or domestic political activity, (b) made any unlawful payment to foreign or domestic government

officials or employees or to any foreign or domestic political parties or campaigns from corporate funds, (c) failed to disclose fully any contribution made by the Company or any Subsidiary (or made by any person acting on its behalf of which the Company is aware) which is in violation of law, or (d) violated in any material respect any provision of the FCPA.

Section 3.25 Regulation M Compliance. The Company has not, and to its knowledge no one acting on its behalf has, (a) taken, directly or indirectly, any action designed to cause or to result in the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of any of the Securities, (b) sold, bid for, purchased, or, paid any compensation for soliciting purchases of, any of the Securities, or (c) paid or agreed to pay to any Person any compensation for soliciting another to purchase any other securities of the Company.

Section 3.26 Office of Foreign Assets Control. Neither the Company nor any Subsidiary nor, to the Company's knowledge, any director, officer, agent, employee or Affiliate of the Company or any Subsidiary, is currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury Department ("OFAC").

Section 3.27 Money Laundering. The operations of the Company and its Subsidiaries are and have been conducted at all times in compliance with applicable financial record-keeping and reporting requirements of the Currency and Foreign Transactions Reporting Act of 1970, as amended, applicable money laundering statutes and applicable rules and regulations thereunder (collectively, the "Money Laundering Laws"), and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or any Subsidiary with respect to the Money Laundering Laws is pending or, to the knowledge of the Company or any Subsidiary, threatened.

Section 3.28 Exclusivity of Representations. The representations and warranties made by the Company herein are the exclusive representations and warranties made by the Company. The Company hereby disclaims any other express or implied representations or warranties.

#### **ARTICLE IV REPRESENTATIONS AND WARRANTIES OF INVESTOR**

Investor hereby makes the following representations and warranties to the Company as of the Closing Date (unless as of a specific date therein):

Section 4.1 Organization. Investor is a corporation duly incorporated, validly existing and in good standing under the laws of the State of California with full right, corporate power and authority to enter into and to consummate the transactions contemplated by the Transaction Documents and otherwise to carry out its obligations hereunder and thereunder.

Section 4.2 Authorization. The execution and delivery of this Agreement and performance by Investor of the transactions contemplated by this Agreement have been duly authorized by all necessary corporate action on the part of Investor. Each Transaction Document to which it is a party has been duly executed by Investor, and

when delivered by Investor in accordance with the terms hereof, will constitute the valid and legally binding obligation of Investor, enforceable against it in accordance with its terms, except (a) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (b) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (c) insofar as indemnification and contribution provisions may be limited by applicable law.

Section 4.3 No Conflicts. The execution, delivery and performance by Investor of this Agreement and the other Transaction Documents to which it is a party, the purchase of the Securities and the consummation by it of the transactions contemplated hereby and thereby do not and will not (a) conflict with or violate any provision of Investor's certificate or articles of incorporation, bylaws or other organizational documents, or (b) conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, result in the creation of any Lien upon any of the properties or assets of Investor, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing an Investor debt or otherwise) or other understanding to which the Investor is a party or by which any property or asset of the Investor is bound or affected, or (c) conflict with or result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which Investor is subject (including U.S. federal securities laws and regulations), or by which any property or asset of Investor is bound or affected; except in the case of each of clauses (b) and (c), such as could not have or reasonably be expected to result in a Material Adverse Effect.

Section 4.4 Certain Fees. No brokerage or finder's fees or commissions are or will be payable by Investor to any broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other Person with respect to the transactions contemplated by the Transaction Documents. The Company shall have no obligation with respect to any fees or with respect to any claims made by or on behalf of other Persons for fees of a type contemplated in this Section that may be due in connection with the transactions contemplated by the Transaction Documents.

Section 4.5 Unregistered Securities.

(a) Accredited Investor Status; Sophisticated Investor. Investor is an "accredited investor" as that term is defined in Rule 501 of the Securities Act and is able to bear the risk of its investment in the Securities and at the present time would be able to afford a complete loss of such investments. Investor has such knowledge, sophistication and experience in financial and business matters that it is capable of evaluating the merits and risks of the purchase of the Securities.

(b) Cooperation. Investor shall cooperate reasonably with the Company to provide any information required to be included in the Company's securities filings.

(c) Access to Information. Investor has been afforded the opportunity to ask questions of the Company and received answers thereto, as Investor deemed necessary in connection with the decision to purchase the Securities. Neither such inquiries nor any other due diligence investigations conducted at any time by Investor shall modify, amend or affect Investor's right to rely on the Company's representations and warranties contained in ARTICLE III. Investor understands and acknowledges that its purchase of the Securities involves a high degree of risk and uncertainty. Investor has sought such accounting, legal and tax advice as it has considered necessary to make an informed investment decision with respect to its investment in the Securities, and has made its own assessment and has satisfied itself concerning the relevant tax and other economic considerations relevant to its investment in the Securities.

(d) Investor Representation. Investor is purchasing the Securities as principal for its own account, solely for the purpose of investment and not with a view to distribution in violation of any securities laws. Investor has no present agreement, undertaking, arrangement, obligation or commitment providing for the disposition of the Securities. Investor understands and acknowledges that the Securities it is purchasing are characterized as "restricted securities" under the U.S. federal securities laws inasmuch as they are being acquired from the Company in a transaction not involving a public offering. Investor has been advised and understands and acknowledges that the Securities have not been registered under the Securities Act or under the "blue sky" laws of any jurisdiction and may be resold only if registered pursuant to the provisions of the Securities Act (or if eligible, pursuant to the provisions of Rule 144 promulgated under the Securities Act or pursuant to another available exemption from the registration requirements of the Securities Act).

(e) General Solicitation. Investor is not purchasing the Securities as a result of any advertisement, article, notice or other communication regarding the Securities published in any newspaper, magazine or similar media or broadcast over television or radio or presented at any seminar or any other general solicitation or general advertisement.

(f) Canadian Private Placement. Investor acknowledges that the Securities have not been registered or qualified for distribution in any Canadian province, and are not eligible for resale in Canada for a period ending four (4) months plus one day from the Closing Date (the "Canadian Transfer Restriction"). Investor is acquiring the Securities as principal for its own account and not with a view toward, or for sale in connection with, any distribution thereof, or with any present intention of distributing or selling the Securities in any Province or Territory of Canada. Investor is (i) an "accredited investor" as defined in National Instrument 45-106 *Prospectus Exemptions* of the Canadian Securities Administrators and was not created or used solely to purchase or hold Securities as an "accredited investor" and (ii) is able to bear the economic risk of holding the Securities for an indefinite period.

(g) U.S. Legend. Investor understands and acknowledges that, until such time as the Securities have been registered pursuant to the provisions of the Securities Act, or the Securities are sold pursuant to Rule 144 promulgated under the Securities Act or another available exemption under the Securities Act, the Securities will bear the following restrictive legend:

“THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE SECURITIES LAW. THE HOLDER OF THIS SECURITY, BY PURCHASING THE SECURITY, AGREES FOR THE BENEFIT OF RARE ELEMENT RESOURCES LTD. (THE “COMPANY”) THAT THE SECURITY MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A) TO THE COMPANY, (B) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND IN COMPLIANCE WITH ANY APPLICABLE LOCAL SECURITIES LAWS AND REGULATIONS, (C) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATIONS UNDER THE SECURITIES ACT AND IN COMPLIANCE WITH ANY APPLICABLE LOCAL SECURITIES LAWS AND REGULATIONS, (D) IN COMPLIANCE WITH THE EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS OR (E) IN A TRANSACTION THAT DOES NOT REQUIRE REGISTRATION UNDER THE SECURITIES ACT AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS, PROVIDED THAT, IN THE CASE OF (C), (D) OR (E), THE HOLDER HAS DELIVERED TO THE COMPANY AND THE REGISTRAR AND TRANSFER AGENT AN OPINION OF COUNSEL OF RECOGNIZED STANDING IN FORM AND SUBSTANCE REASONABLY SATISFACTORY TO THE COMPANY AND THE REGISTRAR AND TRANSFER AGENT TO SUCH EFFECT.”

(h) Canadian Legend. Investor acknowledges that the Securities are not being qualified pursuant to a prospectus for distribution to the public in Canada under applicable Canadian securities laws and are not freely tradeable in Canada. Any certificate representing the Acquired Shares, the Option and the Option Shares will bear, or if the Acquired Shares, the Option and/or the Option Shares are entered into a direct registration or other electronic book-entry system, then Investor acknowledges notice of such Securities being subject to, the legend set forth below:

“UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE [Insert four months plus one (1) day from the Closing Date].”

(i) Reliance upon Investor’s Representations and Warranties. Investor understands and acknowledges that the Securities are being offered and sold in reliance on a transactional exemption from the registration requirements of U.S. federal and state securities laws, and that the Company is relying in part upon the truth and accuracy of the representations, warranties, agreements, acknowledgments and understandings of Investor set forth in this Agreement in (i) concluding that the issuance and sale of the Securities is a “private offering” and, as such, is exempt from the registration requirements of the Securities Act, and

(ii) determining the applicability of such exemptions with respect to Investor's purchase of the Securities.

Section 4.8 Report of Trade. Investor acknowledges that the Company may be required to file a report with the Canadian securities commissions or other securities regulatory authorities containing personal information about Investor. This report will include the full name, address and telephone number of Investor, the number and type of securities purchased, the total purchase price paid for the securities, the date of the Closing and the exemption relied upon under applicable securities laws to complete such purchase.

Section 4.7 Anti-Money Laundering. None of the funds being used to purchase the Securities are to Investor's knowledge proceeds obtained or derived directly or indirectly as a result of illegal activities. The funds being used to purchase the Securities which will be advanced by Investor to the Company hereunder will not represent proceeds of crime for the purposes of the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada) (the "PCMLTFA") and Investor acknowledges that the Company may in the future be required by law to disclose Investor's name and other information relating to this Agreement and Investor's subscription hereunder, on a confidential basis, pursuant to the PCMLTFA. To the best knowledge of Investor, (a) none of the funds to be provided by or on behalf of Investor are being rendered on behalf of a person or entity who has not been identified to Investor; and (b) Investor shall promptly notify the Company if Investor discovers that any of such representations cease to be true, and to provide the Company with appropriate information in connection therewith.

Section 4.8 Certain Transactions and Confidentiality. Other than consummating the transactions contemplated hereunder, Investor has not, nor has any Person acting on behalf of or pursuant to any understanding with Investor, directly or indirectly, executed any purchases or sales, including Short Sales, of the securities of the Company during the period commencing as of the date of the Term Sheet and ending immediately prior to the later of (a) the date of execution of this Agreement or (b) the Closing Date. Investor has maintained the confidentiality of all disclosures made to it in connection with the transactions contemplated hereunder (including the existence and terms of the transactions contemplated hereunder).

## **ARTICLE V OTHER AGREEMENTS OF THE PARTIES**

Section 5.1 Investor Director Designees; Other Director Nominees.

(a) Investor Director Designees. Subject to applicable law and Trading Market rules and regulations, Investor shall have the right to designate two directors for appointment or election to the Board of Directors (any Investor appointee, an "Investor Director Designee"), where the Board of Directors is comprised of six or seven directors following such appointment (or 33.5% of appointees to the Board of Directors where the Board of Directors is comprised of more than seven directors). If the Option is exercised in full and the Investor continues to own the Acquired Shares, then Investor shall have the right to designate one

additional director for appointment or election to the Board of Directors, resulting in three total Investor Director Designees of a seven-member Board of Directors (or 42.8%, of appointees to the Board of Directors where the Board of Directors is comprised of more than seven directors), subject to applicable law and Trading Market rules and regulations. For greater certainty, (i) each Investor Director Designee must satisfy all applicable legal and regulatory requirements to be qualified to act as a director of the Company, including requirements of the Trading Market and applicable corporate and securities laws, and (ii) Investor shall use its commercially reasonable efforts to cause each Investor Director Designee to provide his or her consent to act as a director of the Board of Directors effective at the time of his or her appointment or election, as the case may be, to the Board of Directors.

(b) Appointment of Investor Director Designees. Promptly following the Closing, the Company shall take such action as is necessary to appoint Investor's designees to fill any vacancies on the Board of Directors with the applicable number of Investor Director Designees and to nominate and support for election in the same manner as all other nominees proposed by the Company (including causing such designees' names to be included in the slate of nominees proposed by the Company to its shareholders for election as directors and soliciting proxies in favor of the election of such designees in the event that the Company intends to solicit any such proxies in connection with an annual or special meeting of shareholders where directors are elected), and the Company shall recommend a "for" vote to its shareholders in respect of such Investor Director Designees at each annual and special meeting of shareholders where directors are elected.

(c) Replacement. Upon the resignation, death or disability of an Investor Director Designee serving as a director of the Board of Directors, Investor shall have the right to designate a replacement Investor Director Designee and either the remaining directors on the Board of Directors shall promptly (and in any event within ten (10) Business Days) appoint such replacement Investor Director Designee to fill the vacancy on the Board of Directors or, if the remaining directors fail to appoint such replacement Investor Director Designee to fill such vacancy, then the Company shall duly nominate such replacement Investor Director Designee for election to the Board of Directors pursuant to Section 5.1(b), and, if requested by Investor, promptly call (or cause to be called) and hold a special meeting of shareholders of the Company for the purpose of voting on such replacement Investor Director Designee.

(d) Other Director Nominees. Notwithstanding the Expiration Date set forth in Section 5.1(e), Investor shall vote its Common Shares and any other voting securities of the Company (whether now owned or hereafter acquired) over which Investor has voting control and shall take all other necessary actions within its control as a shareholder (including attendance at meetings in person or by proxy for purposes of obtaining a quorum) to support the director nominees of the Company and vote "for" the Company's director nominees in connection with the 2017 and 2018 annual meeting of shareholders of the Company.

(e) Expiration Date. Notwithstanding anything to the contrary in this Agreement, Investor's rights and the Company's obligations under Section 5.1(a), Section 5.1(b) and Section 5.1(c) shall terminate on such date that Investor's Fully Diluted Pro Rata Ownership Percentage in the Company is less than 33.0% (the "Expiration Date").

(f) Committees. Investor will have the right to designate its Investor Board Designee(s) as an observer of any committee of the Board of Directors that currently exists or that may be formed after the Closing. If Investor requests that any Investor Board Designee serve as member of any committee of the Board of Directors that currently exists or that may be formed after Closing, such request shall be considered by the Board of Directors in good faith, provided such Investor Board Designee possesses the necessary qualifications to serve as member of such committee.

Section 5.2 Approval of Certain Major Actions.

(a) Certain Major Actions. Absent a waiver approved by the Board of Directors with the concurrence of a majority of the Investor Director Designees, the Company and Investor agree that the Company shall not take the following actions without the approval of the holders of a majority of the Common Shares then outstanding:

(i) except for the issuance of (A) Equity Securities to employees, officers, consultants or directors of the Company pursuant to any equity incentive plan in existence as of the date hereof and (B) Equity Securities issuable upon the conversion, exercise or exchange of Equity Securities (to the extent such Equity Securities are outstanding on the date of this Agreement), authorize the issuance of additional shares of capital stock of the Company; *provided, however*, if Investor does not exercise the Option in full within the Option Period, the concurrence of a majority of the Investor Director Designees shall not be required for the issuance of additional shares of capital stock of the Company so long as such issuance is approved by a majority vote of the Board of Directors;

(ii) incur any indebtedness for borrowed money or making any loan, in each case in excess of \$1,000,000 individually or in the aggregate with all such other indebtedness or loans, as the case may be, then outstanding;

(iii) enter into any transaction involving the acquisition of any assets and/or equity interests of any third party or the sale, lease, license or other disposition of any portion of the Company's assets to a third party, in each case involving consideration, either in a single transaction or series of related transactions in any fiscal year, in excess of \$1,000,000; and

(iv) authorize any dividend or distribution (except for any dividend or distribution of Equity Securities).

For greater certainty and notwithstanding the foregoing, if there are no Investor Director Designees on the Board of Directors, the foregoing actions may be taken by the Company upon the authorization of the Board of Directors without such shareholder approval.

(b) Expiration Date. Notwithstanding anything to the contrary in this Agreement, Investor's rights and the Company's obligations under this Section 5.2 shall terminate on the Expiration Date.

Section 5.3 Information Rights. Following the Closing, the Investor Director Designees shall be entitled to receive all financial reports, government agency notices, operational updates, and other information that the other directors receive in connection with their service on the Board of Directors or any committee thereof subject to the same fiduciary duties and confidentiality obligations that apply to all directors of the Company. Notwithstanding anything to the contrary in this Agreement, Investor's rights and the Company's obligations under this Section 5.3 shall terminate on the Expiration Date; *provided*, that the foregoing shall not affect the provision of information to any Investor Director Designee in their capacity as member of the Board of Directors following the Expiration Date.

Section 5.4 Preemptive Rights.

(a) Grant of Preemptive Rights. The Company shall provide Investor with ten (10) calendar days' advance written notice of any proposed offering of Company equity securities (including any securities or rights convertible into Company equity securities, collectively "Equity Securities"), other than an Excepted Offering (it being understood that any offering with respect to which Investor was already offered the opportunity to exercise its preemptive rights contemplated hereunder shall not constitute an offering of Equity Securities to which this Agreement applies).

(b) Offering Notice and Election to Purchase. Prior to or in connection with the consummation of any offering of Equity Securities, other than an Excepted Offering (any such offering of Equity Securities, an "Offering"), the Company shall promptly notify Investor in writing of the terms of such Offering (the "Offering Notice"), and Investor shall have a right to purchase Equity Securities of the kind offered in such Offering on the following terms:

(i) Investor shall be entitled to purchase in connection with such Offering such Equity Securities up to such aggregate amount as would permit Investor to maintain (but not increase) its Fully Diluted Pro Rata Ownership Percentage.

(ii) In the event an Offering is conducted as a registered public offering, Investor shall be entitled to purchase such Equity Securities at the public offering price for such Offering. In the event the Offering is conducted as an underwritten registered offering in which there is a separate closing for the issuance of Equity Securities pursuant to the underwriters' over-allotment or similar option, the Company shall provide a separate Offering Notice to Investor with respect to such issuance. In the event the Offering is conducted as an offering other than a public offering (e.g., a private placement), Investor shall be entitled to purchase such Equity Securities at the same price that was paid by the purchasers of Equity Securities in such Offering.

(iii) Investor shall have ten (10) calendar days from the date of its receipt of the Offering Notice, or four (4) calendar days if the Offering Notice specifies that the Offering is a "bought deal" underwritten offering under Canadian securities laws, to elect to purchase, and to fully fund the purchase, of any such Equity Securities. If Investor does not elect to purchase any Equity Securities and/or does not provide

immediately available funds for the purchase of such Equity Securities to the Company within such ten (10) calendar day period or four (4) calendar day period, as applicable, Investor's rights to purchase such Equity Securities shall terminate.

(c) Preemptive Rights Expiration Date. Notwithstanding anything to the contrary in this Agreement, Investor's rights and the Company's obligations under this Section 5.4 shall terminate on such date that Investor's Fully Diluted Pro Rata Ownership Percentage in the Company is less than 20.0% (the "Preemptive Rights Expiration Date").

#### Section 5.5 Piggyback Registration Rights.

(a) Piggyback Notice; Piggyback Registration; Piggyback Request. Except as set forth in Section 5.5(c), if the Company shall at any time propose to register the offer and sale of any Common Shares under the Securities Act whether for its own account or for the account of one or more shareholders of the Company (excluding an offering relating solely to an employee benefit plan or an offering relating to a transaction on Form S-4 or Form S-8), the Company shall promptly notify Investor, on behalf of all Holders, of such proposal reasonably in advance of (and in any event at least ten (10) Business Days before) the filing of the relevant registration statement, as applicable (the "Piggyback Notice"). The Piggyback Notice shall offer the Holders the opportunity to include in such Registration Statement the number of Registrable Securities as they may request (a "Piggyback Registration"). Subject to Section 5.5(c), the Company shall include in each such Piggyback Registration such Registrable Securities for which the Company has received written requests within five (5) Business Days after sending the Piggyback Notice ("Piggyback Request") for inclusion therein.

(b) Underwritten Offering. If the Company initiates an underwritten offering of Common Shares for the Company's own account and the managing underwriter advises the Company and Investor in writing that in its reasonable and good faith opinion the number of Common Shares proposed to be included in such registration, including all Registrable Securities and all other Common Shares proposed to be included in such underwritten offering, exceeds the number of Common Shares which can be sold in such offering and/or that the number of Common Shares proposed to be included in any such registration or takedown would adversely affect the price per Common Share to be sold in such offering, the Company shall include in such registration or takedown (i) first, the Common Shares that the Company proposes to sell for its own account; (ii) second, the Common Shares requested to be included therein by Holders, allocated among such Holders on a pro rata basis in accordance with the number of Registrable Securities owned by such Holder or in such manner as they shall otherwise agree; and (iii) third, the Common Shares requested to be included therein by holders of Common Shares other than holders of Registrable Securities, allocated among such holders on a pro rata basis; provided that in any event the Holders of Registrable Securities shall be entitled to register the offer of, and sell or distribute, a percentage of the securities to be included in any such registration or takedown equal to the lesser of (x) 20% or (y) the pro rata fully diluted equity ownership percentage in the Company that Investor has immediately prior to such registration or takedown. If an underwritten offering of Common Shares is initiated on behalf of a holder of Common Stock other than the Registrable Securities, and the managing underwriter advises the Company in writing that in its reasonable and good faith opinion the number of shares of Common Stock proposed to be included in such registration or takedown, including all Registrable Securities and

all other shares of Common Stock proposed to be included in such underwritten offering, exceeds the number of shares of Common Stock which can be sold in such offering and/or that the number of shares of Common Stock proposed to be included in any such registration or takedown would adversely affect the price per share of the Common Stock to be sold in such offering, the Company shall include in such registration or takedown (i) first, the shares of Common Stock requested to be included therein by the holder(s) requesting such registration or takedown and by the Holders of Registrable Securities, allocated pro rata among all such holders on the basis of the number of shares of Common Stock other than the Registrable Securities (on a fully diluted, as converted basis) and the number of Registrable Securities, as applicable, owned by all such holders or in such manner as they may otherwise agree; and (ii) second, the shares of Common Stock requested to be included therein by other holders of Common Stock, allocated among such holders in such manner as they may agree.

(c) Termination or Withdrawal. The Company shall have the right to terminate or withdraw any registration initiated by it under this Section 5.5 at any time after the time periods set forth in Section 5.5(f)(ii) below in its sole discretion whether or not any Holder has elected to include Registrable Securities in such Piggyback Registration. The registration expenses of such withdrawn registration shall be borne by the Company in accordance with Section 5.5(g).

(d) Duration. All registration rights granted under this Section 5.5 shall continue to be applicable with respect to any Holder until the date upon which such securities no longer qualify as Registrable Securities.

(e) Lock-up Agreement. Each Holder agrees that in connection with any registered offering of Common Shares or other Equity Securities, and upon the request of the managing underwriter in such offering, such Holder shall not, without the prior written consent of such managing underwriter, during the ten (10) days prior to the effective date of such registration and ending on the date specified by such managing underwriter (such period not to exceed 90 days), (i) offer, pledge, sell, contract to sell, grant any option or contract to purchase, purchase any option or contract to sell, hedge the beneficial ownership of or otherwise dispose of, directly or indirectly, any Common Shares or any securities convertible into, exercisable for or exchangeable for Common Shares (whether such shares or any such securities are then owned by the Holder or are thereafter acquired), or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such securities, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Common Shares or such other securities, in cash or otherwise. The foregoing provisions of this Section 5.5(e) shall not apply to sales of Registrable Securities to be included in such offering pursuant to Section 5.5(a), and shall be applicable to the Holders only if all officers and directors of the Company and all shareholders owning more than 5.0% of the Company's outstanding Common Shares are subject to the same restrictions. Each Holder agrees to execute and deliver such other agreements as may be reasonably requested by the Company or the managing underwriter which are consistent with the foregoing or which are necessary to give further effect thereto. Notwithstanding anything to the contrary contained in this Section 5.5(e), each Holder shall be released, pro rata, from any lock-up agreement entered into pursuant to this Section 5.5(e) in the event and to the extent that the managing underwriter or the Company permit any discretionary waiver or termination of the restrictions of any lock-up

agreement pertaining to any officer, director or holder of greater than 5.0% of the outstanding Common Shares. The underwriters in connection with such registration are intended third-party beneficiaries of this Section 5.5(e) and shall have the right and power to enforce the provisions hereof as though they were a party hereto. The Company shall not effect any sale registered under the Securities Act or distribution of its equity securities, or any securities convertible into, exercisable for or exchangeable for shares of such securities, during the ten (10) days prior to and during the ninety (90) day period beginning on the effective date of any underwritten Demand Registration or any underwritten registered offering of Common Shares (other than a registration (i) pursuant to a Registration Statement on Form S-8 (or other registration solely relating to an offering or sale to employees or directors of the Company pursuant to any employee stock plan or other employee benefit arrangement), (ii) pursuant to a Registration Statement on Form S-4 (or similar form that relates to a transaction subject to Rule 145 under the Securities Act or any successor rule thereto), or (iii) in connection with any dividend or distribution reinvestment or similar plan), unless the managing underwriter of any such underwritten registration otherwise agrees.

(f) *Registration Procedures.* The procedures to be followed by the Company and each Holder electing to include Registrable Securities in a Registration Statement pursuant to this Agreement, and the respective rights and obligations of the Company and such Holders, with respect to the preparation, filing and effectiveness of such Registration Statement, are as follows (it being understood and agreed that, notwithstanding any other provision hereof, the Company shall not be required to provide any Non-Public Information to any Person hereunder unless such Person agrees to maintain the confidentiality of such information):

(i) In connection with a Piggyback Registration, the Company shall at least five (5) days prior to the anticipated filing of the initial Registration Statement that identifies the Holders and any related Prospectus or any amendment or supplement thereto (except for any filing made under the Exchange Act that is incorporated by reference into the Registration Statement), (A) furnish to the Holders copies of all Registration Statements that identify the Holders and any related Prospectus or any amendment or supplement thereto (except for any filing made under the Exchange Act that is incorporated by reference into the Registration Statement) prior to filing and (B) use commercially reasonable efforts to address in each document when so filed with the Commission such comments as the Holders reasonably shall propose prior to the filing thereof.

(ii) The Company shall use reasonable best efforts to as promptly as reasonably practicable (A) prepare and file with the Commission such amendments, including post-effective amendments, and supplements to each Registration Statement and the Prospectus used in connection therewith as may be necessary under applicable law to keep such Registration Statement continuously effective with respect to the disposition of all Registrable Securities covered thereby for its Effectiveness Period; (B) cause the related Prospectus to be amended or supplemented by any required prospectus supplement, and as so supplemented or amended to be filed pursuant to Rule 424; and (C) respond to any comments received from the Commission with respect to each Registration Statement or any amendment thereto and, as promptly as reasonably practicable provide the Holders true and complete copies of all correspondence from and

to the Commission relating to such Registration Statement that pertains to the Holders as selling Holders.

(iii) The Company shall comply in all material respects with the provisions of the Securities Act and the Exchange Act with respect to the Registration Statements and the disposition of all Registrable Securities covered by each Registration Statement.

(iv) The Company shall notify the Holders as promptly as reasonably practicable (A)(1) when a Prospectus or any prospectus supplement or post-effective amendment to a Registration Statement in which a Holder is included has been filed; (2) when the Commission notifies the Company whether there will be a “review” of such Registration Statement and whenever the Commission comments in writing on such Registration Statement (in which case the Company shall provide true and complete copies thereof and all written responses thereto to the Holders that pertain to the Holders as selling Holders); and (3) with respect to each such Registration Statement or any post-effective amendment thereto, when the same has been declared effective; (B) of any request by the Commission or any other U.S. federal or state governmental authority for amendments or supplements to such Registration Statement or Prospectus or for additional information that pertains to such Holders as sellers of Registrable Securities; (C) of the issuance by the Commission of any stop order suspending the effectiveness of such Registration Statement covering any or all of the Registrable Securities or the initiation of any Proceedings for that purpose; (D) of the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction, or the initiation or threatening of any Proceeding for such purpose; and (E) of the occurrence of any event or passage of time that makes any statement made in such Registration Statement or Prospectus or any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or that requires any revisions to such Registration Statement, Prospectus or other documents so that, in the case of such Registration Statement or the Prospectus, as the case may be, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading (*provided, however*, that no notice by the Company shall be required pursuant to this clause (E) in the event that the Company either promptly files a prospectus supplement to update the Prospectus or a Form 8-K or other appropriate Exchange Act report that is incorporated by reference into the Registration Statement, which in either case, contains the requisite information that results in such Registration Statement no longer containing any untrue statement of material fact or omitting to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading), it being understood and agreed that the Company shall notify all Holders of an event contemplated by this clause (E).

(v) The Company shall use reasonable best efforts to avoid the issuance of, or, if issued, obtain the withdrawal of (A) any order suspending the effectiveness of a Registration Statement, or (B) any suspension of the qualification (or

exemption from qualification) of any of the Registrable Securities for sale in any jurisdiction, as promptly as reasonably practicable, or if any such order or suspension is made effective during any Blackout Period or Suspension Period, as promptly as reasonably practicable after such Blackout Period or Suspension Period is over.

(vi) During the Effectiveness Period, the Company shall furnish to each such Holder, without charge, at least one conformed copy of each Registration Statement and each amendment thereto and all exhibits to the extent requested by such Holder (including those incorporated by reference) promptly after the filing of such documents with the Commission; *provided* that the Company shall not have any obligation to provide any document pursuant to this clause that is available on the Commission's EDGAR system.

(vii) The Company shall promptly deliver to each Holder, without charge, as many copies of each Prospectus or Prospectuses (including each form of prospectus) authorized by the Company for use and each amendment or supplement thereto as such Holder may reasonably request during the Effectiveness Period. Subject to the terms of this Agreement, including Section 5.5(i), the Company consents to the use of such Prospectus and each amendment or supplement thereto by each of the selling Holders in connection with the offering and sale of the Registrable Securities covered by such Prospectus and any amendment or supplement thereto in the manner described therein.

(viii) The Company shall cooperate with such Holders to facilitate the timely preparation and delivery of certificates representing Registrable Securities to be delivered to a transferee pursuant to a Registration Statement, which certificates shall be free of all restrictive legends indicating that the Registrable Securities are unregistered for resale under the Securities Act, and to enable such Registrable Securities to be issued in such denominations and registered in such names as any such Holder may request in writing. In connection therewith, if required by the Transfer Agent, the Company shall promptly after the Effective Date of the Registration Statement cause an opinion of counsel as to the effectiveness of the Registration Statement to be delivered to and maintained with the Transfer Agent, together with any other authorizations, certificates and directions required by the Transfer Agent which authorize and direct the Transfer Agent to issue such Registrable Securities without any such legend upon sale by the Holder of such Registrable Securities under the Registration Statement.

(ix) Upon the occurrence of any event contemplated by Section 5.5(f)(iv)(E), subject to Section 5.5(i) and this Section 5.5(f)(ix), as promptly as reasonably practicable, the Company shall prepare a supplement or amendment, including a post-effective amendment, if required by applicable law, to the affected Registration Statement or a supplement to the related Prospectus or any document incorporated or deemed to be incorporated therein by reference, and file any other required document so that, as thereafter delivered, no Registration Statement nor any Prospectus relating thereto will contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(x) The Company may require a Holder to furnish to the Company any other information regarding the Holder and the distribution of such securities as the Company reasonably determines is required to be included in any Registration Statement.

(xi) Investor agrees to refrain from the purchase and sale of the Company's securities, including the Common Shares, while Investor is in possession of any material non-public information regarding the Company or its Affiliates ("Non-Public Information") obtained by Investor in connection with the transactions contemplated by this Agreement and Investor agrees to maintain the confidentiality of any such information.

(xii) The Company shall use its reasonable best efforts to register or qualify such Registrable Securities under such other securities or "blue sky" laws of such jurisdictions as any selling Holder requests; provided, that the Company shall not be required to qualify generally to do business, subject itself to general taxation or consent to general service of process in any jurisdiction where it would not otherwise be required to do so but for this Section 5.5(f)(xii).

(g) *Registration Expenses.* All Registration Expenses incident to the Parties' performance of or compliance with their obligations under this Agreement or otherwise in connection with any Piggyback Registration (excluding any Selling Expenses) shall be borne by the Company, whether or not any Registrable Securities are sold pursuant to a Registration Statement. For the purposes of this Agreement, the term "Registration Expenses" means (i) all registration and filing fees (including fees and expenses with respect to filings required to be made with the Trading Market), (ii) printing expenses (including expenses of printing certificates for Common Shares and of printing prospectuses if the printing of prospectuses is reasonably requested by a Holder of Registrable Securities included in the Registration Statement), (iii) messenger, telephone and delivery expenses incurred by the Company, (iv) fees and disbursements of counsel, auditors, and accountants for the Company and (v) Securities Act liability insurance, if the Company so desires such insurance.

(h) *Facilitation of Sales Pursuant to Rule 144.* To the extent it shall be required to do so under the Exchange Act, the Company shall use its commercially reasonable efforts to timely file the reports required to be filed by it under the Exchange Act or the Securities Act (including reports under Sections 13 and 15(d) of the Exchange Act), and shall take such further action as any Holder may reasonably request, all to the extent required from time to time to enable the Holders to sell Registrable Securities without registration under the Securities Act within the limitations of the exemption provided by Rule 144; provided that, notwithstanding the foregoing, the Company's deregistration of securities registered under the Securities Act and termination of reporting under the Exchange Act or the Securities Act, in each case after the Closing, shall be subject to the approval of the Investor Board Designee(s) (for so long as there is any Investor Board Designee on the Board of Directors). Upon the request of any Holder in connection with that Holder's sale pursuant to Rule 144, the Company shall deliver to such Holder a written statement as to whether it has complied with such requirements.

(i) *Discontinued Disposition.* Each Holder agrees that the Company may impose a Suspension Period due to, and each Holder agrees that, upon receipt of a notice from

the Company of the occurrence of, any event of the kind described in clauses (B) through (E) of Section 5.5(f)(iv), such Holder will forthwith discontinue disposition of such Registrable Securities under the Registration Statement until such Holder's receipt of the copies of the supplemental Prospectus or amended Registration Statement as contemplated by Section 5.5(f)(ix) or until it is advised in writing by the Company that the use of the applicable Prospectus may be resumed, and, in either case, has received copies of any additional or supplemental filings that are incorporated or deemed to be incorporated by reference in such Prospectus or Registration Statement (a "Suspension Period"). The Company may provide appropriate stop orders to enforce the provisions of this Section 5.5(i). The Company shall use reasonable best efforts to terminate any Suspension Period as promptly as practicable.

Section 5.6 Standstill Agreement. Unless approved in advance in writing by the Board of Directors, neither Investor nor any of its Affiliates shall, for the period ending on the earlier of (i) the Closing and (ii) August 18, 2018, directly or indirectly, alone or in concert with any other Person:

(a) make any statement or proposal to the Board of Directors, any of the Company's Representatives or any of the Company's shareholders regarding, or make any public announcement, proposal, or offer (including any "solicitation" of "proxies" as such terms are defined or used in Regulation 14A of the Exchange Act) with respect to, or otherwise solicit, seek, or offer to effect (including, for the avoidance of doubt, indirectly by means of communication with the press or media) (i) any business combination, merger, tender offer, exchange offer, or similar transaction involving the Company or any of its Subsidiaries, (ii) any restructuring, recapitalization, liquidation, or similar transaction involving the Company or any of its Subsidiaries, (iii) any acquisition of any of the Company's debt securities, Equity Securities or assets, or rights or options to acquire interests in any of the Company's loans, debt securities, Equity Securities, or assets (other than pursuant to the Option) or (iv) any proposal to seek representation on the Board of Directors or otherwise seek to control or influence the management, Board of Directors, or policies of the Company (other than as provided in this Agreement);

(b) instigate, encourage, or assist any third party (including forming a "group" with any such third party) to do, or enter into any discussions or agreements with any third party with respect to, any of the actions set forth in Section 5.6(a);

(c) take any action that would reasonably be expected to require the Company or any of its Affiliates to make a public announcement regarding any of the actions set forth in Section 5.6(a); or

(d) acquire (or propose or agree to acquire), of record or beneficially, by purchase or otherwise, any debt securities, Equity Securities, or assets of the Company or any of its Subsidiaries, or rights or options to acquire interests in any of the Company's debt securities, Equity Securities, or assets (other than pursuant to the Option).

Section 5.7 Reservation of Common Shares and Option Shares. As of the date hereof, the Company has reserved and the Company shall continue to reserve and keep available at all times a sufficient number of Common Shares for the purpose of enabling the

Company to issue the Acquired Shares pursuant to this Agreement and the Option Shares pursuant to any exercise of the Option.

Section 5.8 Resale Restrictions.

(a) United States. Investor covenants and agrees that it will not, during the period ending on the date that is six (6) months after the date of issuance of the Securities pursuant to the terms of this Agreement, sell or otherwise effect a trade of any of the Acquired Shares or any Option Shares issued to Investor upon exercise of the Option to any person resident in United States or any person acquiring the Acquired Shares or Option Shares for the benefit of another person resident in the United States, other than in a transaction made in compliance with the prospectus and registration requirements of applicable U.S. securities laws or which otherwise is made in reliance on any available exemptions therefrom.

(b) Canada. Investor covenants and agrees that it will not, during the period ending on the date that is four (4) months plus one (1) day after the date of issuance of the Securities pursuant to the terms of this Agreement, sell or otherwise effect a trade of any of the Acquired Shares or any Option Shares issued to Investor upon exercise of the Option to any person resident in Canada or any person acquiring the Acquired Shares or Option Shares for the benefit of another person resident in Canada, other than in a transaction made in compliance with the prospectus and registration requirements of applicable Canadian securities laws or which otherwise is made in reliance on any available exemptions therefrom.

(c) Notwithstanding anything herein to the contrary, a sale of the Acquired Shares or Option Shares through the facilities of any Trading Market shall be deemed to be in compliance with this Section 5.8.

Section 5.9 Tax Matters.

(a) The Company and Investor agree to consult with each other in selecting (i) on or prior to the Closing Date, an appropriate allocation of the Acquired Shares and Option Price among the Acquired Shares, the Option and the IP Rights Agreement and (ii) an appropriate allocation of any other payment as required by applicable law.

(b) The Company shall use commercially reasonable best efforts to advise Investor whether or not the Company or any of its Subsidiaries is a “controlled foreign corporation” (a “CFC”) within the meaning of Section 957 of the Code, or a “passive foreign investment company” within the meaning of Section 1297 of the Code (a “PFIC”), in each case for the most recently ended taxable year of the Company, (a) on or prior to the Closing Date, (b) promptly upon request by Investor, and (c) within 90 days following the end of each such taxable year. In addition, the Company shall provide Investor in a timely fashion with any information (including access to the Company’s personnel and advisors) reasonably requested by Investor in order to make required reports, determinations and filings with applicable taxing authorities related to its investment in the Company, including (i) U.S. Internal Revenue Service filings relating to the Company’s status as a CFC or PFIC, (ii) determinations as to the Company’s status as a CFC or PFIC, and (iii) determinations of Investor’s pro rata portion of the Company’s Subpart F Income (for purposes of the Code) or Investor’s pro rata share of the

Company's earnings and profits pursuant to Section 1293 of the Code. At the request of Investor, the Company shall take any required or appropriate action to enable Investor to make a timely and valid qualified electing fund (QEF) election, pursuant to Section 1295 of the Code, with respect to the Company if the Company is (or is later determined to be) a PFIC.

Section 5.10 Securities Laws Disclosure; Publicity. The Company shall file a Current Report on Form 8-K, including the Transaction Documents as exhibits thereto, with the Commission within the time required by the Exchange Act. The Company and Investor shall consult with each other in issuing any press release with respect to the transactions contemplated hereby, and neither the Company nor Investor shall issue any such press release nor otherwise make any such public statement without the prior written consent of the Company, with respect to any press release of Investor, or without the prior written consent of Investor, with respect to any press release of the Company, which consent shall not unreasonably be withheld or delayed, except if such disclosure is required by law, in which case the disclosing party shall promptly provide the other party with prior notice of such public statement or communication.

Section 5.11 Indemnification.

(a) Subject to the provisions of this Section 5.11, the Company shall indemnify and hold harmless Investor and each of its officers and directors and any Person who controls Investor (within the meaning of the Securities Act) (each, an "Investor Indemnified Party"), to the fullest extent permitted by applicable law, from and against any and all losses, liabilities, obligations, claims, contingencies, damages, diminution in value, taxes, costs and expenses, including all judgments, amounts paid in settlements, court costs and reasonable attorneys' fees and costs of investigation (collectively, "Losses") as incurred, arising out of or relating to (a) any breach of any of the representations, warranties, covenants or agreements made by the Company in this Agreement or in the other Transaction Documents or (b) any untrue or alleged untrue statement of a material fact contained in any Registration Statement under which any Registrable Securities were registered, in any preliminary prospectus (if the Company authorized the use of such preliminary prospectus prior to the Effective Date), or in any summary or final prospectus or free writing prospectus (if such free writing prospectus was authorized for use by the Company) or in any amendment or supplement thereto (if used during the period the Company is required to keep the Registration Statement current), or arising out of, based upon or resulting from the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements made therein, in the light of the circumstances in which they were made, not misleading; *provided, however*, that the Company shall not be liable to any Investor Indemnified Party to the extent that any such claim arises out of, is based upon or results from an untrue or alleged untrue statement or omission or alleged omission made in such Registration Statement, such preliminary, summary or final prospectus or free writing prospectus or such amendment or supplement, in reliance upon and in conformity with written information furnished to the Company by or on behalf of such Investor Indemnified Party specifically for use in the preparation thereof. The Company shall notify the Holders promptly of the institution, threat or assertion of any Proceeding of which the Company is aware in connection with the transactions contemplated by this Agreement. Notwithstanding anything to the contrary herein, this Section 5.11 shall survive any termination or expiration of this Agreement indefinitely.

(b) Subject to the provisions of this Section 5.11, Investor shall indemnify and hold harmless the Company, its Affiliates and each of their respective officers, directors and any Person who controls the Company (within the meaning of the Securities Act), to the fullest extent permitted by applicable law, from and against any and all Losses as incurred, arising out of or relating to (a) any breach of any of the representations, warranties, covenants or agreements made by Investor in this Agreement or in the other Transaction Documents or (b) in connection with any Registration Statement in which a Holder participates, any untrue or alleged untrue statement of a material fact contained in any such Registration Statement, in any preliminary prospectus (if used prior to the Effective Date of such Registration Statement), or in any summary or final prospectus or free writing prospectus or in any amendment or supplement thereto (if used during the period the Company is required to keep the Registration Statement current), or arising out of, based upon or resulting from the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements made therein, in the light of the circumstances in which they were made, not misleading, but in each case only to the extent that the same are made in reliance and in conformity with information relating to the Holder furnished in writing to the Company by such Holder for use therein.

(c) Promptly after receipt by an indemnified party of notice of the commencement of any action or proceeding involving a claim referred to in Section 5.11(a) or Section 5.11(b), such indemnified party shall, if a claim in respect thereof is to be made against an indemnifying party, give written notice to the latter of the commencement of such action; *provided, however*, that the failure of any indemnified party to give notice as provided herein shall not relieve the indemnifying party of its obligations under Section 5.11(a) or Section 5.11(b), except and only to the extent that the indemnifying party forfeits rights or defenses by reason of such failure. In case any such action is brought against an indemnified party, unless in such indemnified party's reasonable judgment a conflict of interest between such indemnified and indemnifying parties may exist in respect of such claim or such action seeks an injunction or other equitable relief against the indemnified party, the indemnifying party shall be entitled to participate in and to assume the defense thereof, jointly with any other indemnifying party similarly notified to the extent that it may wish, with counsel reasonably satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party shall not be liable to such indemnified party for any legal or other expenses subsequently incurred by the latter in connection with the defense thereof other than reasonable costs of investigation, provided, that, if in the reasonable judgment of the indemnified party based on the written opinion of its external legal counsel, there are legal defenses available to an indemnified party that are different from or additional to those available to the indemnifying party, the indemnifying party shall be liable for the reasonable fees and expenses of one firm of legal counsel and local counsel in each applicable jurisdiction to the indemnified party. The indemnified party shall not, without the consent of the indemnifying party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to the indemnifying party of a release from all liability in respect to such claim or litigation. No indemnifying party shall, without the prior written consent of the indemnified party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect to such claim or litigation and contains no injunction or similar relief binding upon the indemnified party. An indemnifying party who is not entitled to, or elects not to,

assume the defense of a claim shall not be obligated to pay the fees and expenses of more than one counsel (in addition to any local counsel) for all parties indemnified by such indemnifying party with respect to such claim, unless in the reasonable judgment of any indemnified party there may be one or more legal or equitable defenses available to such indemnified party that are in addition to or may conflict with those available to another indemnified party with respect to such claim. For the avoidance of doubt, notwithstanding any assumption by an indemnifying party of the defense of a claim hereunder, the indemnified party shall have the right to employ separate counsel in any such matter and participate in the defense thereof, but the fees and expenses of such counsel, other than reasonable costs of investigation, shall be at the expense of such indemnified party, unless the Parties agree otherwise or in the reasonable judgment of the indemnified party based on the opinion of its external legal counsel, there are legal defenses available to an indemnified party that are different from or additional to those available to the indemnifying party.

(d) Other than in the case of fraud, the aggregate amount of all Losses for which an indemnifying party shall be liable pursuant to Section 5.11(a) or Section 5.11(b), as the case may be, shall not exceed fifty percent (50%) of the Acquired Shares and Option Price.

(e) Other than in the case of fraud, in no event shall any indemnifying party be liable for any punitive damages except to the extent such damages are required to be paid to a third party in connection with a third party claim.

## **ARTICLE VI MISCELLANEOUS**

Section 6.1 Survival, Etc. The representations and warranties in this Agreement shall terminate on the earlier to occur of (a) the fourth anniversary of the date hereof or (b) the exercise date of the Option. The covenants and agreements set forth in ARTICLE V and any other agreement in this Agreement that contemplates performance after the Closing shall survive the Closing, and those in this ARTICLE VI shall survive termination of this Agreement. The Confidentiality Agreement shall survive termination of this Agreement in accordance with its terms.

Section 6.2 Fees and Expenses. Except as expressly set forth in the Transaction Documents to the contrary, each Party shall pay the fees and expenses of its advisers, counsel, accountants and other experts, if any, and all other expenses incurred by such Party incident to the negotiation, preparation, execution, delivery and performance of this Agreement and the other Transaction Documents. The Company shall pay all Transfer Agent fees (including any fees required for same-day processing of any instruction letter delivered by the Company and any exercise notice delivered by Investor), stamp taxes and other taxes and duties levied in connection with the delivery of any Securities to Investor.

Section 6.3 Entire Agreement. The Transaction Documents, together with the exhibits and schedules thereto, contain the entire understanding of the Parties with respect to the subject matter hereof and thereof and supersede all prior agreements and understandings, oral or written, with respect to such matters (including, for greater certainty, the Term

Sheet), which the Parties acknowledge have been merged into such documents, exhibits and schedules, except for the Confidentiality Agreement.

Section 6.4 Notices. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of (a) the date of transmission, if such notice or communication is delivered via facsimile at or prior to 5:30 p.m. (New York City time) on a Trading Day, (b) the next Trading Day after the date of transmission, if such notice or communication is delivered via facsimile on a day that is not a Trading Day or later than 5:30 p.m. (New York City time) on any Trading Day, (c) the second (2nd) Trading Day following the date of mailing, if sent by U.S. nationally recognized overnight courier service or (d) upon actual receipt by the Party to whom such notice is required to be given. Such notices, communications and deliveries must be sent to the respective Parties at the following addresses (or at such other address for a Party as shall be specified in a notice given in accordance with this Section 6.4):

If to the Company, to:

Randall J. Scott  
Rare Element Resources Ltd.  
P.O. Box 271049  
Littleton, Colorado 80127  
Facsimile: (720) 278-2490

with a copy (which shall not constitute notice) to:

Timothy D. Rampe, Esq.  
Davis Graham & Stubbs LLP  
1550 Seventeenth Street, Suite 500  
Denver, Colorado 80202  
Facsimile: (303) 893-1379

If to Investor, to:

Kenneth J. Mushinski  
Synchron  
3550 General Atomics Court  
San Diego, California 92121  
Facsimile: (858) 455-3213

with a copy (which shall not constitute notice) to:

Donald G. Kilpatrick  
Pillsbury Winthrop Shaw Pittman LLP  
1540 Broadway  
New York, NY 10036  
Facsimile: (917) 464-6441

Section 6.5 Amendments; Waivers. No provision of this Agreement may be waived, modified, supplemented or amended except in a written instrument signed, in the case of an amendment, by the Company and Investor or, in the case of a waiver, by the Party against whom enforcement of any such waived provision is sought. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of either Party to exercise any right hereunder in any manner impair the exercise of any such right.

Section 6.6 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the Parties and their successors and permitted assigns. Neither Party may assign this Agreement or any rights or obligations hereunder without the prior written consent of the other Party; *provided, however*, that Investor may assign to an Affiliate of Investor any or all of Investor's rights under this Agreement without the prior written consent of the Company as long as Investor gives prior notice of such assignment to the Company and such Affiliate agrees in writing (which shall be in form and substance acceptable to the Company) to be bound, with respect to the transferred Securities, by the provisions of the Transaction Documents that apply to Investor.

Section 6.7 No Third-Party Beneficiaries. This Agreement is intended for the benefit of the Parties and their respective successors and permitted assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other Person (including any shareholder of the Company), except as otherwise set forth in Section 5.5(e) and Section 5.11.

Section 6.8 Governing Law. All questions concerning the construction, validity, enforcement and interpretation of the Transaction Documents shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. Each Party agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement and any other Transaction Documents (whether brought against a Party or its respective affiliates, directors, officers, shareholders, partners, members, employees or agents) shall be commenced exclusively in the state and U.S. federal courts sitting in the City of New York. Each Party hereby irrevocably submits to the exclusive jurisdiction of the state and U.S. federal courts sitting in the City of New York, Borough of Manhattan for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby

or discussed herein (including with respect to the enforcement of any of the Transaction Documents), and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper or is an inconvenient venue for such proceeding. Each Party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such Party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law.

Section 6.9 Execution. This Agreement may be executed in counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each Party and delivered to each other Party, it being understood that the Parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a “.pdf” format data file, such signature shall create a valid and binding obligation of the Party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or “.pdf” signature page were an original thereof.

Section 6.10 Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the Parties shall use their commercially reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the Parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

Section 6.11 Replacement of Securities. If any certificate or instrument evidencing any Securities is mutilated, lost, stolen or destroyed, the Company shall issue or cause to be issued in exchange and substitution for and upon cancellation thereof (in the case of mutilation), or in lieu of and substitution therefor, a new certificate or instrument, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction. The applicant for a new certificate or instrument under such circumstances shall also pay any reasonable third-party costs (including customary indemnity) associated with the issuance of such replacement Securities.

Section 6.12 Interpretation. When a reference is made in this Agreement to an Article, Section or Schedule, such reference shall be to an Article of, a Section of, or a Schedule to this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words “include,” “includes” or “including” are used in this Agreement, they shall be deemed to be

followed by the words “without limitation.” When used in this Agreement, the words “hereof,” “herein,” “hereby” and “hereunder” and words of similar import shall refer to this Agreement as a whole and not to any particular provision of this Agreement. The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such term. Any agreement, instrument or statute defined or referred to herein or in any agreement or instrument that is referred to herein means such agreement, instrument or statute as from time to time amended, modified or supplemented, including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and references to all attachments thereto and instruments incorporated therein. References to a Person are also to its permitted successors and assigns. All references to days mean calendar days unless otherwise provided. The word “or” shall be inclusive and not exclusive. Any reference in this Agreement to “\$” means U.S. dollars.

Section 6.13 Saturdays, Sundays, Holidays, Etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall not be a Business Day, then such action may be taken or such right may be exercised on the next succeeding Business Day.

Section 6.14 Construction. The Parties agree that each of them and/or their respective counsel have reviewed and had an opportunity to revise the Transaction Documents and, therefore, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of the Transaction Documents or any amendments thereto. In addition, each and every reference to share prices and Common Shares in any Transaction Document shall be subject to adjustment for reverse and forward stock splits, stock dividends, stock combinations and other similar transactions of the Common Shares that occur after the date of this Agreement.

Section 6.15 Waiver of Jury Trial. IN ANY ACTION, SUIT, OR PROCEEDING IN ANY JURISDICTION BROUGHT BY EITHER PARTY AGAINST THE OTHER PARTY, THE PARTIES EACH KNOWINGLY AND INTENTIONALLY, TO THE GREATEST EXTENT PERMITTED BY APPLICABLE LAW, HEREBY ABSOLUTELY, UNCONDITIONALLY, IRREVOCABLY AND EXPRESSLY WAIVES FOREVER TRIAL BY JURY.

[Signature page follows]

IN WITNESS WHEREOF, the Parties have caused this Investment Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

**RARE ELEMENT RESOURCES LTD.**

By: /s/ *Randall J. Scott*  
Name: Randall J. Scott  
Title: President and Chief Executive Officer

**SYNCHRON**

By: /s/ *Kenneth J. Mushinski*  
Name: Kenneth J. Mushinski  
Title: President

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE SECURITIES LAW. THE HOLDER OF THIS SECURITY, BY PURCHASING THE SECURITY, AGREES FOR THE BENEFIT OF RARE ELEMENT RESOURCES LTD. (THE “COMPANY”) THAT THE SECURITY MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A) TO THE COMPANY, (B) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND IN COMPLIANCE WITH ANY APPLICABLE LOCAL SECURITIES LAWS AND REGULATIONS, (C) OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 904 OF REGULATIONS UNDER THE SECURITIES ACT AND IN COMPLIANCE WITH ANY APPLICABLE LOCAL SECURITIES LAWS AND REGULATIONS, (D) IN COMPLIANCE WITH THE EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS OR (E) IN A TRANSACTION THAT DOES NOT REQUIRE REGISTRATION UNDER THE SECURITIES ACT AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS, PROVIDED THAT, IN THE CASE OF (C), (D) OR (E), THE HOLDER HAS DELIVERED TO THE COMPANY AND THE REGISTRAR AND TRANSFER AGENT AN OPINION OF COUNSEL OF RECOGNIZED STANDING IN FORM AND SUBSTANCE REASONABLY SATISFACTORY TO THE COMPANY AND THE REGISTRAR AND TRANSFER AGENT TO SUCH EFFECT.

UNLESS PERMITTED UNDER APPLICABLE SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY IN CANADA BEFORE FEBRUARY 3, 2018.

## **COMMON SHARE PURCHASE OPTION**

### **RARE ELEMENT RESOURCES LTD.**

Option Shares: See definition below

Initial Exercise Date: October 2, 2017

Issue Date: October 2, 2017

This COMMON SHARE PURCHASE OPTION (the “Option”) certifies that, for value received, Synchron, a California corporation (“Investor”), or its assigns (the “Holder”) is entitled, upon the terms and subject to the limitations on exercise and the conditions hereinafter set forth, at any time on or after October 2, 2017 (the “Initial Exercise Date”) and on or prior to the close of business on October 2, 2021 (the “Termination Date”) but not thereafter, to subscribe for and purchase from Rare Element Resources Ltd., a corporation incorporated under the laws of British Columbia (the “Company”), such number of common shares, no par value per share, of the Company (“Common Shares”) that constitute 15.516684867853% of the fully diluted Common Shares of the Company immediately after the exercise of this Option (as subject to adjustment hereunder, the “Option Shares”), subject to the terms and conditions of this Option (including without limitation Section 2(d)).

This Option is the “Option” to purchase Common Shares referenced in the Investment Agreement dated as of October 2, 2017, between the Company and Investor (the “Investment Agreement”) and is issued as part of the transactions contemplated thereby, which include the purchase of 26,650,000 Common Shares (the “Acquired Shares”) concurrent with the issuance of this Option.

Section 1. Definitions. Capitalized terms used and not otherwise defined herein shall have the meanings set forth in the Investment Agreement.

## Section 2. Exercise.

Exercise of the purchase rights represented by this Option may be made in full (but not in part) at any time on or after the Initial Exercise Date and on or before the Termination Date by delivery to the Company (or such other office or agency of the Company as it may designate by notice in writing to the registered Holder at the address of the Holder appearing on the books of the Company) of a duly executed facsimile or portable document format (.pdf) copy of the Notice of Exercise Form attached as Exhibit A hereto. Within two (2) Trading Days following receipt of such notice, the Company shall deliver to the Holder a calculation setting forth the number of Option Shares issuable under this Option in accordance with the terms of this Option (the "Option Shares Calculation"). Within two (2) Business Days following receipt of the Option Shares Calculation (the "Holder's Objection Period"), the Holder shall deliver any objection to the Option Shares Calculation, demonstrating its calculation of the number of Common Shares issuable under this Option. The Company and the Holder shall resolve any dispute, controversy, or claim arising out of or relating to this Option, including regarding the number of Common Shares issuable under this Option, or the breach, termination or invalidity hereof (each, a "Dispute"), under the provisions of Section 6. Within five (5) Trading Days following the later of (i) the expiration of the Holder's Objection Period (if the Holder has not delivered an objection by the conclusion of the Holder's Objection Period) or (ii) the conclusion of the process for resolving a Dispute in accordance with Section 6 (the "Final Share Determination Date"), the Holder shall deliver the Total Exercise Price for the Option Shares in cash by wire transfer of immediately available funds to an account designated in writing by the Company. No ink-original Notice of Exercise shall be required, nor shall any medallion guarantee (or other type of guarantee or notarization) of the Notice of Exercise form be required. Upon exercising the Option, the Holder shall be required to physically surrender this Option to the Company for cancellation within five (5) Trading Days following the Final Share Determination Date.

Total Exercise Price. The aggregate exercise price of the Common Shares under this Option shall be \$5,040,000.00 (the "Total Exercise Price").

### Mechanics of Exercise.

(i) Delivery of Option Shares upon Exercise. Subject to receipt of payment to the Company of the Total Exercise Price by the fifth (5th) Trading Day after the Final Share Determination Date, the Company shall cause the Option Shares to be delivered to the Holder, the Holder's authorized assignee or the Holder's legal representative by physical delivery to the address specified by the Holder in the Notice of Exercise by the date that is five (5) Trading Days after the Company's receipt of payment of the Total Exercise Price. The Option Shares shall be deemed to have been issued, and the Holder shall be deemed to have become a holder of record of such shares for all purposes, as of the date the Option has been exercised.

(ii) No Fractional Shares or Scrip. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Option. As to any fraction of a share which the Holder would otherwise be entitled to purchase upon such exercise, the Company shall (A) round up to the nearest share any fractional share greater

than or equal to 0.5 and (B) round down to the nearest share any fractional share less than 0.5.

(iii) Closing of Books. The Company will not close its shareholder books or records in any manner which prevents the timely exercise of this Option, pursuant to the terms hereof.

Beneficial Ownership Limitation. Notwithstanding anything to the contrary contained herein, the Company shall not effect the exercise of any portion of this Option, and the Holder shall not have the right to exercise any portion of this Option, pursuant to the terms and conditions of this Option and any such exercise shall be null and void and treated as if never made, to the extent that after giving effect to such exercise, the Holder together with its Affiliates collectively would beneficially own in excess of 49.99% (the "Maximum Percentage") of the number of Common Shares outstanding immediately after giving effect to such exercise. For purposes of the foregoing sentence, the aggregate number of Common Shares beneficially owned by the Holder and its Affiliates shall include the number of Common Shares held by the Holder and its Affiliates plus the number of Common Shares issuable upon exercise of this Option with respect to which the determination of such sentence is being made, but shall exclude the number of Common Shares which would be issuable upon exercise or conversion of the unexercised or unconverted portion of any other securities of the Company. For purposes of this Section 2(d), beneficial ownership shall be calculated in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act"). In the event that the issuance of Common Shares to the Holder upon exercise of this Option would, but for this Section 2(d), result in the Holder and its Affiliates being deemed to beneficially own, in the aggregate, more than the Maximum Percentage of the number of outstanding shares of Common Stock (as determined under Section 13(d) of the 1934 Act), then the number of Option Shares issuable under this Option shall automatically be reduced to such number of shares as would result in the Holder and its Affiliates collectively owning 49.99% of the number of Common Shares outstanding immediately after giving effect to such exercise, but the Total Exercise Price shall not be adjusted. Any Common Shares that would otherwise be issuable upon the exercise of this Option shall be cancelled and void and no longer subject to this Option.

Section 3. Purchase Rights; Preemptive Rights. If at any time the Company (i) grants or issues for no consideration any Common Share Equivalents or rights to purchase stock, warrants, securities or other property pro rata to the record holders of Common Shares (the "Purchase Rights"), or (ii) offers Company equity securities in an Offering in which Investor has preemptive rights under Section 5.4 of the Investment Agreement (a "Preemptive Rights Offering"), then the Holder will be entitled to acquire, upon the terms applicable to such Purchase Rights or Preemptive Rights Offering, the aggregate Purchase Rights or Equity Securities which the Holder could have acquired based on its Fully Diluted Pro Rata Ownership Percentage immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of Common Shares are to be determined for the grant, issue or sale of such Purchase Rights or, in a Preemptive Rights Offering, in accordance with the terms of the Investment Agreement.

Section 4. Notice to Allow Exercise by the Holder. If (A) the Company shall declare a dividend (or any other distribution in whatever form) on the Common Shares, (B) the Company

shall declare a special nonrecurring cash dividend on or a redemption of the Common Shares, (C) the Company shall authorize the granting to all holders of the Common Shares rights, options or warrants to subscribe for or purchase any shares of capital stock of any class or of any rights, (D) the approval of any shareholders of the Company shall be required in connection with any reclassification of the Common Shares, any consolidation or merger to which the Company is a party, any sale or transfer of all or substantially all of the assets of the Company, or any compulsory share exchange whereby the Common Shares are converted into other securities, cash or property, or (E) the Company shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Company, then, in each case, the Company shall cause to be mailed to the Holder at its last address as it shall appear upon the Option Register of the Company, at least 10 calendar days prior to the applicable record or effective date hereinafter specified, a notice stating (1) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights, options or warrants, or if a record is not to be taken, the date as of which the holders of the Common Shares of record to be entitled to such dividend, distributions, redemption, rights, options or warrants are to be determined or (2) the date on which such reclassification, consolidation, merger, sale, transfer or share exchange is expected to become effective or close, and the date as of which it is expected that holders of the Common Shares of record shall be entitled to exchange their Common Shares for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or share exchange; *provided* that the failure to mail such notice or any defect therein or in the mailing thereof shall not affect the validity of the corporate action required to be specified in such notice. To the extent that any notice provided hereunder constitutes, or contains, material, non-public information regarding the Company or any of the Subsidiaries, the Company shall simultaneously file such notice with the Commission pursuant to a Current Report on Form 8-K. The Holder shall remain entitled to exercise this Option during the period commencing on the date of such notice to the effective date of the event triggering such notice, except as may otherwise be expressly set forth herein.

#### Section 5. Transfer of Option.

(a) Transferability. The Holder may not assign this Option or any rights or obligations hereunder with the prior written consent of the Company; *provided, however*, that the Holder may assign in full (but not in part) to an Affiliate of Investor the Holder's rights under this Option without the prior written consent of the Company upon surrender of this Option at the principal office of the Company or its designated agent, together with the Assignment Form, attached hereto as Exhibit B, duly executed by the Holder or its agent or attorney. Upon such surrender and, if required, such payment, the Company shall execute and deliver a new Option in the name of the assignee, and this Option shall promptly be cancelled. The Holder shall be required to physically surrender the Option to the Company within three (3) Trading Days of the date the Holder delivers the Assignment Form to the Company assigning this Option in full. The Option, if properly assigned in accordance herewith, may be exercised by a new holder for the purchase of Option Shares without having a new Option issued.

(b) Option Register. The Company shall register this Option, upon records to be maintained by the Company for that purpose (the "Option Register"), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered

Holder of this Option as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary.

(c) Canadian Issuances. The Holder covenants and agrees that it will not, during the period ending on the date that is four (4) months plus one (1) day after the date of issuance of this Option, sell or otherwise effect a trade of the Option or the Option Shares to any person resident in Canada or any person acquiring such Option or Option Shares for the benefit of another person resident in Canada, other than in a transaction made in compliance with the prospectus and registration requirements of applicable Canadian securities laws or which otherwise is made in reliance on any available exemptions therefrom (and the Company may require evidence of such compliance). The Holder agrees and acknowledges that any new certificate representing the Option, and any Option Shares, issued prior to the date that is four (4) months and one (1) day from the date of this Option, shall bear the legend below:

“UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER HEREOF MUST NOT TRADE THE SECURITIES REPRESENTED HEREBY (OR ANY SECURITIES ISSUED ON THE EXERCISE THEREOF) IN CANADA BEFORE FEBRUARY 3, 2018.”

Section 6. Dispute Resolution.

(a) Exclusive Dispute Resolution Mechanism. The procedures set forth in this Section 6 shall be the exclusive mechanism for resolving any Dispute that may arise from time to time relating to this Option. Either Party may commence the procedures contemplated by this Section 6 by written notice to the other that a Dispute has arisen (a “Dispute Notice”). To the extent a Dispute Notice relates to the Option Shares Calculation, any amount of Option Shares that are not subject to dispute in the Dispute Notice shall be delivered to Holder within two (2) Trading Days of Holder delivering the Total Exercise Price to the Company.

(b) Negotiations. The Company and the Holder shall first attempt in good faith to resolve any Dispute by negotiation and consultation between themselves, including without limitation not fewer than two (2) negotiation sessions which shall occur within ten (10) Business Days of the Dispute Notice. In the event that such Dispute is not resolved on an informal basis by the conclusion of the second negotiation session, or, if either Party has not participated in negotiation sessions as to which notice has been given (the last day of such time period, the “Escalation to Mediation Date”), either Party may initiate mediation under Section 6(c).

(c) Mediation.

(i) Either Party may, at any time after the Escalation to Mediation Date, submit the Dispute for mediation. The Company and the Holder shall cooperate with one another in selecting a neutral mediator and in scheduling the mediation proceedings. The Company and the Holder covenant that they will use commercially reasonable efforts in participating in the mediation. Each Party shall prepare for the mediator a written request for mediation, setting forth the subject of the Dispute, the position and supporting documentation of such Party, and the relief requested. The

Company and the Holder agree that the mediator's fees and expenses and the costs incidental to the mediation will be shared equally between the Company and the Holder.

(ii) The Company and the Holder further agree that all offers, promises, conduct, and statements, whether oral or written, made in the course of the mediation by the Company and the Holder, their agents, employees, experts, and attorneys, and by the mediator, are confidential, privileged, and inadmissible for any purpose, including impeachment, in any litigation, arbitration or other proceeding involving the Company and the Holder, *provided* that evidence that is otherwise admissible or discoverable shall not be rendered inadmissible or non-discoverable as a result of its use in the mediation.

(d) Litigation as a Final Resort. If the Company and the Holder cannot resolve any Dispute for any reason, including, but not limited to, the failure of the Company or the Holder to agree to enter into mediation or agree to any settlement proposed by the mediator, within sixty (60) days after the Escalation to Mediation Date, either the Company or the Holder may file suit in a court of competent jurisdiction in accordance with Section 7(e).

#### Section 7. Miscellaneous.

(a) No Rights as Shareholder Until Exercise. This Option does not entitle the Holder to any voting rights, dividends or other rights as a shareholder of the Company prior to the exercise hereof as set forth in Section 2(c)(i).

(b) Loss, Theft, Destruction or Mutilation of Option. The Company covenants that upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Option or any stock certificate relating to the Option Shares, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it (which, in the case of the Option, shall not include the posting of any bond), and upon surrender and cancellation of such Option or stock certificate, if mutilated, the Company will make and deliver a new Option or stock certificate of like tenor and dated as of such cancellation, in lieu of such Option or stock certificate.

(c) Saturdays, Sundays, Holidays, Etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall not be a Business Day, then, such action may be taken or such right may be exercised on the next succeeding Business Day.

(d) Authorized Shares. The Company covenants that, during the period the Option is outstanding, it will reserve from its authorized and unissued Common Shares a sufficient number of shares to provide for the issuance of the Option Shares upon the exercise of any purchase rights under this Option. The Company further covenants that its issuance of this Option shall constitute full authority to its officers who are charged with the duty of executing stock certificates to execute and issue the necessary Option Shares upon the exercise of the purchase rights under this Option. The Company will take all such reasonable action as may be necessary to assure that such Option Shares may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of the Trading Market upon which

the Common Shares may be listed. The Company covenants that all Option Shares which may be issued upon the exercise of the purchase rights represented by this Option will, upon exercise of the purchase rights represented by this Option and payment for such Option Shares in accordance herewith, be duly authorized, validly issued, fully paid and nonassessable.

Except and to the extent as waived or consented to by the Holder, the Company shall not by any action, including, without limitation, amending its certificate of incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Option, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate to protect the rights of the Holder as set forth in this Option against impairment. Without limiting the generality of the foregoing, the Company will (i) take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable Option Shares upon the exercise of this Option and (ii) use commercially reasonable efforts to obtain all such authorizations, exemptions or consents from any public regulatory body having jurisdiction thereof as may be necessary to enable the Company to perform its obligations under this Option.

Before taking any action which would result in an adjustment in the number of Option Shares for which this Option is exercisable, the Company shall obtain all such authorizations or exemptions thereof, or consents thereto, as may be necessary from any public regulatory body or bodies or stock exchanges having jurisdiction thereof.

(e) Governing Law; Jurisdiction. All questions concerning the construction, validity, enforcement and interpretation of this Option shall be determined in accordance with the provisions of the Investment Agreement.

(f) Restrictions. The Holder acknowledges that the Option Shares acquired upon the exercise of this Option, if not registered, will have restrictions upon resale imposed by U.S. state and federal securities laws.

(g) Nonwaiver and Expenses. No course of dealing or any delay or failure to exercise any right hereunder on the part of the Holder shall operate as a waiver of such right or otherwise prejudice the Holder's rights, powers or remedies. Without limiting any other provision of this Option or the Investment Agreement, if the Company willfully and knowingly fails to comply with any provision of this Option which results in any material damages to the Holder, the Company shall pay to the Holder such amounts as shall be sufficient to cover any costs and expenses, including, but not limited to, reasonable attorneys' fees incurred by the Holder in collecting any amounts due pursuant hereto or in otherwise enforcing any of its rights, powers or remedies hereunder.

(h) Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder by the Company shall be delivered in accordance with the notice provisions of the Investment Agreement.

(i) Amendment. This Option may be modified or amended, or the provisions hereof may be waived, with the written consent of the Company and the Holder.

(j) Severability. Wherever possible, each provision of this Option shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Option shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Option.

(k) Headings. The headings used in this Option are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Option.

[Signature page follows]

IN WITNESS WHEREOF, the Company has caused this Option to be executed by its officer thereunto duly authorized as of the date first above indicated.

**RARE ELEMENT RESOURCES LTD.**

By: /s/ Randall J. Scott

Name: Randall J. Scott

Title: President and Chief Executive Officer

**NOTICE OF EXERCISE**

TO: RARE ELEMENT RESOURCES LTD.

(1) The undersigned hereby elects to purchase all of the Option Shares of the Company pursuant to the terms of the attached Option, and tenders herewith payment of the exercise price in full, together with all applicable transfer taxes, if any.

(2) Payment shall take the form of lawful money of the United States.

(3) Please issue said Option Shares in the name of the undersigned.

The Option Shares shall be delivered by physical delivery to the following address:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Name of the Holder: \_\_\_\_\_

Signature of Authorized Signatory of the Holder: \_\_\_\_\_

Name of Authorized Signatory: \_\_\_\_\_

Title of Authorized Signatory: \_\_\_\_\_

Date: \_\_\_\_\_

**ASSIGNMENT FORM**

*(To assign the foregoing Option, execute this form and supply required information. Do not use this form to purchase shares.)*

FOR VALUE RECEIVED, the foregoing Option and all rights evidenced thereby are hereby assigned to:

Name of Assignee (wholly owned subsidiary of Synchron):

\_\_\_\_\_  
Address of Assignee: \_\_\_\_\_  
\_\_\_\_\_

Name of the Holder: \_\_\_\_\_

Signature of Authorized Signatory of the Holder: \_\_\_\_\_

Name of Authorized Signatory: \_\_\_\_\_

Title of Authorized Signatory: \_\_\_\_\_

Date: \_\_\_\_\_

**INTELLECTUAL PROPERTY RIGHTS AGREEMENT**

Synchron, a California corporation having a principal place of business at 3550 General Atomics Court, San Diego, CA 92121-1122 (or one or more Affiliates, the "Investor"), and Rare Element Resources Ltd., a British Columbia Corporation having a principal place of business at P.O. Box 271049, Littleton, Colorado 80127 (the "Company") (Investor and Company each a "Party" and together the "Parties"), agree as follows:

**I. Background of Agreement**

1.00 Company is the owner of certain Patents and related Technical Information relating to rare earth mineral processing and rare earth separation.

1.01 Investor wishes to acquire certain rights under the Patents and related Technical Information in accordance with the terms of this IP Agreement.

1.02 Company and Investor are concurrently entering into an Investment Agreement ("Investment Agreement") whereby Investor is making a monetary investment in Company.

1.03 Company is issuing the Option pursuant to which Investor will be entitled to purchase common shares of Company.

**II. Definitions**

As used herein, the following terms have the meaning set forth below:

2.01 Any term set out in this IP Agreement with its initial letters capitalized, shall have the same meaning as it has in the Investment Agreement, unless a different meaning is explicitly assigned to the term in this IP Agreement.

2.02 "Affiliate" has the meaning set forth in the Investment Agreement.

2.03 "Business Day" has the meaning set forth in the Investment Agreement.

2.04 "Company" has the meaning set out above in the introductory paragraph.

2.05 "Company Improvements" has the meaning set out below in Article 5.00.

- 2.06 "Dispute" has the meaning set out below in Article 18.00.
- 2.07 "Dispute Notice" has the meaning set out below in Article 18.00.
- 2.08 "Effective Date" has the meaning of the "Closing Date" set forth in the Investment Agreement.
- 2.09 "Escalation to Mediation Date" has the meaning set out below in Article 18.01.
- 2.10 "Improvement" or "Improvements" means any modification of a process or other technology described in a Patent, and any modification to Technical Information.
- 2.11 "Investment Agreement" has the meaning set out above in Article 1.02.
- 2.12 "Investor" has the meaning set out above in the introductory paragraph.
- 2.13 "Investor Improvements" has the meaning set out below in Article 5.01.
- 2.14 "IP Agreement" means this agreement, including all Exhibits referenced herein and attached hereto.
- 2.15 "Joint Improvements" has the meaning set out below in Article 5.02.
- 2.16 "Option" has the meaning set forth in the Investment Agreement.
- 2.17 "Option Period" has the meaning set forth in the Investment Agreement.
- 2.18 "Patent" or "Patents" means: (a) any and all patents and patent applications owned by Company anywhere in the world as of the Effective Date relating to rare earth mineral processing and rare earth separation including without limitation those patents and patent applications listed in **Exhibit A**; (b) any and all divisions, continuations, continuations-in-part of any of the patents and patent applications within subdivision (a); (c) any and all patents that may directly or indirectly issue from any patent applications within subdivisions (a) and (b); (d) any and all re-issues, substitutes and extensions of any of the patents within subdivisions (a), (b) and (c); and (e) any and all counterparts or equivalents to any of the foregoing in any country of the world.
- 2.19 "Party" and "Parties" have the meanings set out above in the introductory paragraph.

2.20 "Person" has the meaning set forth in the Investment Agreement.

2.21 "Technical Information" means research and development information that is published or unpublished, unpatented inventions, know-how, trade secrets, and technical data in the possession of Company at the Effective Date of this IP Agreement or developed by Company during the term of this IP Agreement that relate to rare earth mineral processing and rare earth separation.

2.22 "Third Party" means a Person other than Investor, the Company or one of their Affiliates.

### **III. License**

3.00 Company grants to Investor, for the duration of the Option Period, a worldwide, royalty-free, non-exclusive, irrevocable license (with the right to grant sublicenses to Affiliates) under the Patents to practice the methods therein described and claimed and to make and have made, use, offer to sell, sell and import products made using such methods, and to make Improvements, and to engage in any activity which would give rise to a claim of infringement (direct or indirect or otherwise) of one or more of the Patents in the absence of a license.

3.01 Company further grants to Investor, during the duration of the Option Period, a worldwide, royalty-free, non-exclusive, irrevocable license (with the right to grant sublicenses to Affiliates) to use the Technical Information to practice the methods described and claimed in the Patents and to make and have made, use, offer to sell, sell and import products made using the methods, and to make Improvements, and to engage in any activity which would give rise to a claim of infringement (direct or indirect or otherwise) of one or more of the Patents in the absence of a license.

3.02 If the Option is not exercised prior to the expiration of the Option Period, then Company agrees to extend the license grants set forth in Articles 3.00 and 3.01 beyond the expiration of the Option Period, subject to an annual licensing fee paid by Investor to Company. The non-exclusive rights granted to Investor under this Article 3.02 do not include the right to grant sublicenses to Third Parties. The amount and parameters of the annual licensing fee shall be commercially reasonable, as determined

by an independent expert who is mutually agreeable to the Parties and whose determination shall be final and binding; provided, however, that if the Parties cannot agree on the independent expert, each Party shall designate an expert of their choice and the two experts designated by the Parties shall work together in good faith to identify and designate a third, independent expert whose determination shall be binding.

3.03 If the Option is exercised before the expiration of the Option Period, the license grants set forth in Articles 3.00 and 3.01 will become exclusive to Investor for a perpetual term, shall not be subject to a licensing fee, the granted licenses in favor of the Investor shall be deemed fully paid-up, and the rights granted to Investor under Articles 3.00 and 3.01 shall include the right to grant sublicenses to Third Parties.

3.04 Prior to the earlier of Investor exercising the Option and the expiration of the Option Period, Company will not grant to any Third Party any rights to the Patents or to the Technical Information that extend beyond the expiration of the Option Period.

3.05 The licenses granted in Articles 3.01 to 3.04 of this IP Agreement are subject to a reserved non-exclusive license in the Company to practice the methods described and claimed in the Patents and to make, have made, use, offer to sell, sell and import rare earth products made using such methods, and to use the Technical Information to practice the methods described and claimed in the Patents for such purposes. Such reserved non-exclusive license shall be solely for use by the Company and its Affiliates and shall not be transferable to any Third Party, except in connection with a merger, consolidation, or the sale or transfer of substantially all of the Company's assets associated with the performance of this IP Agreement.

3.06 Investor will not disclose to Third Parties any unpublished Technical Information furnished by Company to Investor during the term of this IP Agreement, or any time thereafter; provided, however, that disclosure may be made of any such Technical Information at any time (i) with the prior written consent of Company, (ii) to Affiliates of Investor, (iii) to Third Parties, in confidence, if and when the Option is exercised before the expiration of the Option Period, (iv) after such Technical Information has become public through no fault of Investor, (v) if such Technical

Information is received from a third person who had a right to disclose it, (vi) if Investor can show such Technical Information was independently developed without access to any such Technical Information, or (vii) if Investor can demonstrate such Technical Information was in its rightful possession free of any obligation of confidentiality prior to its first receipt from Company.

3.07 The licenses and other rights of Investor set forth in this IP Agreement are an encumbrance on (and thus run with) the Patents and Technical Information, and shall be enforceable against any entity having or obtaining ownership of, or the right to enforce, any of the Patents and Technical Information or any rights therein. Company shall obligate any Person to whom Company assigns or otherwise confers an ownership interest or right to enforce any of the Patents and Technical Information or any rights therein to: (a) fully honor in all respects all of the rights and licenses granted to Investor under this IP Agreement; and (b) obligate all subsequent assignees or other Persons who obtain an ownership interest or right to enforce any of the Patents and Technical Information or any rights therein to (i) similarly fully honor all of the foregoing in all respects, and (ii) expressly flow down all of the foregoing (including, without limitation, this flow down obligation) in all subsequent assignments or other agreements that confer an ownership interest or right to enforce any of the Patents and Technical Information or any rights therein. Any assignment or agreement or other transaction by Company that fails to be in complete compliance with this Article 3.07 or any other provision of this IP Agreement shall be null and void.

3.08 Company does not warrant the accuracy of Technical Information provided to Investor hereunder. Subject to and except for any indemnification obligations under Article 3.09 below, Company will not be under any liability arising out of the supplying of Technical Information under, in connection with, or as a result of this IP Agreement, whether on warranty, contract, negligence or otherwise.

3.09 Company represents that to the best of its knowledge, the methods described and claimed in the Patents and the Technical Information, and the products produced thereby in accordance with such information, will be free from claims of infringement of the patents and copyrights of any Third Party. Company further

represents that it has not received any written notice of a claim and otherwise has no knowledge that the methods described and claimed in the Patents and the Technical Information, and the products produced thereby in accordance with such information, violate or infringe upon the rights of any Person. Company shall indemnify and hold harmless Investor, Investors' Affiliates, and their officers and directors, and their direct and indirect customers, to the fullest extent permitted by applicable law, from and against any and all losses, liabilities, obligations, claims, contingencies, damages, diminution in value, deficiencies, actions, proceedings, taxes, costs and expenses, including all judgments, amounts paid in settlements, court costs and reasonable attorneys' fees and costs of investigation as incurred, arising out of or relating to any breach of any of the representations made in this Article 3.09.

3.10 Company represents and warrants that the definitions of Patents and Technical Information cover and include all patents, patent applications, patent rights, research and development information, inventions, know-how, trade secrets, and technical data used by the Company in its business at the Effective Date of this IP Agreement that relate to rare earth mineral processing and rare earth separation.

#### **IV. Prosecution of the Patents**

4.00 Company will have the sole right to file, prosecute, and maintain all Patents covering the inventions that are the property of Company and will have the right to determine whether or not, and where, to file a patent application, to abandon the prosecution of any patent or patent application, or to discontinue the maintenance of any patent or patent application. Notwithstanding the foregoing, if Company elects to abandon any patent application, to not pay maintenance fees or annuities to keep a patent in force, or to otherwise take or fail to take any action that will result in a loss of patent rights, Company shall give Investor at least sixty (60) days prior written notice and an opportunity to take over the prosecution of the patent application that would be abandoned and/or pay the fees necessary to keep the patent in force and/or take any other action necessary to avoid the loss of patent rights. In the event that Investor takes over the prosecution of a patent application or maintenance of a patent under this

Article 4.00, Company shall retain ownership of the patent application or patent, and the patent shall remain subject to this IP Agreement.

## **V. Improvements**

5.00 Improvements made or acquired solely by the Company ("Company Improvements") during the term of this IP Agreement shall be deemed Technical Information hereunder and shall be subject to the license provisions set forth in Article III for Technical Information. Any patent applications and any patents relating to any Company Improvements shall be deemed Patents hereunder and shall be subject to the license provisions set forth in Article III for Patents.

5.01 Investor shall own all right, title and interest in any Improvement made or acquired by the Investor ("Investor Improvement"). Investor hereby agrees to grant to Company a non-exclusive, irrevocable, royalty-free license under any Investor Improvement and any patent claiming such Investor Improvement, solely for use in rare earth mineral processing and rare earth separation, to make and have made, use, offer to sell, sell and import products made using the Investor Improvements. Such rights to Investor Improvements shall be solely for use by the Company and its Affiliates and shall not be transferable to any Third Party, except in connection with a merger, consolidation, or the sale or transfer of substantially all of Company's assets associated with performance under this IP Agreement.

5.02 Investor shall own all right, title and interest in any Improvement made jointly by Company and Investor ("Joint Improvements") during the term of this IP Agreement, and Company agrees to and hereby does assign to Investor any right, title and interest it may otherwise have in any Joint Improvement.

5.03 Investor hereby agrees to grant to Company a non-exclusive, irrevocable, royalty-free license under any Joint Improvement and any patent claiming such Joint Improvement solely for use in rare earth mineral processing and rare earth separation. Such rights to Joint Improvements shall be solely for use by the Company and shall not be transferable to any Third Party except in connection with a merger, consolidation, or the sale or transfer of substantially all of Company's assets associated with performance under this IP Agreement.

5.04. For the avoidance of doubt, all right, title and interest in intellectual property, whether or not patented, that is made or acquired by one Party or its Affiliate after the Effective Date of this IP Agreement, that is wholly unrelated to the Patents and Technical Information, shall be owned by said Party or its Affiliate.

## **VI. Representations and Disclaimer of Warranties**

6.00 SUBJECT TO AND EXCEPT FOR ANY INDEMNIFICATION OBLIGATIONS UNDER ARTICLE 3.09 ABOVE, NOTHING IN THIS IP AGREEMENT WILL BE DEEMED TO BE A REPRESENTATION OR WARRANTY BY COMPANY OF THE ACCURACY, SAFETY OR USEFULNESS FOR ANY PURPOSE OF ANY TECHNICAL INFORMATION, TECHNIQUES, OR PRACTICES AT ANY TIME MADE AVAILABLE BY COMPANY. COMPANY WILL HAVE NO LIABILITY WHATSOEVER TO INVESTOR OR ANY OTHER PERSON FOR OR ON ACCOUNT OF ANY INJURY, LOSS OR DAMAGE OF ANY KIND OR NATURE, SUSTAINED BY, OR ANY DAMAGES ASSESSED OR ASSERTED AGAINST, OR ANY OTHER LIABILITY INCURRED BY OR IMPOSED ON INVESTOR OR ANY OTHER PERSON, ARISING OUT OF OR IN CONNECTION WITH OR RESULTING FROM: (A) THE PRODUCTION, USE OR SALE OF ANY APPARATUS OR PRODUCT OR METHOD, OR THE PRACTICE OF THE PATENTS BY INVESTOR OR ITS ASSIGNS; (B) THE USE BY INVESTOR OR ITS ASSIGNS OF ANY TECHNICAL INFORMATION, TECHNIQUES, OR PRACTICES DISCLOSED BY COMPANY; OR (C) ANY ADVERTISING OR OTHER PROMOTIONAL ACTIVITIES BY INVESTOR OR ITS ASSIGNS WITH RESPECT TO ANY OF THE FOREGOING, AND INVESTOR WILL HOLD COMPANY, AND ITS OFFICERS, EMPLOYEES AND AGENTS, HARMLESS IN THE EVENT COMPANY, OR ITS OFFICERS, EMPLOYEES OR AGENTS, IS HELD LIABLE.

6.01 NOTHING IN THIS IP AGREEMENT WILL BE DEEMED TO BE A REPRESENTATION OR WARRANTY BY INVESTOR OF THE ACCURACY, SAFETY OR USEFULNESS FOR ANY PURPOSE OF ANY IMPROVEMENTS AT ANY TIME MADE AVAILABLE BY INVESTOR. INVESTOR WILL HAVE NO LIABILITY WHATSOEVER TO COMPANY OR ANY OTHER PERSON FOR OR ON ACCOUNT

OF ANY INJURY, LOSS OR DAMAGE OF ANY KIND OR NATURE, SUSTAINED BY, OR ANY DAMAGES ASSESSED OR ASSERTED AGAINST, OR ANY OTHER LIABILITY INCURRED BY OR IMPOSED ON COMPANY OR ANY OTHER PERSON, ARISING OUT OF OR IN CONNECTION WITH OR RESULTING FROM: (A) THE PRODUCTION, USE OR SALE OF ANY APPARATUS OR PRODUCT OR METHOD, OR THE PRACTICE OF ANY IMPROVEMENTS AT ANY TIME BY THE COMPANY, ITS AFFILIATES OR ASSIGNS; (B) THE USE OF ANY IMPROVEMENTS AT ANY TIME MADE AVAILABLE BY INVESTOR BY THE COMPANY, ITS AFFILIATES OR ASSIGNS; OR (C) ANY ADVERTISING OR OTHER PROMOTIONAL ACTIVITIES BY COMPANY ITS AFFILIATES OR ASSIGNS WITH RESPECT TO ANY OF THE FOREGOING, AND COMPANY WILL HOLD INVESTOR, AND ITS OFFICERS, EMPLOYEES AND AGENTS, HARMLESS IN THE EVENT INVESTOR, OR ITS OFFICERS, EMPLOYEES OR AGENTS, IS HELD LIABLE.

## **VII. Litigation**

7.00 Investor will notify Company of any suspected infringement of the Patents. Subject to Article 7.01 below, the sole right to institute a suit for infringement of the Patents rests with Company. Investor agrees to reasonably cooperate with Company in such suit for infringement, including requesting Investor's employees or consultants to testify when requested by Company in writing, making available records, papers, information, specimens, and the like, provided and only to the extent such is reasonably necessary to prosecute the suit. For the avoidance of doubt, nothing in this Article 7.00 shall require Investor to join any such suit as a party, and Company shall not seek to join Investor to any such suit as a party absent the express written consent of Investor. Any recovery received pursuant to such suit will first go to Investor to reimburse Investor for any costs and expenses (including attorneys' fees) reasonably incurred by Investor in cooperating with Company in the suit, and any remaining amounts shall be retained by Company.

7.01 If, after the Option is exercised before the expiration of the Option Period such that the license grants set forth in Articles 3.00 and 3.01 have become exclusive under Article 3.03, Company does not enforce the Patents, through legal action or

otherwise, Investor may enforce the Patents and Company agrees to reasonably cooperate with Investor in such suit for infringement, including requesting Company's employees or consultants to testify when requested by Investor in writing, making available records, papers, information, specimens, and the like, provided and only to the extent such is reasonably necessary to prosecute the suit. For the avoidance of doubt, nothing in this Article 7.01 shall require Company to join any such suit as a party, and Investor shall not seek to join Company to any such suit as a party absent the express written consent of Company; provided, however, if Company elects not to give its express written consent to be joined as a party, but joinder is required in order for Investor to file or maintain legal action to enforce any Patents, Company agrees that if requested by Investor, Company will negotiate and enter into an amendment to this IP Agreement to the extent necessary for Investor to file or maintain legal action to enforce the Patents. Any recovery received pursuant to such suit will first go to Company to reimburse Company for any costs and expenses (including attorneys' fees) reasonably incurred by Company in cooperating with Investor in the suit, and any remaining amounts shall be retained by Investor.

#### **VIII. Non-assignability**

8.00 This IP Agreement imposes personal obligations on Investor. Investor will not assign to any Third Party any rights under this IP Agreement not specifically transferable by its terms without the prior written consent of Company, such consent not to be unreasonably withheld. For the avoidance of doubt and notwithstanding the foregoing: (1) such rights are assignable by Investor to an Affiliate of Investor, and (2) Investor's rights in Investor Improvements and Joint Improvements shall be freely assignable by Investor to any Person.

#### **IX. Severability**

9.00 The Parties agree that if any part, term or provision of this IP Agreement is found illegal or in conflict with any valid controlling law, the validity of the remaining provisions will not be affected thereby.

9.01 Should any provision of this IP Agreement be held by a court of law to be illegal, invalid or unenforceable, such provision shall be replaced by such provision as

most closely reflects the intent of the invalid provision, and the legality, validity and enforceability of the remaining provisions of this Agreement will not be affected or impaired thereby.

#### **X. Waiver, Integration, Alteration**

10.00 The waiver of a breach hereunder may be effected only by a writing signed by the waiving Party and will not constitute a waiver of any other breach.

10.01 This IP Agreement, together with the Investment Agreement and any other documents or agreements executed in connection with the transactions contemplated thereunder, represents the entire understanding between the Parties, and supersedes all other agreements, express or implied, between the Parties concerning the Patents and Technical Information.

#### **XI. Execution**

11.00 This IP Agreement may be executed in counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each Party and delivered to each other Party, it being understood that the Parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a “.pdf” format data file, such signature shall create a valid and binding obligation of the Party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or “.pdf” signature page were an original thereof.

#### **XII. Cooperation**

12.00 Each Party will execute any instruments reasonably believed by the other Party to be necessary to implement the provisions of this IP Agreement.

#### **XIII. Construction**

13.00 This IP Agreement will be construed in accordance with the substantive laws of the state of New York and of the United States of America.

#### **XIV. Exportation of Technical Information**

14.00 Investor agrees that it will not export the Technical Information furnished to Investor either directly or indirectly by Company, to any destination or Person prohibited by the U.S. Export Administration Regulations or other U.S. export control laws and regulations.

14.01 Company agrees that it will not export any information relating to Improvements or otherwise furnished to Investor either directly or indirectly by Investor Company, to any destination or Person prohibited by the U.S. Export Administration Regulations or other U.S. export control laws and regulations.

#### **XV. Notices Under this IP Agreement**

15.00 All written communications and notices between the Parties relating to this IP Agreement shall be made in the manner set forth in the Investment Agreement.

#### **XVI. Term and Termination**

16.00 Unless earlier terminated in accordance with the terms of this Article XVI, this IP Agreement and the licenses granted herein will continue in effect from the Effective Date until the expiration of the last to expire of the Patents and any additional period of time thereafter that any of the Patents remain enforceable such as in the United States where a party can sue for infringement after a patent expires and seek damages for any infringement of the patent during the six years immediately preceding the filing of a suit for infringement.

16.01 Investor at any time may provide written notice to Company of a material breach of this IP Agreement. If Company fails to cure the identified breach within thirty (30) days after the date of the notice, Investor may terminate this IP Agreement by written notice to Company.

16.02 If the Option is not exercised before the expiration of the Option Period, Company may provide written notice to Investor of a material breach of this IP Agreement. If Investor fails to cure the identified breach within thirty (30) days after the date of the notice, Company may terminate this IP Agreement by written notice to

Investor. If the Option is exercised before the expiration of the Option Period, Company may not terminate this IP Agreement for material breach.

16.03 The following provisions of this IP Agreement shall survive termination of this IP Agreement: Article I, Article II, Articles 3.08 and 3.09, Article V (as to Improvements made or acquired during the term of the IP Agreement), Article VI, and Articles VIII-XVIII. In addition, for as long as there continues to exist Technical Information of use by Investor in its business, any rights or licenses Investor has in Technical Information under this Agreement shall survive termination of this IP Agreement under Article 16.00 but not termination under Articles 16.01 or 16.02 for material breach.

## **XVII. Bankruptcy**

17.00 Each Party acknowledges that all rights, covenants and licenses granted by one Party to the other Party are, and shall otherwise be deemed to be, for purposes of Section 365(n) of the U.S. Bankruptcy Code, licenses of rights to “intellectual property” as defined under Section 101(35A) of the Bankruptcy Code. Each Party acknowledges this IP Agreement is an Executory Contract and that should any Party become a petitioner under the Bankruptcy Code, §365(n) applies to this IP Agreement and the rights afforded thereunder apply. Each Party further acknowledges that if such Party, as a debtor in possession or a trustee-in-bankruptcy in a case under the Bankruptcy Code, rejects this IP Agreement, the other Party may elect to retain their rights under this IP Agreement as provided in Section 365(n) of the Bankruptcy Code. Any change of control resulting from any such bankruptcy proceeding shall be subject to the rights and licenses granted in this IP Agreement. Each Party agrees that to the extent the Bankruptcy laws of Canada provide the same or similar rights to a licensee as Section 365(n) of the U.S. Bankruptcy Code, a Party may exercise such same or similar rights as specified herein as to the rights under the U.S. Bankruptcy Code.

## **XVIII. Governing Law; Jurisdiction; Dispute Resolution**

18.00 Exclusive Dispute Resolution Mechanism. The procedures set forth in this Article XVIII shall be the exclusive mechanism for resolving any dispute that may arise from time to time relating to this IP Agreement (“Dispute”). Either Party may commence

the procedures contemplated by this Article XVIII by written notice to the other that a Dispute has arisen (a "Dispute Notice").

18.01 Negotiations. The Parties shall first attempt in good faith to resolve any Dispute by negotiation and consultation between themselves, including without limitation not fewer than two (2) negotiation sessions which shall occur within ten (10) Business Days of the Dispute Notice. In the event that such dispute is not resolved on an informal basis by the conclusion of the second negotiation session, or, if either Party has not participated in negotiation sessions as to which notice has been given (the last day of such time period, the "Escalation to Mediation Date"), either Party may initiate mediation under Article 18.02.

18.02 Mediation.

(a) Either Party may, at any time after the Escalation to Mediation Date, submit the Dispute for mediation. The Parties shall cooperate with one another in selecting a neutral mediator and in scheduling the mediation proceedings. Each Party covenants that they will use commercially reasonable efforts in participating in the mediation. Each Party shall prepare for the mediator a written request for mediation, setting forth the subject of the Dispute, the position and supporting documentation of such Party, and the relief requested. Each Party agrees that the mediator's fees and expenses and the costs incidental to the mediation will be shared equally between the Parties.

(b) The Parties further agree that all offers, promises, conduct, and statements, whether oral or written, made in the course of the mediation by the Parties, their agents, employees, experts, and attorneys, and by the mediator, are confidential, privileged, and inadmissible for any purpose, including impeachment, in any litigation, arbitration or other proceeding involving the Parties, *provided* that evidence that is otherwise admissible or discoverable shall not be rendered inadmissible or non-discoverable as a result of its use in the mediation.

18.03 Litigation or Arbitration as a Final Resort. If the Parties cannot resolve any Dispute for any reason, including, but not limited to, the failure of the Parties to agree to enter into mediation or agree to any settlement proposed by the mediator, within

sixty (60) days after the Escalation to Mediation Date, either the Company or the Holder may file suit in a court of competent jurisdiction in accordance with Article 18.04.

18.04 Governing Law; Jurisdiction. All questions concerning the construction, validity, enforcement and interpretation of this IP Agreement shall be determined in accordance with the provisions of the Investment Agreement.

IN WITNESS WHEREOF, the Parties have caused this IP Agreement to be executed by their duly authorized officers on the respective dates herein set forth.

Rare Element Resources Ltd.

By: /s/ Randall J. Scott

Name: Randall J. Scott

Title: President and Chief Executive Officer

Date: October 2, 2017

Synchron

By: /s/ Kenneth J. Mushinski

Name: Kenneth J. Mushinski

Title: President

Date: October 2, 2017

## CERTIFICATIONS

I, Randall J. Scott, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Rare Element Resources Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

*/s/ Randall J. Scott*

Date: November 13, 2017

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Randall J. Scott  
President, Chief Executive Officer and Director  
(Principal Executive Officer)

**CERTIFICATIONS**

I, Adria Hutchison, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Rare Element Resources Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2017

*/s/ Adria Hutchison*

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Adria Hutchison  
(Principal Financial Officer)

Exhibit 32.1

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code), the undersigned officer of Rare Element Resources Ltd. (the “Company”) does hereby certify, based on my knowledge, with respect to the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2017 (the “Report”) that:

1. The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 13, 2017

*/s/ Randall J. Scott*

\_\_\_\_\_  
Randall J. Scott  
President, Chief Executive Officer and Director  
(Principal Executive Officer)

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code). It shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 (15 U.S.C. Section 78r) or otherwise subject to the liability of that section. It shall also not be deemed incorporated by reference into any filing under the Securities Exchange Act of 1934, as amended, or the Securities Act of 1933, as amended, except to the extent that the Company specifically incorporates it by reference.

Exhibit 32.2

**CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code), the undersigned officer of Rare Element Resources Ltd. (the “Company”) does hereby certify, based on my knowledge, with respect to the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2017 (the “Report”) that:

1. The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 13, 2017

*/s/ Adria Hutchison*

\_\_\_\_\_  
Adria Hutchison  
(Principal Financial Officer)

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code). It shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 (15 U.S.C. Section 78r) or otherwise subject to the liability of that section. It shall also not be deemed incorporated by reference into any filing under the Securities Exchange Act of 1934, as amended, or the Securities Act of 1933, as amended, except to the extent that the Company specifically incorporates it by reference.