FIDELITY SOUTHERN CORP
Form 4
September 09, 2013

FORM 4

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

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(Print or Type Responses)

1. Name and Address of Reporting Person *
SMITH RANKIN M JR

(Last) (First) (Middle)

3490 PIEDMONT ROAD, SUITE 1550

(Street)

ATLANTA, GA 30305

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
FIDELITY SOUTHERN CORP [LION]

3. Date of Earliest Transaction (Month/Day/Year)
09/06/2013

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
__X__ Director
_____ 10% Owner
_____ Officer (give title below)
_____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Fidelity Southern Corporation - Common Stock	09/06/2013		A(1)		69.8847	A	$ 14.2735	223,916.2107	D	
Fidelity Southern Corporation - Common Stock								326	I	By Spouse

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Stock Option (Right to Buy)	$ 6.15							01/19/2013(2)	01/19/2017	Fidelity Southern Corporation - Common Stock	10,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
SMITH RANKIN M JR 3490 PIEDMONT ROAD SUITE 1550 ATLANTA, GA 30305	X			

Signatures

Barbara McNeill, Attorney in Fact for Rankin M. Smith, Jr.	09/09/2013
**Signature of Reporting Person	Date

Explanation of Responses:

***** If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

****** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Shares awarded for service as a Director during the previous month.

(2) Exercisable: 1/3 on 1/19/13; 1/3 on 1/19/14; 1/3 on 1/19/15

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

 ct our efforts to hire experienced mining professionals. Competition for resources at all levels can be very intense, particularly affecting the availability of manpower, drill rigs, mining equipment and production equipment. Increased competition could adversely affect our ability to attract necessary capital funding or attract or retain key personnel or outside technical resources.

Land reclamation requirements for our properties may be burdensome or too expensive.

Although land reclamation requirements vary depending on the location and governing authority, such requirements generally are imposed on mineral exploration companies as well as companies with mining operations to minimize long-term effects of land disturbance.

Reclamation requirements may include the following, among other things:

control dispersion of potentially deleterious effluents;

reduce mine open pit slope angles;

treat ground and surface water to drinking water standards; and

reasonably re-establish pre-disturbance vegetation and land forms.

To carry out reclamation obligations imposed on us in connection with the potential future development activities at the Bear Lodge Property, we must allocate financial resources that might otherwise be spent on further exploration and future development programs. We have set up a provision for reclamation obligations as currently anticipated for exploration completed on the Bear Lodge Property, as appropriate, but this provision may not be adequate. If we are required to carry out unanticipated reclamation work, our financial position could be adversely affected.

Legislation and regulations have been proposed that would significantly affect the mining industry and our business.

The U.S. Congress from time to time has considered proposed revisions to the U.S. General Mining Law. If these proposed revisions are enacted, such legislation could change the cost of holding unpatented mining claims or significantly impact our ability to develop mineralized resource on unpatented mining claims. Such bills have proposed, among other things, to (i) impose a federal royalty on production from unpatented mining claims, (ii) impose a fee on the amount of material displaced at a mine, (iii) impose time limits on the effectiveness of plans of operation that may not coincide with mine life, (iv) impose more stringent environmental compliance and reclamation requirements on activities on unpatented mining claims, (v) establish a mechanism that would allow states, localities and Native American tribes to petition for the withdrawal of identified tracts of federal land from the operation of the U.S. General Mining Law, (vi) replace the location of mining claims with federal leases for locatable minerals, and (vii) allow for administrative determinations that mining would not be allowed in situations where undue degradation of the federal lands in question could not be prevented. Although we cannot predict what legislated royalties might be, the enactment of a federal royalty or other provisions contained in these proposed bills could adversely affect the potential for development of our unpatented mining claims, and our ability to operate or our financial performance. The effect of any proposed revision of the U.S. General Mining Law on operations cannot be determined until enactment. However, it is possible that revisions would materially increase the carrying and operating costs of mineral properties located on federal unpatented mining claims.

In 2009, the EPA announced that it would develop financial assurance requirements under CERCLA Section 108(b) for the hard rock mining industry. On January 29, 2016, the U.S. District Court for the District of Columbia issued an order requiring that if the EPA intends to prepare such regulations, it must do so by December 1, 2016. The EPA issued its proposed rule on January 11, 2017. Under the proposed rule, owners and operators of facilities subject to the rule would be required to (i) notify the EPA that they are subject to the rule; (ii) calculate a level of financial responsibility for their facility using a formula provided in the rule; (iii) obtain a financial responsibility instrument, or qualify to self-assure, for the amount of financial responsibility; (iv) demonstrate that they have obtained such evidence of financial responsibility; and (v) update and maintain financial responsibility until the EPA releases them from the CERCLA Section 108(b) regulations. On February 21, 2018, the EPA issued a "final action" in which it announced its decision to not to issue final regulations because the EPA "determined that final regulations are not appropriate." 83 Fed. Reg. 7556 (Feb. 21, 2018). In May 2018, several environmental advocacy groups challenged this action in the U.S. Circuit Court for the District of Columbia. The case is ongoing, and the outcome of the action is uncertain. If the proposed rule is reinstated and the requirements discussed above are retained in a final rule, they could require significant additional financial assurance for our Projects, which could have a material adverse effect on our project development and business operations.

In 2015, U.S. President Obama issued a Presidential Memorandum to the Secretary of Interior and other federal agencies (the "Obama Presidential Memorandum") requiring them to undertake rulemaking regarding avoidance, minimization, and compensation for impacts to natural resources, among other public lands impact items. The U.S. Fish and Wildlife Service (the "FWS") and the Bureau of Land Management (the "BLM") released their final policies regarding mitigation of impacts to public lands and resources in December 2016. The BLM's regional mitigation strategy was designed to guide agency officials in avoiding and minimizing impacts of development on federal lands. The strategy required BLM officials to mitigate impacts "through a landscape-scale approach, utilize best management practices, maintain durability for mitigation measures, monitor mitigation measures for compliance and effectiveness, and adaptively manage mitigation measures. . . ." The FWS's policy provided guidance to offset development impacts to at-risk species and their habitats. The policy called for mitigation measures, such as permittee-responsible

mitigation, conservation banking, in-lieu fee programs, and habitat credit exchanges. In December 2017, the Department of the Interior issued Order No. 3360, which revoked the BLM policy. Portions of the FWS policies are currently under review. Any potential changes to the Obama Presidential Memorandum and resulting FWS policies or their impact on our Projects, remain uncertain. ***Our directors, officers and consultants may be engaged in other businesses. Potential conflicts of interest or other obligations of directors, officers and consultants could interfere with corporate operations.***

Some of our directors, officers and consultants may be engaged in additional businesses, or situations may arise where our directors, officers and consultants could be in direct competition with us. Conflicts, if any, will be dealt with in accordance with the relevant provisions of applicable policies, regulations and legislation. Some of our directors and officers are or may become directors or officers of other entities engaged in other business ventures. As a result of their other business endeavors, our directors, officers and consultants may not be able to devote

sufficient time to our business affairs, which may negatively affect our ability to conduct ongoing operations or to generate revenues.

We are subject to the risk of litigation, the causes and costs of which are not always known.

We are subject to litigation arising in the normal course of business and may be involved in disputes that may result in litigation. Although we are not aware of any material pending or threatened litigation or of any legal proceedings known to be contemplated which are, or would be, likely to have a material adverse effect upon us or our operations, taken as a whole, the causes of potential future litigation cannot be known and may arise from, among other things, business activities, environmental and health and safety concerns, share price volatility or failure to comply with disclosure obligations. The results of litigation cannot be predicted with certainty but could include costly damage awards or settlements, fines, and the loss of licenses, concessions or rights, among other things. If we are unable to resolve a dispute favorably, either by judicial determination or settlement, it may have a material adverse effect on our financial condition, cash flows or results of operations.

We depend upon information technology systems, which are subject to disruption, damage, or failure and have risks associated with implementation and integration.

We depend upon information technology systems in the conduct of our operations. Our information technology systems are subject to disruption, damage or failure from a variety of sources, including, without limitation, computer viruses, security breaches, cyber-attacks, natural disasters and defects in design. Cybersecurity incidents, in particular, are evolving and include, but are not limited to, malicious software, attempts to gain unauthorized access to data and other electronic security breaches that could lead to disruptions in systems, unauthorized release of confidential or otherwise protected information or the corruption of data. Various measures have been implemented to manage our risks related to information technology systems and network disruptions. However, given the unpredictability of the timing, nature and scope of information technology disruptions, we could potentially be subject to downtimes, operational delays, the compromising of confidential or otherwise protected information, destruction or corruption of data, security breaches, other manipulation or improper use of our systems and networks or financial losses from remedial actions, any of which could have a material adverse effect on our cash flows, competitive position, financial condition or results of operations.

U.S. investors may not be able to enforce their civil liabilities against us or our directors, controlling persons and officers.

It may be difficult to bring and enforce suits against us. We are incorporated in the province of British Columbia, Canada under the BCBCA. Some of our directors may be residents of Canada, and a substantial portion of their assets are located outside of the U.S. As a result, it may be difficult for U.S. holders of our common shares to effect service of process on these persons within the U.S. or to recover in the U.S. on judgments rendered against them. In addition, a shareholder should not assume that the courts of Canada (i) would enforce judgments of U.S. courts obtained in actions against us or such persons predicated upon the civil liability provisions of the U.S. federal securities laws or other laws of the U.S., or (ii) would enforce, in original actions, liabilities against us or such persons predicated upon the U.S. federal securities laws or other laws of the U.S..

We do not currently intend to pay cash dividends.

We have not declared any dividends since our incorporation and do not anticipate that we will do so in the foreseeable future. Our present policy is to retain all available funds for use in our business development, operations and expansion. Payment of future cash dividends, if any, will be at the discretion of the Board of Directors and will depend on our financial condition, results of operations, contractual restrictions, capital requirements, business prospects and other factors that the Board of Directors considers relevant. In the absence of dividends, investors will only see a return on their investment if the value of our common shares appreciates.

Dilution through outstanding common share options and warrants could adversely affect the trading price of our common shares.

Because our success is highly dependent upon our employee, consultants and directors, we have granted to some or all of our key employee, directors and consultants options to purchase common shares as non-cash incentives. To the extent that significant numbers of such options may be granted and exercised, the interests of the other

shareholders may be diluted. As of December 31, 2018, there were 3,385,400 stock options outstanding to employees, former employees, consultants and directors, which, if exercised, would result in an additional 3,385,400 common shares being issued and outstanding, which equals approximately 4.3% of our common shares outstanding as of December 31, 2018. Additionally, Synchron holds an option, that if exercised would result in the issuance of approximately an additional 14,600,000 common shares, which would represent approximately 15.49% of our common shares outstanding after issuance.

Future sales of our securities in the public or private markets could adversely affect the trading price of our common shares or our ability to continue to raise funds in new equity offerings.

It is possible that we will sell common shares, or securities exercisable or convertible into common shares, in order to finance our planned development activities. Future sales of substantial amounts of our securities in the public or private markets would dilute our existing shareholders and potentially adversely affect the trading prices of our common shares or could impair our ability to raise capital through future offerings of securities. Alternatively, we may rely on debt financing and assume debt obligations that require us to make substantial interest and principal payments that could adversely affect our business or future growth potential.

Price volatility of our publicly traded securities could adversely affect investors' portfolios.

In recent years and months, the securities markets in the U.S. and Canada have experienced high levels of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations that have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in the market price of our common shares will not occur. It may be anticipated that any quoted market for the common shares will be subject to market trends and conditions generally, notwithstanding any potential success we have in creating revenues, cash flows or earnings. The price of our common shares has been subject to price and volume volatility in the past and will likely continue to be subject to such volatility in the future.

Because our common shares are not listed on a national securities exchange, a broker-dealer may find it more difficult to trade our common shares, and an investor may find it more difficult to acquire or dispose of our common shares in the secondary market.

We are subject to the so-called "penny stock" rules. The SEC has adopted regulations that define a "penny stock" to be any equity security that has a market price per share of less than $5.00, subject to certain exceptions, such as any securities listed on a national securities exchange. For any transaction involving a "penny stock," unless exempt, the rules impose additional sales practice requirements on broker-dealers, subject to certain exceptions. A broker-dealer may find it more difficult to trade, and an investor may find it more difficult to acquire or dispose of, our common shares on the OTCQB Venture Marketplace. These factors could significantly negatively affect the market price of our common shares and our ability to raise capital.

We might have been a "passive foreign investment company" ("PFIC") for the year ended December 31, 2018, and could be a PFIC in subsequent years, which could have adverse U.S. federal income tax consequences for U.S. shareholders.

Investors in our common shares that are U.S. taxpayers (referred to as a U.S. shareholder) should be aware that we believe that we were not a PFIC for the year ended December 31, 2018, but our PFIC status for such year may not be free from doubt. We may or may not be a PFIC for the year ending December 31, 2019, or in subsequent years. The tests for determining PFIC status depend upon a number of factors, some of which are beyond our control and can be subject to uncertainties. Accordingly, we cannot provide certainty that we were or were not a PFIC for the year ended December 31, 2018, or that we will or will not be a PFIC for the year ending December 31, 2019, or any future year. We will use commercially reasonable efforts to provide information regarding our status as a PFIC and the PFIC status of any subsidiary in which the Company owns more than 50% of such subsidiary's total aggregate voting power to U.S. shareholders who make a written request for such information. Adverse rules apply to U.S. shareholders who own our common shares if we are a PFIC and have a non-U.S. subsidiary that is itself a PFIC, as may be the case with our wholly owned subsidiary, Rare Earth Holdings, Ltd. Each U.S. shareholder should consult its own tax advisor regarding the U.S. federal, U.S. federal alternative minimum, U.S. federal estate and gift, and U.S. state and local tax consequences of the PFIC rules and the acquisition, ownership, and disposition of our common shares if we are or become a PFIC. For additional information regarding PFIC tax consequences, see "Part II, Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities—Certain U.S. Federal Income Tax Considerations—Passive Foreign Investment Company Rules."

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

BEAR LODGE PROPERTY (WYOMING, USA)

The Bear Lodge Property contains two projects, the Bear Lodge REE Project and the Sundance Gold Project. The Bear Lodge REE Project consists of the Bull Hill Mine, inclusive of the Bull Hill and Whitetail Ridge deposits and the exploration targets of East Taylor ("East Taylor Target Area") and Carbon ("Carbon Target Area"), all of which are located near Sundance, Wyoming. The Bear Lodge REE Project also includes the proposed hydrometallurgical plant site to be located on private property in Upton, Wyoming that the Company currently has an option to purchase. Additional details on each of these areas are set forth below under the heading "Bear Lodge REE Project" and in the Technical Report which is available under our profile at www.sedar.com. We hold our interest in the Bear Lodge Property through our indirect wholly owned subsidiary, Rare Element Resources, Inc., a Wyoming corporation.

The Bear Lodge Property is located in central Crook County, northeast Wyoming, and is approximately 19 kilometers northwest of Sundance, Wyoming. The Bear Lodge Property is accessible by paved and well-maintained gravel roads. The Bear Lodge Property lies within the Black Hills National Forest along the crest of the northern part of the Bear Lodge Mountains, a narrow northwest-trending range. Physiographically, it is the northwest extension of the Black Hills in western South Dakota and is characterized by rolling grass and pine-covered mountains that reach elevations of 1,950 meters within the Bear Lodge Property. The mountains have moderate slopes covered by western yellow pine forest interspersed with dense thickets of brush. Narrow grassy meadows cover the upper reaches of seasonal drainages. The lowest point within the Bear Lodge Property is about 1,768 meters in elevation. The climate during the summer is warm and relatively dry, followed by cold winters with variable amounts of snow.

We control 100% of the mineral rights at the Bear Lodge Property, consisting of unpatented mining claims and a right of repurchase on adjacent private land. We hold 499 unpatented mining claims located on land administered by the USFS. The Bear Lodge Property is located within parts of Sections 5, 7 through 9, Sections 14 through 23 and Sections 26 through 35 in Township 52 North and Range 63 West, Sixth Principal Meridian, Crook County, Wyoming. All of the public property mining claims are unpatented, such that the paramount title to the land is held by U.S. To be valid, an unpatented mining claim must contain a discovery of valuable mineral deposit. In addition, claim maintenance payments must be timely paid on an annual basis and related documents must be filed annually with the Wyoming State Office of the BLM and recorded with the Crook County, Wyoming Clerk and Recorder to keep the claims from terminating by operation of law, and the claims can be maintained in good standing so long as those requirements are met. All of our Mineral Resources are located on mining claims that we hold.

On October 20, 2016, the Company and Whitelaw Creek LLC, a Wyoming limited liability company ("Whitelaw Creek"), executed an asset purchase agreement (the "Asset Purchase Agreement"). On October 26, 2016, the Company and Whitelaw Creek closed the transactions contemplated by the Asset Purchase Agreement, pursuant to which the Company sold to Whitelaw Creek for approximately $600 in cash approximately 640 acres of non-core real property located in Crook County, Wyoming, that is under consideration for a stockpile facility for the Bear Lodge REE Project (the "Land Sale"). The Company has the right to repurchase the land (i) for $900 within three years following

the Land Sale or (ii) for $1,000 after the third anniversary following the Land Sale but on or before the fifth anniversary of the Land Sale, in each case subject to certain adjustments (the "Repurchase Price"). Payment of the Repurchase Price may be made, at Whitelaw Creek's option, in the form of cash, common shares of the Company, or a combination of cash and common shares of the Company.

Our 100% interest in the 499 unpatented mining claims was, in part, acquired from Phelps Dodge Exploration Company (now a subsidiary of Freeport-McMoRan Copper and Gold Inc. ("Freeport")) by way of a Mineral Lease and Option for Deed in 2000, and 404 claims were transferred from Newmont Mining Corporation ("Newmont") to us in May 2010. A portion of the Newmont-transferred claims had been held in a joint venture between Newmont and the Company since 2006 until such joint venture was terminated in May 2010. A portion of the Newmont-transferred claims (i.e. approximately 327 claims) are subject to a perpetual 0.5% production net smelter return ("NSR") royalty on minerals except for rare earth minerals, which are excluded from any royalty obligation.

Newmont transferred its rights to an NSR royalty to Maverix Metals (Nevada) Inc. in June 2018. In addition, and in connection with the Newmont joint venture termination, we assumed all obligations of Newmont under a consulting agreement with Bronco Creek Exploration and Mining, Inc. ("Bronco Creek") requiring us to pay as a finder's fee, 3% of exploration expenditures made during each quarter until a cap of $500 has been paid. The claims covered by the Bronco Creek consulting agreement, which are located outside of the rare earth deposits, are further subject to a 0.25% NSR royalty with a cap of $3,000. The finder's fee obligation has not yet been triggered. We located additional unpatented mining claims in 2011 and 2012, and now have a 100% interest in 499 total unpatented mining claims.

Some of our mining claims and a portion of a defined area of influence surrounding the claims were previously subject to a production royalty of 2% of NSR royalty payable to Freeport, but the Company purchased the NSR royalty in March 2009. As a result of the agreements above, we hold an unencumbered REE project, including all 499 unpatented mining claims, free of third-party royalties for REE production.

Exploration has been carried out on the Bear Lodge Property since 1949. In addition to Freeport, several mining companies have conducted exploration and drilling programs at or near the Bear Lodge Property since the discovery of mineralization. No mining or operations were conducted at the Bear Lodge Property by any of the prior owners.

Necessary infrastructure, such as housing, food and fuel is available in communities in close proximity to the Bear Lodge Property. Supplies can be delivered on both U.S. Interstate Highway 90 and rail lines. A Burlington Northern rail transport line also runs through Moorcroft, 55 kilometers west of Sundance, and through Upton, the site of the proposed hydrometallurgical plant, 64 kilometers south of Sundance. The Gillette, Wyoming area, located approximately 89 kilometers to the west, has two coal-fired power plants and is currently a major logistics center for Powder River Basin coal mining activity and will serve as such for any development at the Bear Lodge Property. The current size of the Bear Lodge Property is sufficiently large to support a mining operation, with no foreseeable obstacles regarding expansion, subject to a favorable outcome regarding permitting.

We are not aware of any outstanding environmental liabilities associated with the Bear Lodge Property, except for required reclamation work associated with our exploration and drilling activities. Previous exploration activities were approved by both the USFS and the Wyoming Department of Environmental Quality. We have an approved reclamation plan and a posted surety bond to cover the required reclamation.

Additional local, state and federal permits will be required for exploration, mining, beneficiation and processing operations, if we decide to proceed with further exploration or mine development and operations.

Bear Lodge Property – Location Map

Explanation of Responses: 13

Geological Setting

The Bear Lodge Mountains of northeast Wyoming are composed primarily of the upper levels of a mineralized tertiary alkaline igneous complex that is a component of the Black Hills Uplift of western South Dakota and northeast Wyoming. Tertiary alkaline intrusive bodies in the northern Black Hills occur along a N70-80W trending belt that extends from Bear Butte in South Dakota, through the Bear Lodge Mountains, to Devil's Tower and Missouri Buttes in northeast Wyoming. The Bear Lodge mining district is in the Bear Lodge Mountains, near the western end of the northern Black Hills intrusive belt. The Bear Lodge Mountains expose and are underlain by multiple alkaline plugs, sills, and dikes and intruded into Precambrian basement and Paleozoic and Mesozoic sedimentary rocks approximately 38–52 million years ago. REE and gold mineralization are found in separate areas of the central crest and northern part of the Bear Lodge Mountains.

The Bear Lodge alkaline-igneous complex is a northwest-trending alkaline intrusive dome with dimensions of approximately 10 kilometers NW-SE by 6 kilometers NE-SW. The complex consists predominantly of multiple intrusions of phonolite, trachyte, and other alkaline igneous rocks, and a variety of associated breccias and diatremes.

Exploration and Drilling

Historical exploration in the Bear Lodge district, including REE exploration carried out by the Company from 2004 through 2012, is summarized in the Technical Report. Exploration activities carried out by the Company in 2013 through 2015 were limited as the focus turned to development drilling at the Bull Hill and Whitetail Ridge deposits. These exploration activities included geochemical, geophysical, geological and mineralogical modeling of the district and individual deposits.

The 2013 drilling program was conducted in two phases. The first phase took place in June and July and involved infill drilling at the Whitetail Ridge deposit in order to upgrade a significant portion of the resource from the Inferred Mineral Resource category to the Indicated Mineral Resource category. During this phase, 14 core holes were drilled for a total of 3,556 meters (11,697 feet). The second phase was designed to upgrade part of the high-grade resource at the Bull Hill deposit to the Measured Mineral Resource category, to develop a more detailed model of the REE grade distribution and to provide additional material for bulk metallurgical testing. It consisted of 21 core holes totaling 3,247 meters (10,650 feet) and six reverse circulation ("RC") twin holes totaling 832 meters (2,730 feet). The RC twin holes were drilled using a center return hammer with the objective of minimizing hole erosion and obtaining assay data directly correlative to that from the adjacent core holes.

The 2014 program consisted of the excavation of a test trench along the southwestern flank of Bull Hill in August. The main mineralized zone (Bull Hill Main) was exposed and exploited for the collection of geological information including dike dimension and structural continuity, grade variation, ore and gangue mineralogy, pit slope stability engineering and confirmation of parameters utilized in ore resource calculations. The program netted 907 tonnes (1,000 tons) of material that is stored for future metallurgical work. Bulk samples were taken from the material averaged 10.1% total rare earth oxides ("TREO"). Additional crosscut excavation provided 45 tonnes (50 tons) of material to determine physical upgrading potential of lower grades.

The 2015 condemnation program consisted of six rotary holes, and a total of 3,000 feet was drilled in September of 2015 to complete a program that was halted by the USFS in 2012 due to an archeological discovery. The program evaluated the subsurface for carbonatite-hosted REE mineralization and followed up on gold mineralization discovered in 2010 within and adjacent to the proposed physical upgrade ("PUG") site. Based on results from the 2015

condemnation program, the PUG area is considered void of economic mineralization.

No drilling was performed in 2018 or 2017.

Bear Lodge REE Project

The Bear Lodge REE Project comprises several REE resource areas within the Bear Lodge Property. REE mineralization at the Bear Lodge Property occurs in the central lobe of the Bear Lodge Property alkaline-igneous complex. Most of the important identified REE deposits and occurrences within the Bear Lodge Property alkaline

complex are contained within the Company's block of unpatented lode mining claims. The REE deposits are located primarily in the vicinity of the Bull Hill deposit.

REE mineralized bodies occur as dikes, veins, and stockworks within the Bull Hill and Whitetail Ridge deposit areas of the Bear Lodge Property. The mineralization includes a well-defined, near-surface, oxidized FMR zone; a near-surface, oxidized, but incompletely leached, carbonatite zone (oxide-carbonate zone); a transitional or mixed zone (oxide + sulfide); and a deeper sulfide-bearing carbonatite (a high-carbonate igneous rock) zone. The oxide-carbonate and transitional zones were referred to collectively as a "transitional zone" in some prior news releases and technical reports. The mineralized zones were subsequently sub-classified, based on key characteristics of those zones. The FMR dikes and veins contain no matrix carbonates or sulfides. The sulfides are completely oxidized to hydrous iron oxides, and the non-REE bearing carbonate minerals (calcite and strontianite) show near-complete leaching from the zone, which ranges from the surface to depths of about 90–150 meters. The oxide-carbonate zone generally occurs beneath the oxide zone but approaches the surface locally in select dikes. It is characterized by the near absence of sulfides, with the residual iron oxides formed during almost complete oxidation of the former sulfide minerals, and by variable amounts of relict matrix carbonates (calcite ± strontianite) and the REE mineral, ancylite (a hydrous Strontanite-REE carbonate).

Bull Hill Mine

The Bull Hill Mine contains the Mineral Resources reported in our Technical Report, as discussed below. The Bull Hill Mine Mineral Resources, for purposes of this Annual Report, comprise Mineralized Material from both the Bull Hill and Whitetail Ridge deposit resource areas. The mineralized bodies occur as steeply dipping, FMR-carbonatite dike swarms and associated stockwork. Geological interpretation of results from the 2010–2014 drill and trench programs indicates that the Bull Hill resource area is dominated by northwest-striking mineralized bodies in the southern two-thirds of the resource area, while the northern part of the resource area exhibits a transitional change in strike from dominantly northwesterly to almost due north. The dike swarm primarily intrudes heterolithic intrusive breccia of the Bull Hill diatreme and adjacent trachytic and phonolitic intrusive rocks. Carbonatite dikes at depth are interpreted to transition toward the surface into oxide-carbonate and FMR bodies. The mineralized structures range in size from veinlets to large dikes more than 30 meters in width. The Bull Hill deposit resource consists of one dominant dike set and several subsidiary dike sets in a swarm that has dimensions of more than 457 meters along strike and less than 100 meters in width. The dikes appear to pinch and swell in both strike and dip directions, and they can be traced in drill holes more than 305 meters down dip.

The Whitetail Ridge deposit occurs about 700 meters northwest of the Bull Hill deposit. The REE mineralization consists of northwest- and north-striking FMR dikes, and an FMR stockwork zone that is also elongated northeasterly, with dimensions of roughly 380 meters by 290 meters. The enveloping gravity and radiometric geophysical anomalies and coincident soil geochemical anomalies are larger and may indicate a broader distribution of REE mineralization beneath the extensive soil and colluvial cover. Drilling conducted in 2011 through 2013 indicates that much of the mineralization is confined within the volume of the Whitetail Ridge diatreme. Preliminary mineralogical studies by the Company indicate that the REE mineralization occurs in REE fluorocarbonates (bastnasite, parisite, and synchysite), cerianite, and subordinate monazite (an REE-Th phosphate). The Whitetail Ridge deposit mineralization is enriched in HREE, relative to the Bull Hill deposit, and both are enriched in CREE.

Pre-feasibility Study

In 2013 and 2014, we worked on optimizing the Bull Hill Mine plan, the mineral process methods and the Bear Lodge REE Project economics. This resulted in the Company undertaking and completing an updated PFS to reflect these significant changes.

The Company's PFS as reported in the Technical Report for the Bear Lodge REE Project was authored principally by Norda Stelo, formerly Roche Engineering Inc. ("Roche"), which undertook the process engineering and mine and mill capital and operating cost estimation for the Bear Lodge REE Project at that time.

The Technical Report is available under our profile at www.sedar.com. The Technical Report was authored by Peter S. Dahlberg P.E. ("Mr. Dahlberg") of Roche in Sandy, Utah, and all sections of the Technical Report were prepared under his supervision. Mr. Dahlberg is an independent Qualified Person, as defined by NI 43-101. Other Qualified Persons, as defined by NI 43-101, who participated in the preparation of the Technical Report are Jaye T. Pickarts,

P.E., former Chief Operating Officer of Rare Element, who confirmed that the NI 43-101 and Form 43-101F1 documents and Items 4, 5, 6, 19, and 20 of the Technical Report were prepared in compliance with the instrument and form; Alan C. Noble, P.E. (“Mr. Noble”) of Ore Reserves Engineering in Lakewood, Colorado, who contributed to the preparation of Chapters 7, 8, 9, 10, and 14 of the Technical Report; William L. Rose P.E. of WLR Consulting Inc. in Lakewood, Colorado, who contributed Item 15 and portions of Item 16 (subsections 16.1, 16.2, 16.3 and 16.4) of the Technical Report; and Jeffrey A. Jaacks C.P.G of Centennial, Colorado, who contributed Chapter 11 of the Technical Report, all under the supervision of Mr. Dahlberg, the primary author.

The PFS estimated initial capital costs of approximately $290,000 and life-of-mine capital costs (including sustaining capital) of approximately $453,000.

Permitting Progress

The USFS is the lead agency in the NEPA process to prepare an EIS on the Bear Lodge REE Project. This process is essential to securing the permits and approvals necessary to move into production. In early 2012, we submitted the plan of operations for the Bear Lodge REE Project, which the USFS accepted as complete in May 2013. The USFS selected a project manager and prime contractor for preparation of the EIS, published notice in the Federal Register and completed necessary scoping work. The USFS issued a draft EIS on January 15, 2016, outlining plan alternatives and proffering a preferred alternative. The U.S. Army Corps of Engineers and the appropriate state and local government agencies are involved in the EIS process as cooperating agencies. On January 22, 2016, the Board of Directors directed the Company to continue to conserve cash due to the then difficult market conditions and suspend all permitting and licensing efforts, including the EIS process. The Company notified the USFS and cooperating agencies, the NRC and the state of Wyoming of its decision to suspend permitting and licensing efforts, and the parties acknowledged receipt of the notice. Assuming permitting efforts resume within a reasonable time, the final EIS and draft Record of Decision, the decision document that establishes the acceptable operating conditions, would be expected within 18 to 30 months of the resumption of such permitting efforts. During 2018 the Company undertook to update the baseline environmental data for the Bear Lodge REE Project.

Mineral Resources Estimates

The Mineral Resources estimates contained in this Annual Report were included in the Rare Element Resources Inc. Bear Lodge Project Canadian National Instrument 43-101: Pre-Feasibility Study Report on the Mineral Reserves and Resources and Development of the Bull Hill Mine” dated October 9, 2014 (the “Technical Report”) and developed by Ore Reserves Engineering and approved by the Company’s management team at that time. This estimate was prepared based on pricing and other assumptions prevailing at the time of the estimate, as of October 9, 2014, and is now considered a historical estimate. A Qualified Person has not done sufficient work to classify the historical estimate as current mineral resources or mineral reserves and the issuer is not treating the historical estimate as current mineral resources or mineral reserves. To upgrade this estimate to current conditions, the following are required: 1) Update the rare earth prices to long-range market conditions for the saleable product expected from the current process; 2) Update mining costs to reflect current mining conditions; 3) Update metallurgical parameters and costs for the current process that is under development; 4) Update mining limits for any environmental or property constraints that have changed since 2014; 5) Prepare economic pit limits to constrain the resource to that mineralization which has reasonable prospects for economic extraction. Ore Reserves Engineering has consented to the inclusion of the 2014 resource estimates as historical estimates, which speak only as of the date of the estimate and have not been updated since their original publication.

Cautionary Note to U.S. Investors Concerning Estimates of Measured and Indicated Mineral Resources

This Annual Report uses the terms "Measured Mineral Resources" and "Indicated Mineral Resources." We advise U.S. investors that while those terms are recognized and required by Canadian regulations, the SEC does not recognize them. ***U.S. investors are cautioned not to assume that any part or all of the mineral deposits in these categories will ever be converted into Mineral Reserves.***

Historical Measured and Indicated Resource Estimate for the Bull Hill Mine [1]

effective as of October 9, 2014 [2]

Cut-off Grade [3]	Bull Hill		Whitetail		Total	
Resource Classification	Tonnes (in millions)	Average Grade (% TREO)	Tonnes (in millions)	Average Grade (% TREO)	Tonnes (in millions)	Average Grade (% TREO)
Measured	2.7	3.81	-	-	2.7	3.81
Indicated	9.7	3.09	3.9	2.49	13.6	2.93
Measured & Indicated	12.4	3.25	3.9	2.49	16.3	3.07

(1) Bull Hill Mine includes both the Bull Hill and Whitetail Ridge deposits.

(2) From October 9, 2014 Technical Report.

(3) Cut-off grade of 1.5% was developed using estimated operating costs, forecast recoveries and internal assumed long-term REO prices as of June 30, 2014.

(4) A Qualified Person has not done sufficient work to classify the historical estimate as current mineral resources or mineral reserves and the issuer is not treating the historical estimate as current mineral resources or mineral reserves.

Cautionary Note to U.S. Investors Concerning Estimates of Inferred Mineral Resources

This Annual Report uses the term "Inferred Mineral Resources." We advise U.S. investors that while this term is recognized and required by NI 43-101, the SEC does not recognize it. "Inferred Mineral Resources" have significant uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of Inferred Mineral Resources will ever be upgraded to a higher category. In accordance with Canadian rules, estimates of Inferred Mineral Resources cannot form the basis of feasibility or other economic studies. ***U.S. investors are cautioned not to assume that part or all of the Inferred Mineral Resource exists or is economically or legally mineable.***

Historical Inferred Mineral Resources Estimate for the Bull Hill Mine [1]
effective as of October 9, 2014 [2]

Cut-off Grade	Oxides >1.5	
Resource Classification	Tonnes (in millions)	Average Grade (% TREO)
Inferred [3]	28.9	2.58

(1) Bull Hill Mine includes both the Bull Hill and Whitetail Ridge deposits.

(2) From October 9, 2014 Technical Report.

(3) Cut-off grade of 1.5% was developed using estimated operating costs, forecast recoveries and internal assumed long-term REO prices as of June 30, 2014.

(4) A Qualified Person has not done sufficient work to classify the historical estimate as current mineral resources or mineral reserves and the issuer is not treating the historical estimate as current mineral resources or mineral reserves.

High-Grade Mineral Resource

High-grade Mineral Resources, which are those resources above a cutoff grade of 3% TREO, are particularly important, since they are the focus of mining in the first nine years of production. The high-grade Mineral Resource is summarized below. It occurs predominantly on the flank of Bull Hill, which contains 78% of the high-grade Measured and Indicated Mineral Resource.

Historical Summary of High-Grade Measured and Indicated Mineral Resource (1)

effective as of October 9, 2014 (2)

Cut-off Grade (3)	**Bull Hill**		**Whitetail**		**Total**	
Resource Classification	**Tonnes (in millions)**	**Average Grade (% TREO)**	**Tonnes (in millions)**	**Average Grade (% TREO)**	**Tonnes (in millions)**	**Average Grade (% TREO)**
Measured	1.5	5.01	-	-	1.5	5.01
Indicated	4.0	4.43	0.7	3.93	4.7	4.36
Measured & Indicated	5.5	4.59	0.7	3.93	6.2	4.52

(1) Bull Hill Mine includes both the Bull Hill and Whitetail Ridge deposits from NI-43-101 (2014).

(2) From October 9, 2014 Technical Report.

(3) Cut-off grade of 3.0%.

(4) A Qualified Person has not done sufficient work to classify the historical estimate as current mineral resources or mineral reserves and the issuer is not treating the historical estimate as current mineral resources or mineral reserves.

Quality Assurance

This historical Mineral Resource estimate was completed in 2014 by Mr. Alan C. Noble, P.E., principal engineer of Ore Reserves Engineering, and is based on geological interpretations supplied by the Company to Ore Reserves Engineering and subsequently modified by Ore Reserves Engineering in 2014. Mr. Noble is an independent Qualified Person for the purposes of NI 43-101 and verified the data disclosed herein.

Rare Element's field programs prior to 2014 were carried out under the supervision of Dr. James G. Clark, formerly the Company's Vice President of Exploration. Dr. Clark is a very experienced geologist and previously was exploration supervisor for Hecla Mining Company during the late 1980s and early 1990s and was responsible for that company's exploration of Bull Hill and the Bear Lodge district, and its initial discovery of the Bull Hill resource area. In 2014, John T. Ray, the Company's former Chief Geologist and a Qualified Person as a SME Registered Member, directed our exploration efforts. Mr. Ray was a consultant to Newmont Mining Company during its operations in the Bear Lodge REE Project area from 2004 to 2010. A detailed QA/QC program was implemented for the 2007 through 2013 drill programs. The QA/QC program was organized by Dr. Jeffrey Jaacks. Drs. Jaacks and Clark verified the sampling procedures and QA/QC data delivered to Ore Reserves Engineering. They share the opinion that the data are of good quality and suitable for use in the Mineral Resource estimate.

Metallurgy and Mineralization

The historical Mineral Resource size is sensitive to historical assumed cut-off grade and metallurgical operating costs.

A PUG plant, located within the Bear Lodge REE Project area, was designed to maximize concentration of the rare earth minerals and produce a mineral concentrate using a crushing, screening, and gravity separation process

depending on the material type. The PUG process was designed to concentrate the rare earth-bearing fines and reduce the physical mass. There are areas of the historical mineable pit that contain variable amounts of weathered oxide material or oxide-carbonate Mineralized Material, and that contain variable grades of stockwork mineralization adjacent to the higher-grade material. Each of these material types was projected to have a different upgrade percentage and mass reduction in the PUG circuit. The historical mining plan anticipated exploitation of a distinct high-grade zone early in the Bear Lodge REE Project that was planned to allow for preferential mining in the initial years of the mine. Low and mid-grade material were to also be mined and stockpiled for future PUG processing.

Reclamation of mining-related facilities was planned to occur during mine operations, where applicable, and upon completion of mining and stockpiling of materials. Other facilities, including the PUG plant, would be reclaimed as soon as the stockpiled materials are depleted.

The Company has conducted metallurgical test work primarily at SGS Lakefield Research Limited of Lakefield, Ontario, Canada, which is independent from the Company. That test work is now being validated by UIT as described in ‘Recent Corporate Developments” and Note 9 to the Company’s Consolidated Financial Statements for the year ended December 31, 2018.

A Qualified Person has not done sufficient work to verify the historical metallurgical testwork nor to verify the UIT test work.

Other Exploration Target Areas at the Bear Lodge REE Project

Discovery of high-grade REE mineralization at the East Taylor Target Area and the Carbon Target Area expanded the area of known REE mineralization outside of the Bull Hill and Whitetail Ridge deposits, and further delineate a "district" underlain by significant and potentially economic REE mineralization. The data indicate that the Bear Lodge REE Project area covers a crudely elliptical area that extends approximately 1,750 meters northwest-southeast by 1,300 meters northeast-southwest. The Carbon exploration target area is located northwest of the Bull Hill deposit, and the East Taylor Target Area is located west of the Bull Hill deposit. Drill assay data from the East Taylor Target Area and the Carbon Target Area identify these areas as zones of HREE-enrichment relative to the Bull Hill deposit. All are enriched in CREEs. These two exploration target areas, along with the Whitetail Ridge deposit, are peripheral to the Bull Hill deposit. They are characterized both by high TREO grades, and by some of the highest initial HREE grades of any known North American deposit. They are particularly enriched in Eu, Tb, Dy and Y.

The discovery of these target areas indicates good potential for additional deposits of high-grade REE in the western half of the Bear Lodge REE Project, and those deposits appear to be particularly enriched in HREE.

Sundance Gold Project

The Sundance Gold Project is the second project located on our Bear Lodge Property. The Sundance Gold Project consists of 288 unpatented lode mining claims adjacent to the Bull Hill Rare Earth Project in Crook County, Wyoming.

On June 1, 2006, Paso Rico, a predecessor company to Rare Element Resources, Inc., and Newmont signed the Sundance gold-exploration venture agreement (the "Newmont Venture") on the Company's Bear Lodge Property. Newmont spent approximately $2.85 million in exploration by May 2010 and chose to terminate the Newmont Venture prior to earning any interest and returned the original claims to Paso Rico. In addition, Newmont transferred 327 unpatented lode mining claims held outside the Newmont Venture to the Company, and these claims are subject to a perpetual 0.5% production net smelter return ("NSR") royalty on minerals except for rare earth minerals, which are excluded from any royalty obligation. Newmont transferred its rights to an NSR royalty to Maverix Metals (Nevada) Inc. in June 2018.

In addition, and with respect to the Newmont Venture termination, the Company assumed all obligations of Newmont in a consulting agreement with Bronco Creek requiring the Company to pay as a finder's fee, 3% of exploration expenditures made during each quarter until a cap of $500 has been paid. The claims covered by the Bronco Creek consulting agreement are also subject to a 0.25% NSR royalty with a cap of $3. The finder's fee obligation is not yet achieved. There was no exploration work in 2017 or 2018. In 2011, we published an NI 43-101 report that contains a historical estimate of inferred mineral resources on the Sundance Gold Project. A Qualified Person has not done sufficient work to classify the historical estimate as current mineral resources or mineral reserves and we are not treating the historical estimate as current mineral resources or mineral reserves.

NI 43-101 Technical Report

The Technical Report summarizes the historical status of the project and is available on SEDAR at www.sedar.com.

ITEM 3. LEGAL PROCEEDINGS

We are not aware of any material pending or threatened litigation or of any proceedings known to be contemplated by governmental authorities which are, or would be, likely to have a material adverse effect upon the Company or our operations, taken as a whole. There are no material proceedings pursuant to which any of our directors, officers or affiliates or any owner of record or beneficial owner of more than 5% of our securities or any associate of any such director, officer or security holder is a party adverse to the Company or has a material interest adverse to it.

ITEM 4. MINE SAFETY DISCLOSURES

We consider health, safety and environmental stewardship to be a core value for the Company.

Pursuant to Section 1503(a) of the Dodd-Frank, issuers that are operators, or that have a subsidiary that is an operator, of a coal or other mine in the U.S. 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 of 1977 under the Federal Mine Safety and Health Act of 1977. During the year ended December 31, 2018, the Company was not subject to any regulation by the Mine Safety and Health Administration under the Federal Mine Safety and Health Act of 1977.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET INFORMATION

Our common shares traded on the NYSE American under the ticker symbol "REE" from August 18, 2010 through February 26, 2016. Our common shares currently trade on the OTCQB Venture Marketplace under the ticker symbol "REEMF." As of March 19, 2019, we had 79,591,880 common shares issued and outstanding, held by approximately 43 shareholders of record.

DIVIDEND POLICY

We do not anticipate that we will declare any dividends in the foreseeable future. Payment of any future dividends, if any, will be at the discretion of the Board of Directors after taking into account many factors, including operating results, financial conditions and anticipated cash needs.

REPURCHASES OF EQUITY SECURITIES

During the quarter ended December 31, 2018, neither the Company nor any affiliate of the Company repurchased any common shares of the Company registered under Section 12 of the Exchange Act.

RECENT SALES OF UNREGISTERED SECURITIES

There were no sales of unregistered securities during the year ended December 31, 2018.

EQUITY COMPENSATION PLAN INFORMATION

As of December 31, 2018, we had one equity compensation plan under which our common shares have been authorized for issuance to our officers, directors, employees and non-employee consultants: our 10% Rolling Stock Option Plan (the "RSOP") which was adopted by our shareholders on December 2, 2011.

The following table sets out those securities of the Company which have been authorized for issuance under our equity compensation plan, as at December 31, 2018:

Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options and rights	**Weighted-average exercise price of outstanding options and rights**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))**
Plan category	(a)	(b)	(c)
Equity compensation plans approved by security holders	3,385,400	$0.24	4,573,788
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	3,385,400	$0.24	4,573,788

See “Part III Item 11. Executive Compensation” for additional information relating to our equity compensation plan.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a general summary of the material U.S. federal income tax consequences of the ownership and disposition of our common shares by a holder of our common shares that is a U.S. Holder (as defined below). This summary is general in nature and does not address the effects of any state or local taxes, U.S. federal estate, gift, or generation-skipping taxes, or the tax consequences in jurisdictions other than the U.S. In addition, this discussion does not discuss all aspects of U.S. federal income taxation that may be material to investors subject to special treatment under U.S. federal income tax law. For example, this discussion does not address all U.S. federal income tax aspects that may be material to U.S. Holders who own or have owned, directly or by the application of certain constructive ownership rules, 10% or more of the outstanding shares of the Company by either vote or by value, U.S. expatriates, insurance companies, tax-exempt entities, financial institutions, persons subject to the alternative minimum tax, or the base erosion minimum tax, regulated investment companies, securities broker-dealers or dealers, traders in securities who elect to apply a mark-to-market method of accounting, partnerships or other pass-through entities and investors in such an entity, persons holding our securities as part of a larger integrated transaction, persons who acquire our securities as compensation, persons who may be subject to the tax on global intangible low-taxed income, persons who may be eligible for a deduction for a portion of foreign-derived intangible income or global intangible low-tax income, and persons whose functional currency is not the U.S. dollar). This summary is based on the U.S. Internal Revenue Code of 1986, as amended (the "Code"), the regulations promulgated thereunder, court decisions and published rulings of the Internal Revenue Service (the "IRS"), as in effect on the date hereof, and the Convention between the U.S. and Canada with Respect to Taxes on Income and on Capital signed on September 26, 1980, as amended and currently in force (the "Treaty"), and does not take into account the possible effect of future legislative or administrative changes or court decisions. We will not request any rulings from the IRS or obtain any opinions from counsel on the tax consequences described below, or on any other issues. The IRS or a court might reach a contrary conclusion with respect to the issues addressed herein if the matter were to be contested. Future legislative or administrative changes or court decisions may significantly change the conclusions expressed herein, and any such changes or decisions may have a retroactive effect with respect to the matters discussed herein.

YOU SHOULD CONSULT YOUR OWN ADVISOR REGARDING THE U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF OUR COMMON SHARES IN LIGHT OF YOUR PARTICULAR CIRCUMSTANCES.

Definition of a U.S. Holder

As used herein, the term "U.S. Holder" means a beneficial owner of our securities that is (a) an individual citizen or resident of the U.S. for U.S. federal income tax purposes; (b) a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the U.S. or any state thereof or the District of Columbia; (c) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (d) a trust, if (i) a court within the U.S. can exercise primary supervision over the administration of the trust and one or more U.S. persons are authorized to control all substantial decisions of the trust or (ii) a valid election is in effect under applicable Treasury Regulations to treat such trust as a U.S. person.

Passive Foreign Investment Company Rules

We will be classified as a passive foreign investment company (a "PFIC") in any taxable year in which, after taking into account the income and assets of certain subsidiaries, either (i) at least 75% of our gross income is passive income, or (ii) at least 50% of the average value of our assets is attributable to assets that produce or are held for the production of passive income. Whether we will be classified as a PFIC in any taxable year is a factual determination and will depend upon our assets, the market value of our common shares, and our activities in each year and is therefore subject to change.

We believe that we were not a PFIC for the year ended December 31, 2018, but our PFIC status for such year may not be free from doubt. We may or may not be a PFIC for the year ending December 31, 2019, or in subsequent years. The tests for determining PFIC status depend upon a number of factors, some of which are beyond our control and can be subject to uncertainties. Accordingly, we cannot provide certainty that we were or were not a PFIC for the year ended December 31, 2018, or that we will or will not be a PFIC for the year ending December 31, 2019, or any future year. We will use commercially reasonable efforts to provide information as to our status as a PFIC and

the PFIC status of any subsidiary in which the Company owns more than 50% of such subsidiary's total aggregate voting power to U.S. Holders who make a written request for such information.

If we are classified as a PFIC for any taxable year, the so-called "excess distribution" regime will apply to any U.S. Holder of common shares that does not make a QEF election or mark-to-market election, as described below. Under the excess distribution regime, (i) any gain the U.S. Holder realizes on the sale or other disposition of the common shares (possibly including a gift, exchange in a corporate reorganization, or grant as security for a loan) and any "excess distribution" that we make to such U.S. Holder (generally, any distributions to such holder in respect of the common shares during a single taxable year that are greater than 125% of the average annual distributions received by such U.S. Holder in the three preceding years or, if shorter, such holder's holding period for the common shares), will be treated as ordinary income that was earned ratably over each day in such U.S. Holder's holding period for the common shares; (ii) the portion of any excess distributions allocated to the current year or prior years before the first day of the first taxable year beginning after December 31, 1986, in which we became a PFIC would be includible by the U.S. Holder as ordinary income in the current year; (iii) the portion of such gain or distribution that is allocable to prior taxable years during which we were a PFIC will be subject to tax at the highest rate applicable to ordinary income for the relevant taxable years, regardless of the tax rate otherwise applicable to such U.S. Holder and without reduction for deductions or loss carryforwards; and (iv) the interest charge generally applicable to underpayments of tax will be imposed with respect of the tax attributable to each such year. The interest charge discussed above generally will be non-deductible interest expense for individual U.S. Holders.

Certain elections may be available with respect to our common shares (the so-called "QEF," "mark-to-market," and "deemed sale" elections) if we are a PFIC, but these elections may accelerate the recognition of taxable income and may result in the recognition of ordinary income.

If a U.S. Holder makes for any tax year a timely election to treat the Company as a "qualifying electing fund" or "QEF" (a "QEF election") with respect to such U.S. Holder's interest therein, the above-described rules regarding excess distributions generally will not apply. Instead, the electing U.S. Holder would include annually in its gross income its pro rata share of our ordinary earnings and any net capital gain regardless of whether such income or gain was actually distributed. Special rules apply to U.S. Holders who own their interests in a PFIC through intermediate entities or persons.

A U.S. Holder may make a QEF election only if the U.S. Holder receives certain information (known as a "PFIC annual information statement") from us annually. We will use commercially reasonable efforts to make available to U.S. Holders, upon written request, an accurate PFIC annual information statement for each year in which the Company is a PFIC. A QEF election is generally timely filed only if it is made on a timely filed federal income tax return for the first year in the U.S. Holder's holding period for our common shares in which we were a PFIC. A U.S. Holder for whom a QEF election would otherwise be untimely may be able to make a special "deemed sale" election pursuant to which the U.S. Holder recognizes any gain inherent in the U.S. Holder's common shares and restarts the U.S. Holder's holding period in our common shares for purposes of making a QEF election. A deemed sale election generally can be made only if the U.S. Holder owns common shares on the first day of our taxable year in which the election is to be effective.

Alternatively, a U.S. Holder of common shares may elect to recognize any gain or loss on its common shares on a mark-to-market basis at the end of each taxable year, so long as the common shares are regularly traded on a qualified exchange. The OTCQB Venture Marketplace, on which our common shares currently trade, is not a qualified exchange for this purpose. Therefore, we do not believe that our common shares are regularly traded on a qualified exchange for PFIC purposes, and we provide no assurance that our common shares will be regularly traded on a qualified exchange for this or any subsequent year in which we may be a PFIC.

If a mark-to-market election is made, the excess distribution regime will not apply to amounts received with respect to our common shares from and after the effective time of the election, and any mark-to-market gains or gains on disposition will be treated as ordinary income. Mark-to-market losses and losses on disposition will be treated as ordinary losses to the extent of the U.S. Holder's unrecovered prior net mark-to-market gains. Losses in excess of prior net mark-to-market gains will generally not be recognized. The mark-to-market election must be made by the due date (as may be extended) for filing the U.S. Holder's federal income tax return for the first year in which the election is to take effect. A mark-to-market election applies to all future years of an electing U.S. Holder during which the stock is regularly traded on a qualifying exchange, unless revoked with the IRS's consent.

The QEF election and mark-to-market election rules are complex. U.S. Holders should consult their tax advisor regarding the availability and procedure for making these elections.

Special adverse rules apply to U.S. Holders of our common shares for any year in which we are a PFIC and own or dispose of shares in another corporation that is also a PFIC (a "lower-tier PFIC"), as might be the case with our wholly owned subsidiary, Rare Element Holdings, Ltd. A U.S. Holder who owned our common shares while we were a PFIC will be taxable under the excess distribution rules described above with respect to any gain that we recognize from a disposition of shares in a lower-tier PFIC, or if the U.S. Holder disposes of all or part of its common shares. Moreover, a QEF election or mark-to-market election that is made for our common shares would not apply to a lower-tier PFIC. While a separate QEF election may be made for a lower-tier PFIC, we may not be in possession of and thus may not be able to provide the financial information to U.S. Holders that would allow them to make a QEF election for any lower-tier PFIC. A mark-to-market election generally may not be made with respect to a lower-tier PFIC.

A U.S. Holder who makes a QEF election for our common shares will be taxable under the excess distribution regime on gain that we recognize on the sale of shares of a lower-tier PFIC, but will not also be taxable on such gain under the QEF rules. However, any U.S. Holder who makes a mark-to-market or deemed sale election for our common shares could be subject to the PFIC rules with respect to income of the lower-tier PFIC, even though the value of the lower-tier PFIC already was subject to tax via mark-to-market or deemed sale adjustments.

The IRS has issued proposed regulations that, subject to certain exceptions, would treat as taxable certain transfers of PFIC stock by a U.S. Holder that has not made a timely QEF election or mark-to-market election that are generally not otherwise taxed, such as gifts, exchanges pursuant to corporate reorganizations, and transfers at death. Generally, in such cases, the basis of our common shares in the hands of the transferee and the basis of any property received in the exchange for those shares would be increased by the amount of gain recognized. The specific tax effect to the U.S. Holder and the transferee may vary based on the manner in which the common shares are transferred. Each U.S. Holder should consult a tax advisor with respect to how the PFIC rules affect their tax situation prior to transferring PFIC shares.

Special adverse rules that impact certain estate planning goals could apply to our common shares if we are a PFIC. Special rules apply with respect to the calculation of the amount of the foreign tax credit with respect to excess distributions by a PFIC. Special rules determine when the unearned income Medicare contribution tax applies to distribution or income with respect to PFICs.

Each U.S. Holder that has a direct or indirect interest in our common shares for a year for which we were a PFIC, generally would be required to file an IRS Form 8621 ("Form 8621"), if, during such year, the U.S. Holder received distributions or recognized gain with respect to our common shares, or was deemed to receive an indirect distribution from a lower-tier PFIC or to recognize gain on an indirect disposition of lower-tier PFIC stock. Form 8621 also is used to make certain elections with respect to PFICs, including a QEF election and a mark-to-market election. Each U.S. Holder should consult its tax advisor regarding these and any other relevant information or other reporting requirements.

If we are a PFIC in the taxable year in which we pay a dividend or the immediately preceding taxable year, dividends on our common shares will not be "qualified dividend income," and such dividends received by individual U.S. Holders generally will be taxed at ordinary income tax rates, subject to the tax rules that apply to excess distributions from PFICs, as discussed above.

Sale or Other Disposition of Our Common Shares

The tax treatment of a sale or other disposition of our common shares by a U.S. Holder will differ based upon whether the PFIC rules apply and whether the U.S. Holder has made any of the elections described above.

If the excess distribution regime discussed above applies to the sale or disposition of our common shares, the rules regarding the taxation of excess distributions will generally apply upon a sale or other disposition of the common shares.

If the excess distribution regime discussed above does not apply to the sale or disposition of our common shares, the difference between the amount received and the adjusted tax basis of the common shares will be a gain or loss. If,

as usually is the case, the common shares are a capital asset in the hands of the U.S. Holder, such gain or loss will be a capital gain. If the U.S. Holder has made a QEF election with respect to the shares, the adjusted basis will be increased by the U.S. Holder's proportionate share of income and capital gains taken into account each year as a result of the QEF election. If the U.S. Holder has made a mark-to-market election with respect to the shares, the adjusted basis will be increased by the net income recognized on the common shares as a result of the mark-to-market election. Capital gain or loss with respect to common shares generally will be long-term capital gain or loss if the holding period for the shares giving rise to such gain or loss exceeds one year. Under current law, long-term capital gains realized by individual U.S. Holders are taxed at reduced rates. Short-term capital gains are taxed at ordinary income rates. The deductibility of capital losses is subject to significant limitations.

Distributions

We do not expect to pay dividends in the foreseeable future. However, subject to the PFIC rules discussed below, a U.S. Holder must include in gross income as dividend income the gross amount of any distribution (including the amount of any Canadian withholding tax thereon) paid by the Company out of its current or accumulated earnings and profits (as determined for U.S. federal income tax purposes) with respect to our common shares. A distribution on our common shares in excess of current or accumulated earnings and profits will be treated as a tax-free return of capital to the extent of the U.S. Holder's adjusted basis in such common shares (thus reducing, but not below zero, the adjusted tax basis of such common shares), and thereafter as gain from the sale or exchange of common shares. See "Sale or Other Disposition of Our Common Shares" above.

If we are a PFIC in the taxable year in which we pay a dividend or the immediately preceding taxable year, dividends received by individual U.S. Holders generally will be taxed at ordinary income tax rates, subject to the rules that apply to excess distributions from PFICs, as discussed above.

If we are not a PFIC in the taxable year in which we pay a dividend or the immediately preceding taxable year, dividends received by individual U.S. Holders will be taxed to such U.S. Holder at the rates applicable to long-term capital gains as "qualified dividend income" if (i) we are eligible for benefits of the Treaty or (ii) our common shares are readily tradable on an established securities market. We have not determined if we are eligible for such benefits, and our common shares are not currently readily tradable on an established securities market. However, dividend income will not be qualified dividend income (and will be taxed at ordinary income rates) if the U.S. Holder has not held its common shares for at least 61 days during the 121-day period beginning 60 days before the ex-dividend date (or as noted above, if we are a PFIC for the taxable year in which the dividend is paid or in the preceding taxable year).

Dividends paid to a corporate U.S. Holder will be taxed as ordinary income and will not generally be eligible for the dividends received deduction.

Surcharge on Net Investment Income; Other Tax Rules

A surtax of 3.8% (the "unearned income Medicare contribution tax") is imposed on the "net investment income" of certain U.S. citizens and resident aliens, and on the undistributed "net investment income" of certain estates and trusts, in each case in excess of a certain amount. Net investment income generally includes dividends and net gain from the disposition of property (other than property held in a "non-passive" trade or business). Net investment income is reduced by deductions that are properly allocable to such income. Special rules determine when the unearned income Medicare contribution tax applies to distribution or income with respect to PFICs. U.S. Holders should consult with their U.S. tax advisors concerning how these rules would apply to an investment in our common shares.

Foreign Currency Transactions

Generally, amounts received by a U.S. Holder in foreign currency (including dividends paid in foreign currency) will be valued at the rate of exchange on the date of receipt. The subsequent disposition of any foreign currency received (including an exchange for U.S. currency) will generally give rise to ordinary gain or loss should the rate of exchange subsequently change.

Foreign Tax Credit or Deduction

A U.S. Holder who pays (or has withheld from distributions) Canadian income tax with respect to the ownership of our common shares may be entitled, at the option of the U.S. Holder, to either receive a deduction or a tax credit for U.S. federal income tax purposes with respect to such foreign tax paid or withheld. Significant and complex limitations apply to the foreign tax credit, including the general limitation that the credit cannot exceed the proportionate share of the U.S. Holder's U.S. income tax liability that the U.S. Holder's "foreign source" income bears to his or its worldwide taxable income. In applying this limitation, the various items of income and deduction must be classified as either "foreign source" or "U.S. source." Complex rules govern this classification process.

In lieu of a credit, a U.S. Holder who itemizes deductions may elect to deduct all of such holder's foreign taxes in the taxable year. A deduction does not reduce U.S. tax on a dollar-for-dollar basis like a tax credit, but the deduction for foreign taxes is not subject to the same limitations applicable to foreign tax credits. U.S. Holders are urged to consult their own tax advisors regarding the availability of foreign tax credits.

A U.S. Holder's ability to use foreign tax credits could be adversely affected if we are a PFIC.

Information Reporting and Backup Withholding

Certain U.S. Holders are required to report information relating to an interest in our common shares, subject to certain exceptions, by attaching a completed IRS Form 8938, Statement of Specified Foreign Financial Assets, with their tax return for each year in which they hold an interest in our common shares or warrants. U.S. Holders are urged to consult their own tax advisors regarding information reporting requirements relating to their ownership of our common shares.

Dividend payments made with respect to our common shares and proceeds from the sale or other disposition of our common shares may be subject to information reporting requirements and to U.S. backup withholding.

In general, backup withholding will apply with respect to reportable payments made to a U.S. Holder unless (i) the U.S. Holder is a corporation or other exempt recipient, and if required, demonstrates such exemption, or (ii) the U.S. Holder furnishes the payor with a taxpayer identification number on IRS Form W-9 in the manner required, certifies under penalty of perjury that such U.S. Holder is not currently subject to backup withholding and otherwise complies with the backup withholding requirements.

Backup withholding is not an additional tax. Rather, the amount of any backup withholding imposed on a payment to a holder will be allowed as a refund or a credit against such holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS.

ITEM 6. SELECTED FINANCIAL DATA

As a smaller reporting company, we are not required to provide this information. See "Item 8. Financial Statements and Supplementary Data."

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and related notes appearing elsewhere in this Annual Report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. See "Cautionary Note Regarding Forward-Looking Statements." 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 in "Item 1A. Risk Factors" and elsewhere in this Annual Report.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and accompanying notes included in Item 8 of this Annual Report. This Management's Discussion and Analysis (this "MD&A") has been prepared based on information known to management as of March 29, 2019. This MD&A is intended to help the reader understand the consolidated audited financial statements of the Company.

All currency amounts are expressed in thousands of U.S. dollars, except per share and common share amounts, unless otherwise noted.

OUTLOOK

During the first quarter of 2016, we placed the Bear Lodge REE Project under care-and-maintenance, and all permitting and licensing activities were suspended as cost-conservation measures. Following the receipt of proceeds from the transaction with Synchron, an affiliate of General Atomic Technologies Corporation ("Synchron") on October 2, 2017 (discussed in Note 6 of the unaudited Consolidated Financial Statements), the Company commenced an updated work plan to: (i) continue the confirmation and enhancement of our proprietary technology for rare earth processing and separation through pilot plant testing, (ii) develop a work plan to progress engineering work to optimize our mine plan and corresponding processing development, and (iii) update and supplement environmental baseline data in anticipation of the eventual resumption of permitting efforts. During the year ended December 31, 2018, the Company focused on Items (i) and (iii) above by entering into a formal engagement with a technical services vendor to continue technology review and advancement (see "Contractual Obligations" discussion below), by communicating with various agencies having jurisdiction over the Bear Lodge REE Project, and by supplementing our environmental baseline studies. The Company plans to continue its focus on further rare earth processing and separation testwork in a pilot plant through the first half of 2019.

RESULTS OF OPERATIONS

Year Ended December 31, 2018 Compared with the Year Ended December 31, 2017

Summary

Our consolidated net loss for the year ended December 31, 2018 was $1,764, or $0.02 per share, compared with our consolidated net loss of $853, or $0.01 per share, for the same period in 2017. See the discussion below for the primary drivers regarding the change in net loss period-to-period.

Exploration and Evaluation

Exploration and evaluation costs were $1,268 for the year ended December 31, 2018 compared with $138 for the same period in 2017. The increase from the prior period was the result of increased activities on the Bear Lodge REE Project as we have started activities at the Bear Lodge REE Project related to maintaining our environmental obligations, supplementing our environmental baseline studies and reviewing and advancing our technology under the UIT technology agreement (see Note 8 to the consolidated financial statements).

Corporate Administration

Corporate administration costs decreased to $1,066 for year ended December 31, 2018, compared with $1,183 for the same period in 2017, a decrease of $117 primarily due to lower professional fees.

Reclamation Obligation Revision

During the year ended December 31, 2017, we reduced our reclamation obligation by $225, 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 $132 as of December 31, 2018 and 2017. There was no reduction to our reclamation obligation for the year ended December 31, 2018.

Amortization of Intellectual Property Income

During the years ended December 31, 2018 and 2017, we amortized $257 and $64 of deferred intellectual property income. We incurred deferred intellectual property income due to the intellectual property rights agreement with Synchron (see “Financial Position, Liquidity and Capital Resources – Transaction with Synchron” discussion below). As Synchron will obtain exclusive rights to the intellectual property if it exercises the option agreement, the value of the intellectual property rights agreement is considered deferred income. We will amortize the deferred income using the straight-line method over a period of four years (the term of the option agreement).

Gain on Revaluation of Option Liability

Gain on the revaluation of the option liability was $285 and $209 for the years ended December 31, 2018 and 2017, respectively. This gain is directly related to the valuation of the option agreement with Synchron (see "Financial Position, Liquidity and Capital Resources – Transaction with Synchron" discussion below). As the option agreement is considered a derivative liability, we revalue the option liability at the end of each reporting period, until the option is exercised or expired. Any gains or losses from the revaluation are recorded to the Consolidated Statements of Operations.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Net cash used in operating activities was $1,837 for the year ended December 31, 2018, as compared with $1,273 for the same period in 2017. The increase in cash used of $564 from the prior period was primarily the result of increased spending on exploration and evaluation activities as discussed above.

Financing Activities

Net cash provided by financing activities was nil for the year ended December 31, 2018. Net cash provided by financing activities for the year ended December 31, 2017 was $4,706 and was related to the transaction with Synchron discussed in "Financial Position, Liquidity and Capital Resources—Transaction with Synchron," net of costs to complete the transaction.

Liquidity and Capital Resources

At December 31, 2018, our total current assets were $2,560, as compared with $4,401 at December 31, 2017, which is a decrease of $1,841. The decrease in total current assets is primarily due to a decrease in cash and cash equivalents due to funding our operations. Our working capital as at December 31, 2018 was $2,174, as compared with $4,349 at December 31, 2017.

Notwithstanding the transaction with Synchron in October 2017 (discussed in Note 6 of the unaudited Consolidated Financial Statements), 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 any such financing, agreement or transaction, raising substantial doubt about the Company's ability to continue as a going concern within one year from the filing date of these financial statements. Ultimately, in the event that we cannot obtain additional financial resources or complete a strategic transaction, we may have to liquidate our business interests, and investors may lose all or part of their investment.

Transaction with Synchron

On August 18, 2017, the Company and General Atomic Technologies Corporation, 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 Atomic Technologies Corporation 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 (the "Option Agreement") and an intellectual property rights agreement (the "IP Rights Agreement"), all discussed below, for gross proceeds of $4,752 in cash, less the Preliminary Payment, at the closing of the transaction.

On October 2, 2017, the Company and Synchron, an affiliate of General Atomic 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 (the "Acquired

Shares"), which constituted approximately 33.5% of the issued and outstanding common shares of the Company, (ii) received gross proceeds of $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, immediately after giving effect to such exercise, 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.

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. On November 17, 2017, two Synchron designees were appointed 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, and its affiliates, were granted certain rights to the Company's intellectual property relating to its patents-pending and related technical information. Pursuant to and subject to the terms and conditions of the IP Rights Agreement, Synchron, and its affiliates, were granted a perpetual non-exclusive license in the Company's rare earth 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 rare earth 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 required to be disclosed in this Annual Report.

Contractual Obligations

On April 24, 2018, the Company executed an agreement with Umwelt-und Ingenieurtechnik GmbH Dresden ("UIT"), an affiliate of General Atomic Technologies Corporation and Synchron, to validate the Company's rare earth processing technology, as well as, progress the Company's intellectual property. Because Synchron is a significant shareholder of the Company, the two directors of Rare Element appointed by Synchron abstained and the remaining members of the Board of Directors of Rare Element approved the UIT engagement on April 17, 2018. The UIT agreement was for an amount not to exceed $600 and the work concluded in early 2019. Since the execution of the UIT agreement, the Company has incurred approximately $603 in costs related thereto, of which $293 is included in Accounts payable and accrued liabilities at December 31, 2018.

On February 14, 2019, the Company and UIT executed a second technology test work agreement to further validate the Company's rare earth processing technology at pilot plant scale. The Board of Directors of Rare Element approved the UIT pilot plant engagement on February 7, 2019. Consistent with the Board action in 2018 approving the first engagement of UIT, the two directors of Rare Element appointed by Synchron abstained because Synchron is a significant shareholder of the Company and is an affiliate of UIT. The UIT pilot plant agreement is for an amount not to exceed $700. The results of the UIT pilot plant test work are expected in the third quarter 2019.

CRITICAL ACCOUNTING POLICIES

Option Liability Valuation

We account for the option liability under the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Certification ("ASC") 825, "Financial Instruments." The fair value of the option liability is calculated using the Black-Scholes option valuation model. The incremental difference between the estimated value of an exclusive and non-exclusive IP Rights Agreement was added to the value from the Black-Scholes model to arrive at the total value of the Option.

Due to the variability in the number of common shares that may be issued upon exercise of the Option Agreement (discussed above), the Option Agreement is considered a derivative liability, as a result the Company will revalue the option liability at the end of each reporting period, until the Option is exercised or expired. Any gains or losses from the revaluation are recorded to the income statement.

Stock-based Compensation

We account for stock-based compensation under the provisions of FASB ASC 718, "Compensation – Stock Compensation." Under the fair value recognition provisions, stock-based compensation expense is measured at the grant date for all stock-based awards granted to employees and directors. We account for stock-based compensation arrangements with non-employees in accordance with ASC 718 and ASC 505-15, "Equity," which require that such equity instruments are recorded at their fair value on the grant date of such awards and marked to market at each reporting period until the grant vests.

The fair value of all share-based compensation awards is calculated using the Black-Scholes option valuation model, and the amount is recorded as an expense with a corresponding increase in additional paid-in-capital. All stock-based compensation charges are amortized over the vesting period on a straight-line basis.

Reclamation Obligations

Our mining and exploration activities are subject to various laws and regulations, including legal and contractual obligations to reclaim, remediate, or otherwise restore properties at the time the property is removed from service. Reclamation obligations are recognized when incurred and recorded as liabilities at fair value. The reclamation obligation is based on when spending for an existing disturbance will occur. We reclaim the disturbance from our exploration programs on an ongoing basis and, therefore, the portion of our reclamation obligation corresponding to our exploration programs will be settled in the near term and is classified as a current liability. The remaining reclamation associated with environmental monitoring programs is classified as a long-term liability; however, because we have not declared Proven and Probable Reserves as defined by SEC Industry Guide 7, the timing of these reclamation activities is uncertain as the reclamation areas will be utilized once the project is operating. For Exploration Stage properties that do not qualify for asset capitalization, the costs associated with the obligation are charged to operations. For Development and Production Stage properties, the costs are added to the capitalized costs of the property and amortized using the units-of-production method. We review, on a quarterly basis, unless otherwise deemed necessary, the reclamation obligation in connection with the Bear Lodge Property.

Reclamation obligations are secured by surety bonds held for the benefit of the state of Wyoming in amounts determined by applicable federal and state regulatory agencies.

Recent Accounting Pronouncements

Nonemployee Share-Based Payments

The FASB issued Accounting Standards Update ("ASU") No. 2018-07, Compensation - Stock Compensation (Topic 718) - Improvements to Nonemployee Share-Based Payment Accounting. ASU No. 2018-07, supersedes the guidance for equity-based payments to non-employees (Topic ASC 505-50). Under the new standard, an entity should treat equity-based payments to nonemployees the same as stock-based compensation to employees in most cases. The new guidance is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. Effective as of July 1, 2018, the Company adopted the new guidance. The Company performed an assessment of the standard and the impact on the Company's Consolidated Financial Statements and disclosures. Based on the Company's analysis, adoption of the standard did not materially change the Company's share-based compensation expense recognition and disclosures.

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ITEM 7A. 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 various types of risk: interest rate risk, commodity price risk and other price risk.

Interest rate risk. Our cash and cash equivalents consist of cash held in bank accounts and, at times, short-term investments that earn interest at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates did not have a significant impact on estimated fair values as of December 31, 2018. Future cash flows from interest income on cash and cash equivalents will be affected by interest rate fluctuations. We manage interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

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.

Other price risk. Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk, or commodity price risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following Consolidated Financial Statements and Report of Independent Registered Public Accountants are filed as part of this Item 8 and are included in this Annual Report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors

Rare Element Resources Ltd.

Lakewood, Colorado

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Rare Element Resources Ltd. (the “Company”) as of December 31, 2018, the related consolidated statements of operations and comprehensive loss, shareholders' equity, and cash flows for the year then ended, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the results of its operations and its cash flows for the year ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has incurred significant recurring losses, and has inadequate liquidity to support future operations, which raises substantial doubt about its ability to continue as a going concern. Management’s plan in regards to these matters is also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on the Company’s financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

We have served as the Company’s auditor since 2012.

Plante & Moran, PLLC

Denver, Colorado

March 29, 2019

Report of Independent Public Accounting Firm

To the Shareholders and Board of Directors

Rare Element Resources Ltd.

Lakewood, Colorado

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheet of Rare Element Resources Ltd. (the "Company") as of December 31, 2017, and the related consolidated statement of operations and comprehensive loss, shareholders' equity, and cash flows, for the year ended December 31, 2017, and the related notes (collectively referred to as the "financial statements").

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of its operations and its cash flows for the year ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

BASIS FOR OPINION

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

EKS&H LLLP

March 28, 2018

Denver, Colorado

Explanation of Responses: 51

RARE ELEMENT RESOURCES LTD.

CONSOLIDATED BALANCE SHEETS

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

	December 31, 2018	December 31, 2017
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,523	$ 4,360
Prepaid expenses and other	37	41
Total Current Assets	2,560	4,401
Equipment, net	61	88
Investment in land	600	600
Total Assets	$ 3,221	$ 5,089
LIABILITIES AND SHAREHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 386	$ 52
Total Current Liabilities	386	52
Reclamation obligation	132	132
Deferred intellectual property license income (Note 6)	706	963
Option liability (Note 6)	331	616
Repurchase option (Note 5)	600	600
Total Liabilities	2,155	2,363
Commitments and Contingencies		
SHAREHOLDERS' EQUITY:		
Common shares, no par value – unlimited shares authorized; shares outstanding December 31, 2018 and 2017 – 79,591,880	106,494	106,494
Additional paid in capital	23,763	23,659
Accumulated deficit	(129,191)	(127,427)
Total Shareholders' Equity	1,066	2,726
Total Liabilities and Shareholders' Equity	$ 3,221	$ 5,089

See accompanying notes to consolidated financial statements.

RARE ELEMENT RESOURCES LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Expressed in thousands of U.S. Dollars, except per share and common share amounts)

	Year Ended December 31,	
	2018	**2017**
Operating income and (expenses):		
Exploration and evaluation	$ (1,268)	$ (138)
Corporate administration	(1,066)	(1,183)
Depreciation	(14)	(18)
Reclamation obligation revision	–	225
Total operating expenses	(2,348)	(1,114)
Non-operating income:		
Interest income	58	4
Recognized deferred income on the sale of intellectual property (Note 6)	257	64
Gain on revaluation of option liability (Note 6)	285	209
Other expense	(16)	(16)
Total non-operating income	584	261
Net loss	$ (1,764)	$ (853)
LOSS PER SHARE – BASIC AND DILUTED	$ (0.02)	$ (0.01)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	79,591,880	59,513,113

See accompanying notes to consolidated financial statements.

RARE ELEMENT RESOURCES LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of U.S. Dollars)

	For the year ended December 31,	
	2018	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss for the period	$ (1,764)	$ (853)
Adjustments to reconcile loss for the period to net cash and cash equivalents used in operations:		
Depreciation	14	18
Reclamation obligation	–	(225)
Gain on revaluation of option liability	(285)	(209)
	(257)	(64)

Recognized deferred income on the sale of intellectual property		
Stock-based compensation	104	33
	(2,175)	(1,300)
Changes in working capital:		
Prepaid expenses and other	4	40
Accounts payable and accrued liabilities	334	(13)
Net cash and cash equivalents used in operating activities	(1,837)	(1,273)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net cash and cash equivalents provided by investing	–	–

activities		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Financing transaction, net (Note 6)	–	4,706
Net cash and cash equivalents provided by financing activities	–	4,706
Increase/(decrease) in cash and cash equivalents	(1,837)	3,433
Cash and cash equivalents – beginning of the period	4,360	927
Cash and cash equivalents – end of the period	$ 2,523	$ 4,360
Supplemental disclosure with respect to cash		

Explanation of Responses:

flows – Note 9

See accompanying notes to the consolidated financial statements.

Explanation of Responses: 58

RARE ELEMENT RESOURCES LTD.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Expressed in thousands of U.S. Dollars)

	Number of Shares	Amount	Additional Paid in Capital	Accumulated Deficit	Total
Balance, December 31, 2016	52,941,880	$ 103,640	$ 23,626	$ (126,574)	$ 692
Common shares issuance, net	26,650,000	2,854	–	–	2,854
Stock-based compensation	–	–	33	–	33
Net loss	–	–	–	(853)	(853)
Balance, December 31, 2017	79,591,880	$ 106,494	$ 23,659	$ (127,427)	$ 2,726
Stock-based compensation	–	–	104	–	104
Net loss	–	–	–	(1,764)	(1,764)
Balance, December 31, 2018	79,591,880	$ 106,494	$ 23,763	$ (129,191)	$ 1,066

See accompanying notes to consolidated financial statements.

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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 gold targets within the area of the Bear Lodge property.

During the first quarter of 2016, the Company 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. Following the receipt of proceeds from the transaction with Synchron on October 2, 2017 (discussed in Note 5), the Company commenced an updated work plan to (i) further confirm progress and enhance our proprietary technology for rare earth processing and separation, (ii) optimize our mine plan, and (iii) determine the timing for the formal resumption of permitting and licensing efforts. During the year ended December 31, 2018, the Company focused on Items (i) and (iii) above by entering into a formal engagement with a technical services vendor to continue technology review and advancement (discussed in Note 8), by communicating with various agencies having jurisdiction over the Bear Lodge REE Project, and by supplementing our environmental baseline studies. The Company plans to continue its focus on these two activities through the first half of 2019.

As a result of the Company's current focus on the Bear Lodge REE Project and in light of ongoing volatile economic conditions for gold, no drilling or exploration on the Sundance Gold Project has been conducted since the end of 2011. Further exploration will be required in order to define the extent of the gold occurrences.

The financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business beyond the next 12 months following the filing date of this Annual Report on Form 10-K. The Company has incurred losses since inception and further losses are anticipated in the development of its business, raising substantial doubt about the Company's ability to continue as a going concern within one year from the filing date of these financial statements. Even with the transaction with Synchron, we do not have sufficient funds to fully complete feasibility studies, permitting, licensing, 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 any such financing, agreement or transaction.

2. BASIS OF PRESENTATION

Principles of Consolidation

These consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("GAAP") and are inclusive of the accounts of Rare Element Resources Ltd. and its directly and indirectly held wholly owned subsidiaries, which consist of its wholly owned subsidiary Rare Element Holdings Ltd. ("Holdings") and Holdings' wholly owned subsidiary, Rare Element Resources, Inc. Rare Element Resources Ltd. was incorporated under the laws of the Province of British Columbia on June 3, 1999.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates. The amounts which involve significant estimates include

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reclamation obligations, stock-based compensation, valuation of the option liability, valuation of deferred income and impairments.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and liquid investments with an original maturity of three months or less. At December 31, 2018 and 2017, cash and cash equivalents consisted of $2,523 and $4,360, respectively, of funds held in bank accounts with financial institutions in both Canada and the United States.

Mineral Properties and Exploration and Evaluation Costs

Mineral property acquisition costs, including indirectly related acquisition costs, are capitalized when incurred. Acquisition costs include cash consideration and the fair market value of common shares issued as consideration. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are capitalized as mineral property acquisition costs at such time as the payments are made. Exploration costs are expensed as incurred. When it is determined that a mining deposit can be economically and legally extracted or produced based on established proven and probable reserves under SEC Industry Guide 7, development costs related to such reserves and incurred after such determination will be considered for capitalization. The establishment of proven and probable reserves is based on results of feasibility studies. Upon commencement of commercial production, capitalized costs will be amortized over their estimated useful lives or units of production, whichever is a more reliable measure. Capitalized amounts relating to a property that is abandoned or otherwise considered uneconomic for the foreseeable future will be written off.

Reclamation Obligations

Our mining and exploration activities are subject to various laws and regulations, including legal and contractual obligations to reclaim, remediate, or otherwise restore properties at the time the property is removed from service. Reclamation obligations are recognized when incurred and recorded as liabilities at fair value. The reclamation obligation is based on when spending for an existing disturbance will occur. We reclaim the disturbance from our exploration programs on an ongoing basis; therefore, the portion of our reclamation obligation corresponding to our exploration programs will be settled in the near term and is classified as a current liability. The remaining reclamation associated with environmental monitoring programs is classified as a long-term liability; however, because we have not declared proven and probable reserves as defined by SEC Industry Guide 7, the timing of these reclamation activities is uncertain as the reclamation areas will only be utilized once the Project is operating. For exploration stage properties that do not qualify for asset capitalization, the costs associated with the obligation are charged to operations. For development and production stage properties, the costs are added to the capitalized costs of the property and amortized using the units-of-production method. We review, on a quarterly basis, unless otherwise deemed necessary, the reclamation obligation in connection with the Bear Lodge Property.

Reclamation obligations are secured by surety bonds held for the benefit of the state of Wyoming in amounts determined by applicable federal and state regulatory agencies.

Changes in our reclamation obligations are summarized in the following table:

	Year ended December 31,	
	2018	**2017**
Balance, beginning of period	$ 132	$ 357
Completed reclamation and bonding released	–	(225)
Balance, end of period	$ 132	$ 132

Common shares

Common shares issued for non-monetary consideration are recorded at fair market value based upon the trading price of our shares on the share issuance date. Common shares issued for monetary consideration are recorded at the amount received, less issuance costs.

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Depreciation

Depreciation is computed using the straight-line method. We depreciate computer equipment, furniture and fixtures and geological equipment over a period of three years. We depreciate vehicles over a period of five years.

Option Liability Valuation

We account for the option liability under the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Certification ("ASC") 825, "Financial Instruments." The fair value of the option liability is calculated using the Black-Scholes option valuation model. The incremental difference between the estimated value of an exclusive and non-exclusive IP Rights Agreement was added to the value from the Black-Scholes model to arrive at the total value of the Option.

Due to the variability in the number of common shares that may be issued upon exercise of the Option Agreement (discussed above), the Option Agreement is considered a derivative liability, as a result the Company will revalue the option liability at the end of each reporting period, until the Option is exercised or expired. Any gains or losses from the revaluation are recorded to the income statement.

Stock-based Compensation

The fair value of stock-based compensation awards issued to employees and directors of the Company is measured at the date of grant and amortized over the requisite service period, which is generally the vesting period. The Company uses the Black-Scholes option valuation model to calculate the fair value of awards granted.

The fair value of stock-based compensation awards issued to non-employees is determined on the grant date of such awards and marked to market at each reporting period until the grant vests. The fair value of share-based compensation awards issued to non-employees is calculated using the Black-Scholes option valuation model, and the amount is recorded as an expense with a corresponding increase in additional paid-in-capital.

When a stock-based compensation award is exercised and the resulting common shares are issued, the fair value of such award as determined on the date of grant or date of vesting (in the case of a non-employee exercise) is transferred to common shares. In the case of a share-based compensation award that is either cancelled or forfeited prior to vesting, the amortized expense associated with the unvested awards is reversed.

Income Taxes

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are

measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under the asset and liability method, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized if it is more likely than not that the entire or some portion of the deferred tax asset will not be recognized.

Loss per Share

The loss per share is computed using the weighted average number of shares outstanding during the period. To calculate diluted loss per share, the Company uses the treasury stock method and the if-converted method. Diluted loss per share is not presented, as the effect on the basic loss per share would be anti-dilutive. At December 31, 2018 and 2017, we had 3,385,400 and 6,908,324 of potentially dilutive securities, respectively related to outstanding stock options and warrants. As of December 31, 2018, if Synchron exercised its option, this would result in approximately an additional 14,600,000 common shares, which equals approximately 15.49% of our common shares outstanding after issuance.

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Fair Value of Financial Instruments

Our financial instruments may at times consist of cash and cash equivalents, short-term investments, accounts receivable, restricted cash, accounts payable and accrued liabilities. GAAP defines fair value as the price that would be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price) and establishes a fair-value hierarchy that prioritizes the inputs used to measure fair value using the following definitions (from highest to lowest priority):

Level 1 — Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data by correlation or other means.

Level 3 — Prices or valuation techniques requiring inputs that are both significant to the fair-value measurement and unobservable.

The Company continually monitors its cash positions with, and the credit quality of, the financial institutions with which it invests. The Company maintains balances in various U.S. financial institutions in excess of U.S. federally insured limits.

The following table presents information about financial instruments recognized at fair value on a recurring basis as of December 31, 2018 and 2017, and indicates the fair value hierarchy:

	December 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 2,523	$ –	$ –	$ 2,523
Option liability (Note 6)	$ –	$ –	$ 331	$ 331

	December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 4,360	$ –	$ –	$ 4,360
Option liability (Note 6)	$ –	$ –	$ 616	$ 616

The Deferred intellectual property license income fair value at October 2, 2017 was $1,027 based on an independent third-party valuation. This financial instrument is classified as a Level 3 within the fair value hierarchy and is non-recurring.

Recent Accounting Pronouncements

Nonemployee Share-Based Payments

The Financial Accounting Standards Board issued Accounting Standards Update No. 2018-07, Compensation - Stock Compensation (Topic 718) - Improvements to Nonemployee Share-Based Payment Accounting. ASU No. 2018-07, supersedes the guidance for equity-based payments to non-employees (Topic ASC 505-50). Under the new standard, an entity should treat equity-based payments to nonemployees the same as stock-based compensation to employees in most cases. The new guidance is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. Effective as of July 1, 2018, the Company adopted the new guidance. The Company performed an assessment of the standard and the impact on the Company's Consolidated Financial Statements and disclosures. Based on the Company's analysis, adoption of the standard did not materially change the Company's share-based compensation expense recognition and disclosures.

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4. MINERAL PROPERTIES

The amounts shown represent acquisition costs, net of impairment charges, and do not necessarily represent present or future values as these are entirely dependent upon the economic recovery of future ore reserves. Under U.S. GAAP, exploration and evaluation costs are expensed until it is determined that a mining deposit can be economically and legally extracted or produced based on established proven and probable reserves under SEC Industry Guide 7, based on results of feasibility studies. A summary of current property interests is as follows:

Bear Lodge Property, Wyoming, USA

The Company, through its indirectly held, wholly owned subsidiary, Rare Element Resources, Inc., holds a 100% interest in 499 unpatented mining claims located on land administered by the USFS and a repurchase option (see Note 5 for discussion) on approximately 640 acres (257 hectares) of fee property, together which contain (1) the Bear Lodge REE Project that contains REE mineralization; and (2) the Sundance Gold Project that contains gold mineralization. The property is situated in the Bear Lodge Mountains of Crook County, in northeast Wyoming.

5. EQUIPMENT AND LAND

At December 31, 2018 and 2017, equipment consisted of the following:

	December 31, 2018			December 31, 2017		
	Cost	**Accumulated depreciation**	**Net book value**	**Cost**	**Accumulated depreciation**	**Net book value**
Computer equipment	$ 1	$ 1	$ –	$ 61	$ 61	$ –
Furniture	13	13	–	13	13	–
Geological equipment	346	288	58	437	357	80
Vehicles	87	84	3	87	79	8
	$ 447	$ 386	$ 61	$ 598	$ 510	$ 88

Depreciation expense for the year ended December 31, 2018 and 2017 was $14 and $18, respectively. We evaluate the recoverability of the carrying value of equipment when events and circumstances indicate that such assets might be impaired. During the year ended December 31, 2018, we impaired certain assets with a net book value of $13, resulting in an impairment charge of $13 as the assets were no longer in use.

On April 29, 2013, we completed a land acquisition from the state of Wyoming in conjunction with a third-party land exchange, resulting in approximately 640 acres being owned by the Company and subject to a royalty retained by the state of Wyoming. The royalty is a non-participating interest at the royalty rate commensurate with the state or federal royalty rate, whichever is higher, for any such mineral(s), at the time of development. The property is immediately adjacent to our mine site, and the cash consideration paid was $980.

On October 26, 2016, we sold the approximately 640 acres of non-core real property to Whitelaw Creek LLC, a Wyoming limited liability company ("Whitelaw Creek"), for net proceeds of $595 in cash (the "Land Sale"). We have the right to repurchase the land (i) for $900 within three years following the Land Sale or (ii) for $1,000 after the third anniversary following the Land Sale but on or before the fifth anniversary of the Land Sale, in each case subject to certain adjustments (the "Repurchase Price"). Payment of the Repurchase Price may be made, at Whitelaw Creek's option, in the form of cash, common shares of the Company, or a combination of cash and common shares of the Company. Payment of any common shares of the Company is subject to a beneficial ownership limitation for Whitelaw Creek and its affiliates collectively of 9.9% of the then-current total number of outstanding common shares of the Company, and in no event may the portion of the Repurchase Price paid in common shares of the Company exceed 5 million shares.

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For accounting purposes, we are utilizing the profit-sharing method for real estate transactions under U.S. GAAP as it is unlikely we will repurchase the land in the near term. Under this method, we have classified our value in the land as an asset on our Consolidated Balance Sheet titled "Investment in land" and the value of the Repurchase Price as a liability on our Consolidated Balance Sheet titled "Repurchase option".

6. SHAREHOLDERS' EQUITY

Transaction with Synchron

On August 18, 2017, the Company and General Atomic Technologies Corporation, 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 Atomic Technologies Corporation 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 (the "Option Agreement") and an intellectual property rights agreement (the "IP Rights Agreement), all discussed below, for gross proceeds of $4,752 in cash, less the Preliminary Payment, at the closing of the transaction.

On October 2, 2017, the Company and Synchron, an affiliate of General Atomic 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 (the "Acquired Shares"), which constituted approximately 33.5% of the issued and outstanding common shares of the Company; (ii) received gross proceeds of $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, immediately after giving effect to such exercise, 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.

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. On November 17, 2017, two Synchron designees were appointed 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 and its affiliates were granted certain rights to the Company's intellectual property relating to our patents-pending and related technical information. Subject to the terms and

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conditions of the IP Rights Agreement, Synchron and its affiliates were 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 rare earth 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.

The Company engaged a third-party valuation firm to determine the fair value of each component of the transaction: the Investment Agreement, the Option Agreement and the IP Rights Agreement. As of the close of the transaction, the gross value of each component was determined to be as follows: Investment Agreement $2,900, Option Agreement $825 and the IP Rights Agreement $1,027. The costs incurred to complete the transaction were allocated to each component based on relative fair value to cost of equity, operating expenses and reduction to deferred income as they related to each component, respectively.

The value of the common shares was determined using a Probability-Weighted Expected Return Method ("PWERM") analysis, which included six different probability weighted scenarios based on the calculated enterprise value of the Company utilizing assumptions from the pre-feasibility study completed in 2014 and trailing five-year average rare earth pricing in a discounted cash flow analysis.

Due to the variability in the number of common shares that may be issued upon exercise, the Option is considered a derivative liability. As a result, we revalue the Option liability at the end of each reporting period, until the Option is exercised or expires. Any gains or losses from the revaluation are recorded to the Consolidated Statements of Operations. The fair value of the Option liability as of December 31, 2018 and 2017 was $331 and $616, respectively. The gain on the revaluation of the Option liability was $285 and $209 for the years ended December 31, 2018 and 2017, respectively. The Option was valued utilizing the Black-Scholes valuation model on both December 31, 2018 and 2017. The significant assumptions are as follows:

	December 31, 2018	December 31, 2017
Risk-free interest rate	2.46%	2.06%
Expected volatility	75%	75%
Expected dividend yield	Nil	Nil
Expected term in years	2.8	3.8
Estimated forfeiture rate	Nil	Nil

Estimated exercise price	$0.34	$0.34
Estimated enterprise value per common share	$0.00	$0.07

The decrease in estimated enterprise value is primarily due to a decrease in the five-year trailing average of the market price of rare earth elements, which is utilized for accounting purposes but not necessarily indicative of current or future trading values of the common shares of the Company. The incremental difference between the estimated value of an exclusive and non-exclusive IP Rights Agreement was added to the value from the Black-Scholes model to arrive at the total value of the Option.

Because Synchron and its affiliates will obtain exclusive rights to the intellectual property if it exercises the Option, the value of the IP Rights Agreement is considered deferred income as the Company retains exclusive title to the intellectual property until Synchron exercises the Option. We amortize the deferred income using the straight-line method over the term of the Option Agreement as this is the period of the Company's performance obligation related to the IP Rights Agreement. During the years ended December 31 2018 and 2017, we amortized $257 and $64, respectively, of deferred intellectual property income. The value of the IP Rights Agreement at the transaction date was determined using a PWERM analysis for six different probability weighted scenarios using the relief from royalty method based on market royalty rates for similar agreements.

Stock-based Compensation

We have options outstanding and exercisable that were issued under the 10% Rolling Stock Option Plan (the "RSOP"). The terms of the RSOP were approved by our shareholders at the annual meeting of shareholders on

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December 2, 2011. The RSOP established the maximum number of common shares which may be issued under the RSOP as a variable amount equal to 10% of the issued and outstanding common shares on a non-diluted basis. Under the RSOP, our Board of Directors may from time to time grant stock options to individual eligible directors, officers, employees or consultants. The maximum term of any stock option is 10 years. The exercise price of a stock option is not less than the closing price on the last trading day preceding the grant date. The Board retains the discretion to impose vesting periods on any options granted.

The fair value of stock option awards granted to directors, officers, employees and/or consultants of the Company are estimated on the grant date using the Black-Scholes option valuation model and the closing price of our common shares on the grant date. There were no options granted during the year ended December 31, 2018. The significant assumptions used to estimate the fair value of stock option awards using the Black-Scholes option valuation model are as follows for the year ended December 31, 2017:

Risk-free interest rate	0.8 – 2.0%
Expected volatility	113 – 133%
Expected dividend yield	Nil
Expected term in years	5.0
Estimated forfeiture rate	Nil

The following table summarizes stock option activity for each of the years ended December 31, 2018 and 2017:

	For the years ended December 31,			
	2018		2017	
	Number of Stock Options	Weighted Average Exercise Price	Number of Stock Options	Weighted Average Exercise Price
Outstanding, beginning of period	4,031,400	$0.44	3,694,900	$4.61
Granted	–	–	900,000	0.23
Cancelled/Expired	(646,000)	1.50	(563,500)	1.34
Outstanding, end of period	3,385,400	$0.24	4,031,400	$0.44
Exercisable, end of period	3,010,400	$0.24	3,281,400	$0.49

A summary of stock option activity as of December 31, 2018 and changes during the year then ended are presented below.

Non-vested Stock Options	Number Outstanding	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2017	750,000	$ 0.25
Vested	(375,000)	
Non-vested at December 31, 2018	375,000	$ 0.25

The stock-based compensation cost recognized in our Consolidated Statements of Operations for the years ended December 31, 2018 and 2017 was $104 and $33, respectively. As of December 31, 2018, there was $33 of unrecognized compensation cost related to 375,000 unvested stock options. This cost is expected to be recognized over a weighted-average remaining period of approximately one year. At December 31, 2018, the intrinsic value of outstanding and exercisable stock options was $15.

During February 2019, the Company granted 850,000 stock options to certain officers, directors and consultants affiliated with the Company.

Warrants

As of December 31, 2018 and 2017, the Company had nil and 2,876,924 warrants outstanding, respectively. On April 29, 2018 2,876,924 warrants expired. Each outstanding warrant had an exercise price of $0.85 and was exercisable for one of the Company’s common shares and was issued to investors in connection with the registered direct offering of the Company that closed on April 29, 2015.

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The following table summarizes activity for warrants for the years ended December 31, 2018 and 2017:

	For the year ended December 31, 2018		For the year ended December 31, 2017	
	Number of Options and Warrants	Weighted-Average Exercise Price	Number of Options and Warrants	Weighted-Average Exercise Price
Outstanding, beginning of period	2,876,924	$ 0.85	2,876,924	$ 0.85
Expired	2,876,224	0.85	–	–
Outstanding, end of period	–	$ –	2,876,924	$ 0.85

7. INCOME TAX

We recognize future tax assets and liabilities for each tax jurisdiction based on the difference between the financial reporting and tax bases of assets and liabilities using the enacted tax rates expected to be in effect when the taxes are paid or recovered. A valuation allowance is provided against net future tax assets for which we do not consider the realization of such assets to meet the required “more likely than not” standard.

Our future tax assets and liabilities at December 31, 2018 and 2017 include the following components:

	As of December 31, 2018	As of December 31, 2017
Deferred tax assets:		
Non-current:		
Accrued vacation and deferred revenue	$ 141	$ 6
Noncapital loss carryforwards, Canada	2,824	2,709
Capital loss carryforwards, Canada	7	7
Net operating loss carryforwards, U.S.	14,247	12,581
Mineral properties	4,563	5,763
Reclamation provision	28	28

Equipment	150	165
Share based compensation	75	624
Research and development	1,192	1,456
Deferred tax assets	23,227	23,339
Valuation allowance	(23,099)	(23,285)
Net	$ 128	$ 54
Deferred tax liabilities:		
Non-Current:		
Option liability	$ (128)	$ (54)
Deferred tax liabilities	$ (128)	$ (54)
Net deferred tax asset/(liability)	$ -	$ -

The composition of our valuation allowance by tax jurisdiction is summarized as follows:

	As of December 31,	
	2018	**2017**
Canada	$ 3,211	$ 3,171
United States	19,888	20,114
Total valuation allowance	$ 23,099	$ 23,285

In December 2017, the United States enacted comprehensive tax reform legislation known as the “Tax Cuts and Jobs Act” that, among other things, reduces the U.S. federal corporate income tax rate from 35% or 21% and implements a territorial tax system, but imposes an alternative base erosion and anti-abuse tax (“BEAT”), and an incremental tax on global intangible low tax foreign income (“GILTI”) effective January 1, 2018. We have selected an accounting policy with respect to both the new BEAT and GILTI rules to compute the related taxes in the period we become subject to these rules. There were no inclusions of either taxes during the year.

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Because we are unable to determine whether it is more likely than not that the net deferred tax assets will be realized, we continue to record a 100% valuation against the net deferred tax assets.

The valuation allowance decreased $186 from the year ended December 31, 2017 to the year ended December 31, 2018. There was a decrease in the net deferred tax assets, primarily net operating loss carryforwards ("NOL's"). The decrease in net deferred tax assets resulted primarily from amortization of capitalized exploration and research and development costs and decrease in net deferred tax asset for share based compensation resulting from expirations and cancellations.

At December 31, 2018, we had U.S. NOL carryforwards of approximately $67,845, which expire from 2019 to 2038. As a result of the TCJA, US NOLs generated in years ending after 2017 have an indefinite carryforward rather than the previous 20-year carryforward. This does not affect losses incurred in years ended in 2017 or earlier. In addition, we had Canadian non-capital loss carryforwards of approximately C$11,415, which expire from 2019 to 2038. As of December 31, 2018, there were Canadian capital loss carryforwards of C$59. A full valuation allowance has been recorded against the tax effected US and Canadian loss carryforwards as we do not consider realization of such assets to meet the required 'more likely than not' standard.

Section 382 of the Internal Revenue Code could apply and limit our ability to utilize a portion of the U.S. NOL carryforwards. No Section 382 study has been completed; therefore, the actual usage of U.S. NOL carryforwards has not been determined.

For financial reporting purposes, income/(loss) from continuing operations before income taxes consists of the following components:

	For the years ended December 31,	
	2018	**2017**
Canada	$ (80)	$ 80
United States	(1,684)	(933)
	$ (1,764)	$ (853)

A reconciliation of expected income tax on net income at statutory rates is as follows:

	As of December 31, 2018	As of December 31, 2017
Net income (loss)	$ (1,764)	$ (853)

Statutory tax rate	26.00%	26.00%
Tax expense (recovery) at statutory rate	(459)	(222)
Foreign tax rates	–	(65)
Change in tax rates	(61)	12,414
Share issuance costs amortization	(23)	(24)
Stock-based compensation	708	25
Recognition of excess tax benefits	–	(140)
Expired net operating loss carryovers	30	–
Prior year true-up	(10)	–
Change in valuation allowance	(185)	(11,988)
Income tax expense (recovery)	$ -	$ -

We do not have any unrecognized income tax benefits. Should we incur interest and penalties relating to tax uncertainties, such amounts would be classified as a component of the interest expense and operating expense, respectively.

Rare Element and its wholly owned subsidiary, Rare Element Holdings Ltd., file income tax returns in the Canadian federal jurisdiction and provincial jurisdictions, and its wholly owned subsidiary, Rare Element Resources, Inc., files in the U.S. federal jurisdiction and various state jurisdictions. The years still open for audit are generally the current year plus the previous three. However, because we have NOLs carrying forward, certain items attributable to closed

RARE ELEMENT RESOURCES LTD.

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(all amounts stated in thousands of U.S. dollars except share and per share amounts)

tax years are still subject to adjustment by applicable taxing authorities through an adjustment to tax losses carried forward to open years.

8. COMMITMENTS AND CONTINGENCIES

Potential Environmental Contingency

Our exploration and development 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 have become more restrictive. The Company conducts its operations to protect public health and the environment and believes that 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.

Contract Commitment – Related Party

On April 24, 2018, the Company executed an agreement with Umwelt-und Ingenieurtechnik GmbH Dresden ("UIT"), an affiliate of General Atomic Technologies Corporation and Synchron, to validate the Company's rare earth processing technology, as well as, progress the Company's intellectual property. Because Synchron is a significant shareholder of the Company, the two directors of Rare Element appointed by Synchron abstained and the remaining members of the Board of Directors of Rare Element approved the UIT engagement on April 17, 2018. The UIT agreement was for an amount not to exceed $600 and the work was concluded in early 2019. Since the execution of the UIT agreement, the Company has incurred approximately $603 in costs related thereto, of which $293 is included in Accounts Payable and accrued liabilities at December 31, 2018.

See Note 11 for discussion regarding an agreement entered into with UIT during February 2019.

9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company did not have any significant non-cash transactions during the years ended December 31, 2018 or 2017.

10. SEGMENT INFORMATION

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

11 . RECLAMATION OBLIGATION REVISION

During the year ended December 31, 2017, we reduced our reclamation obligation by $225, 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 $132 as of December 31, 2018 and 2017. There was no reduction to our reclamation obligation for the year ended December 31, 2018.

12. SUBSEQUENT EVENT

On February 14, 2019, the Company and UIT executed a second technology test work agreement to further validate the Company's rare earth processing technology at pilot plant scale. The Board of Directors of Rare Element approved the UIT pilot plant engagement on February 7, 2019. Consistent with the Board action in 2018 approving the first engagement of UIT, the two directors of Rare Element appointed by Synchron abstained because Synchron is a significant shareholder of the Company and is an affiliate of UIT. The UIT pilot plant agreement is for an amount not to exceed $700. The results of the UIT pilot plant test work are expected in the third quarter 2019.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The principal executive officer and principal financial officer, with the supervision of the Board of Directors and Audit Committee and participation of management, have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act), as of December 31, 2018. Based on the evaluation, the principal executive officer and principal financial officer concluded that the disclosure controls and procedures in place are effective to ensure that information required to be disclosed by the Company in reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including our principal executive and financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting of the Company. Internal control over financial reporting is defined in Rule 13a-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, our principal executive and principal financial officers, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Our internal control over financial reporting includes those policies and procedures that:

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of their inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls

may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2017. In making this assessment, our management used the criteria set forth in the Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our management assessment, we have concluded that, as of December 31, 2018, our internal control over financial reporting was effective.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended December 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Board of Directors

Our Board of Directors (the "Board of Directors or "Board") currently consists of seven members. The following table sets out the names and ages of our directors; their provinces or states and country of residence; the offices they hold within the Company, if any; their occupations; and the dates since which they have served as directors of the Company:

Name, Age, Province or State and Country of Residence and Current Positions, if any, held in the Company	Dates of Service as a Director of the Company
RANDALL J. SCOTT, 67 Colorado, USA *Director* *President and Chief Executive Officer,* *Rare Element Resources*	Since February 3, 2012
GERALD W. GRANDEY, 72 (1)(2) Saskatchewan, Canada *Director* *Former Chief Executive Officer,* *Cameco Corporation*	Since August 2, 2013
F. STEVEN MOONEY, 84 (3) Colorado, USA *Former Director*	October 17, 2013 to November 16, 2017 and since May 24, 3018

Former Chairman and Chief Executive Officer, Thompson Creek Metals Company

PAUL J. SCHLAUCH, 76 (3) Since July 5, 2011

Colorado, USA
Director

Retired Partner, Holland & Hart LLP

LOWELL A. SHONK, 69 (1) Since April 23, 2013

Arizona, USA

Director

Board Secretary/Audit Committee Chair, Cupric Canyon Capital LP/LLC

DAVID I. ROBERTS, 81 (3) Since November 17, 2017

California, USA

Director

President and CEO, General Atomics Uranium Resources LLC

KENNETH J. MUSHINSKI, 56 (1) Since November 17, 2017

California, USA

Director

President, Synchron

(1) Current member of the Company's Audit Committee, of which Lowell A. Shonk is the chair.

(2) Gerald W. Grandey was elected Chairman of the Board on June 10, 2015.

(3) Current member of the Nominating Corporate Governance and Compensation Committee, of which Paul J. Schlauch is the chair.

The following are brief biographies of the Company's directors and director nominees for election to the Board:

Randall J. Scott currently serves as President and Chief Executive Officer of the Company. Mr. Scott is a metallurgical engineer with over 35 years of experience in the mining industry. His experience includes leading performance teams in operations, administration, project development, program management, business development and major improvement initiatives. Mr. Scott was appointed as a director of the Company in February 2012 and as President and Chief Executive Officer in December 2011. Mr. Scott previously worked for Thompson Creek Metals Company Inc. as Vice President, Corporate Responsibility and Strategy from May 2011 to November 2011, as Director, Strategic Management from August 2010 to May 2011 and as Project Sponsor, Enterprise Resource Planning Implementation from January 2010 to August 2010. Prior to that, he served as Vice President of Metals Norwest Corporation during January 2010. From 2002 until 2009, he served as the Principal Real Estate Agent and Team Leader for Scott Home and Land Real Estate Team. Mr. Scott held senior management positions with Cyprus Amax Coal Company and RAG American Coal Company from 1995 to 2001, and prior to that Mr. Scott held senior management positions with Cyprus Metals Company from 1989 until 1995. Mr. Scott received his Bachelor of Science degree in metallurgical engineering from the Colorado School of Mines and his Masters of Business Administration from the University of Arizona. Mr. Scott's background in metallurgical engineering at operating mines and extensive, high-level executive experience with producing mining companies are valuable assets to the Board. His understanding of mining operations, including production elements, key operating metrics, corporate responsibility and safety, presents a unique contribution to the Board.

Gerald W. Grandey has over 40 years of executive leadership in the mining industry. He is the former Chief Executive Officer of Canadian-based Cameco Corporation, one of the world's largest uranium producers, accounting for 20% of global production. In 2010, Harvard Business Review recognized Mr. Grandey as being one of the Top 100 CEOs in the world because of the value created for shareholders during his tenure at Cameco. After 18 years with Cameco, he retired as Chief Executive Officer and as a director in 2011. Previously, he held senior executive positions with Concord Services and Energy Fuels Nuclear. Mr. Grandey was recognized in 2014 for leadership in the nuclear industry with the U.S. Nuclear Energy Institutes' William S. Lee Award; inducted into the Canadian Mining Hall of Fame in 2013; awarded the Canadian Nuclear Association's Ian McRae Award in 2012 for his work in advancing nuclear energy in Canada; and was nominated for the 2011 Oslo Business for Peace Award in recognition of his efforts to facilitate nuclear disarmament. He is on the Board of Governors of the Colorado School of Mines Foundation and on the Dean's Advisory Council of the University of Saskatchewan's Edwards School of Business and is Chairman Emeritus for the London-based World Nuclear Association. Since January 2018, Mr. Grandey has served on the board of directors of Nutrien Ltd. Mr. Grandey is a former board member of Potash Corporation of Saskatchewan (2011–2017), Cameco Corporation (1999–2011), Centerra Gold Inc. (2004–2010), Inmet Mining Corporation (2012–2013), Sandspring Resources Ltd. (2010–2015) and Canadian Oil Sands Limited (2011–2016). He has a degree in geophysical engineering from the Colorado School of Mines and a law degree from Northwestern University.

Mr. Grandey has extensive, high-level executive leadership experience in the mining industry, as well as experience and education in geophysical engineering. He brings to the Board key leadership, technical and related market expertise.

F. Steven Mooney is a 50-year veteran in the mining industry. He is the former Chairman and Chief Executive Officer of Thompson Creek Metals Company, a previously privately owned mining and metallurgical company that he founded in 1993 with the purchase of molybdenum assets from Cyprus Minerals Company and AMAX Inc. Over the next 13 years, not only did he successfully restart operations, but he also significantly expanded production with the purchase of the Endako Project in British Columbia, Canada. When sold in 2006, Thompson Creek Metals Company was the second largest primary molybdenum producer in the world. Since 2007, Mr. Mooney has been the principal of a private equity and investment firm with holdings in oil and gas, minerals and real estate. During his career, he has held executive positions with Cyprus Copper Company, a division of Cyprus Minerals, and Gulf Mineral

Resources Company, a division of Gulf Oil Corporation. He has a degree in geological engineering from the Colorado School of Mines ("CSM") and served on its Board of Trustees for two terms, his second one as President. In 1990, Mr. Mooney was awarded the Distinguished Achievement Medal by CSM in recognition of his significant career achievements, which were deemed to have enhanced the reputation and mission of CSM.

Mr. Mooney has extensive entrepreneurial experience as a founder of a mining company, including holding the top executive office and chairman position, as well as technical education and experience in geological engineering. He brings to the Board key leadership vision and technical and related market expertise, including prior service on the Board (October 2013 to November 2017).

Kenneth J. Mushinski currently serves as President of Synchron (since September 2017); Vice President, Corporate Planning and Acquisitions of General Atomics Technologies Corporation (since February 2014); President of Cotter Corporation N.S.L. (since October 2011); President of Quasar Resources Pty Ltd (since November 2014); and Vice President, Sales and Marketing of Nuclear Fuels Corporation (since June 2006). Prior to these current positions, Mr. Mushinski served as the Engineering Manager for General Atomics Electronics Systems (2002–2006); Lead Mechanical Engineer for Electronic Systems, Inc. (1995–2002) and Senior Reactor Operator at General Atomics (1989–2012).

Mr. Mushinski serves on the boards and management committees of several affiliated General Atomics entities. He further serves on the management committee for the Honeywell/General Atomics ConverDyn partnership. Mr. Mushinski received a B.S. in Mechanical Engineering from San Diego State University, graduating Summa Cum Laude.

Due to his extensive background in corporate development, sales, and marketing, Mr. Mushinski is uniquely positioned to assist the Board in identifying strategic partners and customers for the Company's products. He additionally contributes his vast experience in corporate asset management, including finance, tax, contracting and legal. Mr. Mushinski's experience in the uranium industry, including specifically uranium mining in the state of Wyoming, provides the Company with valued insights on permitting and operations plans in the region

David I. Roberts is the President and Chief Executive Officer of General Atomics Uranium Resources LLC which owns the stock of several General Atomics affiliated uranium companies (since August 2007). These affiliates include Rio Grande Resources Corporation and Nuclear Fuels Corporation, which have uranium properties in the United States and market uranium worldwide; Baywood Holdings Inc., which owns the Australian uranium mining and exploration companies Heathgate Resources Pty Ltd and Quasar Resources Pty Ltd; and General Atomics Energy Services, Inc., which is a partner in ConverDyn – the exclusive marketer of the services of the uranium conversion facility in Metropolis, Illinois. Mr. Roberts is a Director of Synchron, an affiliate of General Atomics. His previous positions at General Atomics include 19 years as Senior Vice President of the Advanced Technologies Group of General Atomics (June 1988–August 2007), where he was responsible for divisions involved in the development and application of advanced technologies for defense, energy and transport applications. Previously he held staff positions performing research and development in support of advanced nuclear reactor programs (June 1968–June 1988). Prior to joining General Atomics, Mr. Roberts was associated with the General Electric Company (May 1967–May 1968), where he was involved in development and manufacture of military re-entry vehicles, and with Rolls Royce and Associates (U.K.) supporting design and construction of nuclear submarine reactors for the Royal Navy. Mr. Roberts was educated at London University and received an MIM (Materials Engineering) in 1960. He is a registered professional engineer in California, a chartered engineer (U.K.), and a member of numerous professional associations.

Mr. Roberts' extensive, high-level executive engineering and mining experience as well as business acumen are valuable to the Board. His background and understanding of government and commercial contracting and services brings a unique perspective to the Board. His technical expertise in both rare earths and the related uranium industry in the United States and throughout the world is an asset to the Board.

Paul J. Schlauch has more than 40 years of experience in legal issues relating to the mining industry. He was a practicing attorney at Holland & Hart LLP from February 1995 until his retirement as a Partner in December 2009 and as Of Counsel in July 2011. His former practice included providing legal counsel on diverse mining issues, including operational and regulatory matters, litigation, arbitration, structuring and negotiation of mining related transactions,

and many other legal activities associated with mining and exploration and development activities. After retiring from Holland & Hart, Mr. Schlauch continued to provide legal consulting for the Company until July 2012. Mr. Schlauch has worked extensively on public land legal issues as they relate to location, maintenance and patenting of mining and mill site claims, land exchanges, acquisition of various property use rights and the resolution of claim conflicts. From 2000 to 2010, he served as an Adjunct Professor of Law at the University of Denver School of Law, where he taught courses on international mineral law and policy. Mr. Schlauch has been

active in natural resource industry professional organizations and is the past President of the Rocky Mountain Mineral Law Foundation, as well as the past President of the International Mining Professionals Society. Mr. Schlauch graduated cum laude with an A.B. in chemistry from Colgate University in 1963 and completed a law degree in 1966 at the University of Virginia. He also holds an appointment as an Honorary Lecturer and Course Director on the Faculty of the Centre for Energy, Petroleum and Minerals Law and Policy at the University of Dundee, Scotland. Since 2013, Mr. Schlauch has been employed by the U.S. Department of Commerce as an expert consultant on the development of sustainable mining industries in Afghanistan and Kosovo.

Mr. Schlauch has specialized knowledge on mining law in the United States and mineral law and policy generally. Mr. Schlauch's experience in the legal community with a practice focused on counseling mining companies regarding a wide array of mineral law issues brings unique knowledge to the Board that is valuable to the Board's oversight of its current Bear Lodge property and execution of its business plan.

Lowell A. Shonk has more than 39 years of experience in the copper, molybdenum, gold, coal, iron ore, industrial minerals and lithium extractive and processing industries, holding positions as a financial executive at operational, divisional and corporate levels. Mr. Shonk is one of the founding partners and currently serves as the Board Secretary and Audit Committee Chairman of Cupric Canyon Capital LLC ("Cupric"), a private equity company in partnership with Global Natural Resource Investments (formerly a unit of Barclays Bank PLC) focused on investing in early-stage copper projects worldwide. He served as Cupric's Chief Executive Officer from February 2012 to March 2013 and as its Chief Financial Officer from January 2010 to February 2012. Cupric's wholly owned affiliate, Khoemacau Copper Mining (Pty) Ltd, holds a construction stage large high-grade copper–silver project in Botswana. Prior to his current positions, Mr. Shonk served as Vice President of Financial and Operational Analysis at Phelps Dodge Corporation and Freeport-McMoRan Copper & Gold Inc. from 1999 through 2009. Mr. Shonk also served as Controller and/or Chief Financial Officer at various divisions of Cyprus Amax Mineral Company and its predecessor mining companies beginning in 1979. Mr. Shonk is the former chairman of the audit committee of the Society of Mining, Metallurgy and Exploration (2010-2016). From 2001 to 2009, he served on the board of directors and as chairman of the audit committee of Apache Nitrogen Products Inc. He obtained his undergraduate degree in Economics from Indiana University, a master's degree in Mineral Economics from Colorado School of Mines and an MBA from the University of Colorado – Denver with an emphasis in Finance and Accounting.

Mr. Shonk has extensive, high-level executive mining experience, specifically in the financial, strategic and valuation areas. His specialized financial background brings to the Board experience with financial and accounting statements, audit oversight and internal controls. He further brings to the Board a background in mining mergers and acquisitions and business combinations.

Executive Officers

Information regarding our executive officer as of March 19, 2019 is set forth in the table below. All executive officers are appointed by and serve at the pleasure of the Board of Directors. The following table sets out the name and age of the Company's current executive officer, his state and country of residence, the offices he holds within the Company, and the dates since which he has served as an officer of the Company:

Name, Age, Province or State and Country of Residence and Positions, current and former, if any, held in the Company	**Served as officer since**
RANDALL J. SCOTT, 67	
Colorado, USA	December 15, 2011
Director, President and Chief Executive Officer	

The following is a brief biography of the Company's executive officer:

Randall J. Scott is a metallurgical engineer with over 35 years of experience in the mining industry. His experience includes leading performance teams in operations, administration, project development, program management, business development and major improvement initiatives. Mr. Scott was appointed as a director of the Company in February 2012 and as President and Chief Executive Officer in December 2011. Mr. Scott previously worked for Thompson Creek Metals Company Inc. as Vice President, Corporate Responsibility and Strategy from May 2011 to November 2011, as Director, Strategic Management from August 2010 to May 2011 and as Project Sponsor, Enterprise Resource Planning Implementation from January 2010 to August 2010. Prior to that, he served as Vice

President of Metals Norwest Corporation during January 2010. From 2002 until 2009, he served as the Principal Real Estate Agent and Team Leader for Scott Home and Land Real Estate Team. Mr. Scott held senior management positions with Cyprus Amax Coal Company and RAG American Coal Company from 1995 to 2001, and prior to that Mr. Scott held senior management positions with Cyprus Metals Company from 1989 until 1995. Mr. Scott received his Bachelor of Science degree in metallurgical engineering from the Colorado School of Mines and his Masters of Business Administration from the University of Arizona.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company's officers and directors and persons who own more than 10% of a registered class of our equity securities to file initial reports of ownership of our equity securities on Form 3 and reports of changes in ownership on Form 4 or Form 5, as appropriate. Persons subject to Section 16 are required by SEC regulations to furnish us with copies of all Section 16(a) forms that they file. Based solely on a review of such forms furnished to the Company, we believe that for the fiscal year ended December 31, 2018 all required reports were filed on a timely basis under Section 16(a).

Code of Business Conduct and Ethics

We are committed to maintaining high standards for honest and ethical conduct in all of our business dealings complying with applicable laws, rules and regulation. In furtherance of this commitment, our Board of Directors adopted a Code of Business Conduct and Ethics for Directors, Officers and Employees (the "Code of Conduct") to encourage and promote a culture of ethical business conduct. It also promotes ethical business conduct through the nomination of Board members it considers ethical, through avoiding and minimizing conflicts of interest and by having a majority of its Board members independent of corporate matters.

A copy of the Code of Conduct may be found on our website at www.rareelementresources.com. We will post any amendments to the Code of Conduct, or waivers of any provisions thereof, to our corporate website.

Nomination Process and Qualifications for Director Nominees

Under the Business Corporations Act (British Columbia) ("BCA"), the statute under which the Company is incorporated, shareholder proposals, including director nominees, must be received at the registered office of the Company at least three months before the anniversary of the previous year's annual general meeting of shareholders. Under Rule 14a-8(e) of Regulation 14A to the Exchange Act, subject to certain exceptions, shareholder proposals must be received at the Company's principal executive offices not less than 120 calendar days before the one-year anniversary of the Company's release to shareholders of its management information and proxy circular in connection with the previous year's annual general meeting. Because the shareholder proposal deadline under the BCA is more stringent for the Company and more favourable for shareholders, the Company will abide by it.

Advance Notice Policy

The Board adopted an advance notice policy (the "Policy") on November 7, 2012. The purpose of the Policy is to (i) facilitate an orderly and efficient annual general or, where the need arises, special meeting process, (ii) ensure that all shareholders receive adequate notice of the director nominations and sufficient information regarding all director

nominees, and (iii) allow shareholders to register an informed vote after having been afforded reasonable time for appropriate deliberation.

The Policy, among other things, includes a provision that requires advance notice to the Company in certain circumstances where nominations of persons for election to the Board are made by shareholders of the Company. The Policy fixes a deadline by which director nominations must be submitted to the Company prior to any annual or special meeting of shareholders and sets forth the information that must be included in the notice to the Company for the notice to be in proper written form.

In the case of an annual meeting of shareholders, notice to the Company must be made not less than 30 days nor more than 65 days prior to the date of the annual meeting; provided, however, that in the event that the annual meeting is to be held on a date that is less than 50 days after the date on which the first public announcement of the

date of the annual meeting was made, notice may be made not later than the close of business on the 10th day following such public announcement.

In the case of a special meeting of shareholders, which is not also an annual meeting, called for the purpose of electing directors (whether or not called for other purposes), notice to the Company must be made not later than the close of business on the 15th day following the day on which the first public announcement of the date of the special meeting was made. The full text of the Policy is available under the Company's profile at www.sedar.com.

Qualifications for Director Nominees

The Board, through its Nominating, Corporate Governance and Compensation ("NCG&C") Committee, considers its size each year when it considers the number of directors to recommend to the shareholders for election at the annual meeting of shareholders, taking into account the number required to carry out the Board's duties effectively and to maintain a diversity of views and experience. The NCG&C Committee is composed entirely of independent directors.

The Board believes that, as a whole, it should possess a combination of skills, professional experience and diversity of viewpoints necessary to oversee the Company's business. In addition, the Board believes that there are certain attributes that every director should possess, as reflected in the Board's membership criteria (further described below). Accordingly, the Board and the NCG&C Committee consider the qualifications of director and director candidates individually and in the broader context of the Board's overall composition and the Company's current and future needs.

The NCG&C Committee reviews and makes recommendations regarding the composition and size of the Board in order to ensure that the Board has the requisite expertise and its membership consists of persons with sufficiently diverse and independent backgrounds. Board membership criteria include items relating to ethics, integrity and values, sound business judgment, professional experience, industry knowledge, and diversity, including gender diversity, all in the context of an assessment of the perceived needs of the Board at that point in time. The Board, as a whole, should possess a variety of skills, occupational and personal backgrounds, experiences and perspectives necessary to oversee the Company's business. In addition, Board members generally should have relevant technical skills or financial acumen that demonstrates an understanding of the financial and operational aspects of a rare earth and gold mining exploration and development company.

In evaluating director candidates and considering incumbent directors for re-nomination, the Board and the NCG&C Committee have not formulated any specific minimum qualifications, but, rather, consider a variety of factors. These include each nominee's independence, financial acumen, personal accomplishments, career specialization, and experience in light of the needs of the Company. For incumbent directors, the factors also include past performance on the Board. The Board determines the Chairman among the Company's directors following the election of directors at the annual meeting of shareholders.

Board Committees

The Company's Board has two standing committees: (i) the Audit Committee and (ii) the NCG&C Committee.

Audit Committee

The Company has a separately designated, standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. Under Canadian securities laws, the Company is required to have an audit committee comprised of not less than three directors**.** Each member of the Audit Committee must be independent within the meaning of Rule 10A-3 of the Exchange Act and not an employee, officer or affiliate of the Company. The Company's current Audit Committee consists of Lowell A. Shonk (Chair), Gerald W. Grandey, and Kenneth J. Mushinkski. The Audit Committee's functions are to oversee the accounting and financial reporting process and the audit of the annual financial statements of the Company.

The Company's Audit Committee, under the guidance of the charter of the audit committee (the "Audit Committee Charter") approved by the Board, assists the Board in fulfilling its oversight responsibilities by reviewing (i) the financial statements, reports and other information provided to shareholders, regulators and others; (ii) the

independent auditor's qualifications, independence and performance; (iii) the internal controls that management and the Board of Directors have established; (iv) the audit, accounting and financial reporting processes generally; and (v) the Company's compliance with legal and regulatory requirements. The text of the Audit Committee's charter is available on the Company's website at www.rareelementresources.com.

The Company's Board has determined that all of the members of the Company's Audit Committee are independent within the meaning of Rule 10A-3 of the Exchange Act and National Instrument 52-110 – *Audit Committees* ("NI 52-110"). In addition, the Company's Board has determined that Lowell A. Shonk, Chair of the Audit Committee, satisfies the requirement of an "audit committee financial expert," as defined under Item 407 of the Regulation S-K, and Messrs. Shonk, Grandey and Mushinski each are "financially literate" within the meaning thereof set forth in NI 52-110.

Nominating, Corporate Governance and Compensation Committee

The NCG&C Committee is governed by a charter which sets forth the NCG&C Committee functions, which are, among other things, to establish procedures for the director nomination process and recommend nominees for election to the Board; to develop and periodically review the effectiveness of the Board's corporate governance guidelines; and to determine and recommend to the independent members of the Board the base salaries and annual incentive awards, including cash and equity-based incentive awards for the Chief Executive Officer, and in consultation with the Chief Executive Officer, for other senior officers, on an annual basis. The Company's current NCG&C Committee consists of Paul Schlauch (Chair), F. Steven Mooney, and David Roberts.

Additional information regarding the above committees, and their charters, is on the Company's website at www.rareelementresources.com.

Nominating, Corporate Governance and Compensation Committee Interlocks and Insider Participation

None of the members of the NCG&C Committee are a current executive officer or employee of the Company or any of its subsidiaries or affiliates. No executive officer of the Company is or has been a director or a member of the compensation committee of another entity having an executive officer who is or has been a director or a member of the NCG&C Committee of the Board of the Company.

ITEM 11. EXECUTIVE COMPENSATION

Named Executive Officers

"Named Executive Officer" or "NEO" means (a) all individuals who served as Chief Executive Officer of the Company during the fiscal year ended December 31, 2018, (b) each of the two most highly compensated executive officers, or the two most highly compensated individuals acting in a similar capacity, other than the Chief Executive Officer, at the end of the fiscal year ended December 31, 2018; and (c) each individual who would be an NEO under clause (b) above but for the fact that the individual was neither an executive officer of the Company, nor acting in a similar capacity, at the end of that fiscal year.

During the fiscal year ended December 31, 2018, the Company had one NEO: Mr. Scott, President and Chief Executive Officer ("CEO") of the Company.

Compensation Discussion and Analysis

Executive Compensation Program Objectives

The compensation of the Company's NEO is determined by the Company's Board, with consideration given to the recommendations of the NCG&C Committee. The Company's compensation program is designed to provide competitive levels of compensation, a significant portion of which is dependent upon individual and corporate performance and contribution to increasing shareholder value. The Board recognizes the need to provide a total compensation package that will attract and retain qualified and experienced executives as well as align the compensation level of each executive to that executive's level of responsibility and to the best interests of the Company and its shareholders. In general, an NEO's compensation is comprised of three components: (i) cash

compensation, consisting of base salary, wages or consulting payments; (ii) stock option grants; and (iii) a discretionary incentive bonus.

The NCG&C Committee selected these three components due to standards in the Company's industry, the desire to maintain an effective but straightforward compensation program, and the need to reward executives for past performance while still providing incentive for future performance. The NCG&C Committee believed that salary and stock options were sufficient to remain competitive with peers and provide incentive for future performance without adding the burden of administering complex compensation structures in a small, growing company. In addition, the equity-based compensation aligns the NEO's interests with those of our shareholders. The potential for a limited discretionary incentive bonus permits the Company to reward exemplary past performance, while conserving the Company's cash for project needs. The objectives and reasons for this system of compensation are generally to allow the Company to remain competitive among its peers in attracting and retaining experienced personnel, while conserving the cash of the Company.

Determining Executive Compensation

Executive officers' compensation is established through review and comparison of compensation paid to executives at similar companies as established through a determined peer group as well as consideration of other market factors and performance criteria at the corporate and individual performance level. Compensation levels are typically negotiated with the candidate for a position prior to his or her final selection as an executive officer. Cash compensation levels, comprised of base salary and discretionary incentive bonus, for executive officers are reviewed annually and adjusted to reflect external factors, such as inflation, as well as overall corporate performance and the results of internal performance reviews.

Role of Executive Officers in Determining Compensation

The NCG&C Committee reviews and recommends compensation policies and programs to the Board, as well as individual salary and benefit levels for its executives. The NCG&C Committee, with the periodic independent input of its compensation consultant if engaged, reviews, approves and makes a recommendation to the Board regarding the executive officer compensation.

The President and Chief Executive Officer may not be present during meetings of the NCG&C Committee at which his compensation is being discussed. The NCG&C Committee recommends to the independent members of the Board the compensation of the President and Chief Executive Officer. The independent members of the Board make decisions as to the President and Chief Executive Officer's compensation. The Board makes the final determination regarding the Company's compensation programs and practices.

Competitive Market Assessments and Other Factors

The NCG&C Committee may retain the services of a compensation consultant to obtain industry comparables, through the peer group analysis, or an industry compensation survey. This information assists the NCG&C Committee in its consideration of a variety of factors when determining both compensation policies and programs and individual compensation levels. These factors include the long-range interests of the Company and its shareholders, overall technical, professional and experience needs of the Company, the competitive requirements to attract and hold

key employees, and the NCG&C Committee's assessment of the position requirements for each executive's role in the Company. The NCG&C Committee does not weigh any of these factors more heavily than others and does not use any formula to assess these factors, but rather considers each factor in its judgment and at its discretion. Superior performance is recognized through the Company's incentive bonus policy, when appropriate.

Compensation Components

Base Salary

The NCG&C Committee reviews and approves the base salaries for the NEOs and reviews them annually. The President and CEO's base salary is recommended by the NCG&C Committee and approved by the independent members of the Board. The CEO is paid a salary that is lower than the comparative salary levels for a person of his experience and capabilities because the Company expects that stock options should constitute a significant part of

the CEO's total compensation. As of March 31, 2016, the Company no longer employs any executives other than the President and CEO as a result of cost conservation initiatives. Further, for all of 2016 and part of 2017, the President and CEO's base salary effectively reduced potential severance benefits under Mr. Scott's prior Employment and Severance Compensation Agreements. Please see the section entitled "Employment Agreements" for additional details about the Company's severance compensation agreement benefit reduction which began in 2016.

The base salary for the NEO for fiscal year 2018 is set forth below. Mr. Scott's salary was adjusted in 2017 to $165,000, down from his 2016 base salary of $198,000, while the Company sought additional working capital. Mr. Scott's salary was $210,000 in 2018.

Named Executive Officer	2018 Base Salary	2017 Base Salary	Percentage Change
Randall J. Scott	210,000	165,000	27%

Option-Based Awards

Stock option grants are designed to reward executive officers for the success of the Company on a similar basis as the shareholders of the Company.

Stock option grants are made on the basis of the number of stock options currently held by the executive, position, overall individual performance, anticipated contribution to the Company's future success and the individual's ability to influence corporate and business performance. The purpose of granting such stock options is to assist the Company in compensating, attracting, retaining and motivating the officers, directors and employees of the Company and to closely align the personal interest of such persons to the interests of the shareholders. The exercise price of the stock options granted is determined by the market price of our common shares at the time of grant.

There were no options granted during the year ended December 31, 2018. During February 2019, the Company granted 850,000 stock options to its officer, certain directors and a consultant.

Incentive Bonus Program

The Company's incentive bonus policy generally allows executive officers and management personnel to be considered for a discretionary incentive bonus payment, provided the executive officer or manager was employed by the Company at the end of the fiscal year in which the bonus is earned. Bonus amounts are not based on a percentage of an executive's base salary and have typically been rather modest and limited, often historically ranging between 10% and 25% of base salary.

In considering executive incentive bonus compensation, the NCG&C Committee typically makes the determination on the basis of the following three primary factors: (1) past stock-based compensation performance; (2) achievement of overall corporate goals, which are established at the start of each year; and (3) individual performance.

The NCG&C Committee has not historically set specific corporate goals or individual performance goals. Instead, the NCG&C Committee has evaluated the progress of the Company in relation to the implementation of the Company's overall strategic plan and plan of operations for the fiscal year and considers the individual NEO's role in implementing these plans. Bonuses have been awarded by the Board based on the NCG&C Committee's discretionary judgment and recommendation as to whether the performance of the NEO has been to a level to warrant an incentive bonus. The amount of the bonus has been based entirely on the NCG&C Committee's and the Board's judgment of the

contributions of the NEO.

The NCG&C Committee considered but did not grant any cash incentive bonus for the NEO for 2018 given market conditions and the Company's cash position.

In December 2017, the Board established specific corporate and individual performance goals for the CEO for 2018. These goals were utilized for further compensation evaluations, including incentive bonus awards. The 2018

corporate goals included the following: achieve zero lost time accidents and maintain a “safety first” culture; achieve zero environmental incidents and non-compliance orders; meet the 2018 Board-approved budgetary goals, develop rare earth separation protocol and progress engagement of a contracted party to perform separation pilot plant testing; and maintain a dialogue with project stakeholders, among other business objectives.

Perquisites and Other Personal Benefits

The primary benefits for the Company’s executives have historically included participation in the Company’s broad-based plans: the 401(k) plan (which has previously included matching Company contributions); health, dental and vision coverage; life insurance; paid time-off; and paid holidays. The Company terminated its health, dental and vision plan, as well as its 401(k) plan in the first quarter of 2016 as one of its cost-conservation measures and no such benefit plans were in place in 2017 or 2018. The Company’s NEO is not entitled to significant perquisites or other personal benefits.

Summary Compensation Table

Set out below is a summary of compensation paid to the Company’s NEO during the fiscal years ended December 31, 2018 and 2017:

Name and Principal Position	Year	Salary ($)	Bonus ($)	Option Awards (1) ($)	All Other Compensation ($)	Total ($)
Randall J. Scott	2018	$ 210,000	$ –	$ –	$ –	$ 210,000
President and Chief Executive Officer	2017	$ 165,000	$ 30,000	$ 50,348	$ –	$ 245,348

(1) The grant date fair value of option-based awards is determined by the Black-Scholes Option Pricing Model with certain assumptions for the risk-free interest rate, dividend yields, volatility factors of the expected market price of the Company’s common shares and expected life of the options.

Narrative Discussion of Compensation and Plan-Based Awards

Employment Agreements

The Company has historically maintained employment agreements with its executive officers, including Mr. Scott. The material terms of prior employment agreements have included (a) employment for an indefinite term unless employment is terminated as provided in the agreement; (b) severance arrangements, including upon a change in control; (c) a base salary; and (d) participation in the stock option plans of the Company (as described below), the incentive bonus, and in such of the Company’s benefit plans as are from time to time available to executive officers of the Company. See section entitled “Base Salary” above for current base salary information.

Mr. Scott has had an employment agreement with the Company since April 2013. From that date until late 2017 there were multiple amendments to Mr. Scott's 2013 employment agreement, including reduction in base salary, and reduced severance amounts under the prior employment agreement. In December 2017, the NCG&C Committee recommended to the Board that Rare Element Resources, Inc. enter into a revised employment agreement with Mr. Scott to replace his prior employment and severance compensation agreements, as amended. On February 22, 2018, effective as of January 1, 2018, Rare Element Resources, Inc. and Mr. Scott entered into a new employment agreement (the "Employment Agreement"). Pursuant to the terms of the Employment Agreement, (i) Mr. Scott's initial annual base is US$210,000, effective as of January 1, 2018; (ii) Mr. Scott will be eligible to receive an annual performance bonus and such long-term incentive awards as may be determined by the Board; and (iii) Mr. Scott will be eligible to participate in the employee benefit programs, if offered, by the Company.

Additionally, Mr. Scott is entitled to separation benefits in the event that his employment is terminated by the Company without "cause" or by Mr. Scott for "good reason" (in each case, as defined in the Employment Agreement) due to certain reasons, including a material change in title or duties, a material reduction in compensation, a material geographic relocation, or a material breach of the Employment Agreement by the Company, in each case which the Company has failed to cure. The severance payment to be received by Mr. Scott

upon termination under the circumstances described above will be equal to one year of Mr. Scott's base salary in effect on the date of termination and paid to Mr. Scott in a lump sum 60 days after the date of such termination. In addition, Mr. Scott's equity incentive awards will vest automatically upon such termination.

Equity Plans

As of December 31, 2018, there were 3,385,400 stock options outstanding, representing approximately 5% of the current outstanding common shares of the Company, under a rolling 10% stock option plan (the "RSOP"). Material terms of the RSOP are set out below.

The NCG&C Committee may, subject to ratification from the Board, from time to time grant to directors, employees or consultants options to acquire common shares of the Company under the RSOP. The maximum number of common shares issuable under the RSOP shall not in the aggregate exceed 10% of the issued and outstanding common shares (calculated as at the award date of such options). The Company is prohibited from granting options (i) to any one person where the grant would result in such person holding options to acquire common shares in excess of 5% of the issued and outstanding common shares of the Company; or (ii) that will result in the number of common shares issuable to insiders of the Company at any time being in excess of 10% of the issued and outstanding common shares as at the award date or that will result in the number of common shares issued to insiders of the Company within any one-year period being in excess of 10% of the issued and outstanding common shares as at the award date under the 10% Rolling Stock Option Plan or when combined with all of the Company's other security-based compensation arrangements.

The exercise price of options shall be determined by the NCG&C Committee as of the award date and shall not be less than the closing price of the common shares on the stock exchange where the majority of the trading volume and value of the common shares occurs on the last day immediately preceding the award date. The NCG&C Committee retains the discretion to impose vesting periods on any options granted. The Company does not offer financial assistance in respect of the exercise of options.

The expiry date of an option shall be determined in the discretion of the NCG&C Committee and shall not exceed the tenth anniversary of the award date of such option subject to extensions in the case of a trading blackout. Unless the NCG&C Committee decides otherwise, options granted under the RSOP will expire (i) one year after the option holder's death or disability, and any options which are unvested as of the date of death or disability will not vest; (ii) 90 days after an option holder who is a director ceases to be a director of the Company other than by reason of death or disability, in which case all unvested options shall immediately vest and become exercisable unless the option holder continues to be an employee or consultant, in which case the options will not so vest and the expiry date will remain unchanged; (iii) on the date the option holder ceases to be a director as the result of certain prescribed circumstances, in which case any unvested options will not vest; (iv) 90 days after the option holder ceases to be employed by the Company (other than by reason of death, disability, mandatory retirement, a change of control, termination for cause or as a result of an order of a regulatory body) unless the employee continues to be a director or consultant, in which case the expiry date remains unchanged, or unless the option holder ceases to be an employee (a) as a result of termination for cause; or (b) by order of the British Columbia Securities Commission, the Ontario Securities Commission, or any other regulatory body having jurisdiction to so order, in which case the expiry date shall be the date the option holder ceases to be an employee (all options which are not vested as of the date the employee ceases to be employed shall not vest unless the option holder continues to be a director or consultant of the Company, in which case the vesting of the options shall be unchanged; if the employee ceases to be an employee by reason of mandatory retirement, all unvested options will immediately vest and become exercisable and the expiry date will be one year from the date of retirement); (v) 90 days after an option holder who is a consultant of the Company ceases to be a consultant by reason of the completion or termination of the contract under which the consultant provides services to

the Company unless the option holder continues to be engaged as a director or employee of the Company, in which case the expiry date shall be 90 days after the date the option holder ceases to be a director or employee. Any options which are unvested as of the date the option holder ceases to be a consultant will not vest unless the option holder continues to be engaged as a director or employee, in which case the vesting of the options shall be unchanged. If upon completion of the contract under which the consultant provided services to the Company the consultant is subsequently hired by the Company as an employee, the options previously granted to the consultant will flow through to the employee on the same terms and conditions as the original grant of options.

In the case of an employee or consultant (who is not also a director or officer) ceasing to be an employee or a consultant as a result of a change of control at any time within six months after the effective date of the change of control, notwithstanding the vesting provisions of the option, all unvested options of the option holder will immediately vest and become immediately exercisable, and the expiry date shall be the earlier of the pre-existing expiry date and the date 90 days following the date on which the employee or consultant ceased to be such. In the case of a director or officer who ceases to be an employee, director or consultant under these circumstances, all unvested options of the option holder will immediately vest and become immediately exercisable, and the expiry date shall be the earlier of the pre-existing expiry date and the date two years following the date on which the employee, director or consultant ceased to be such. In the event that the Company enters into an agreement with another entity which may result in a change of control, or a "takeover bid" within the meaning of the Securities Act (British Columbia) is made for the Company by another entity which may result in a change of control, all unvested options of the option holders will immediately vest and become immediately exercisable as of the date of the agreement or takeover bid.

Options are non-assignable and non-transferable. Notwithstanding the foregoing, an option holder may transfer an option to a corporation which is 100% owned by the option holder provided that the transfer is permitted by, and is effected in accordance with, the applicable securities laws.

The Board shall have the power, without shareholder approval, at any time and from time to time, either prospectively or retrospectively, to amend, suspend or terminate the RSOP or any option granted under the RSOP, provided always that any such amendment shall not, without the consent of the option holder, alter the terms or conditions of any option or impair any right of any option holder pursuant to any option awarded prior to such amendment in a manner materially prejudicial to such option holder. Additionally, such termination shall be subject to any necessary stock exchange, regulatory or shareholder approval.

The RSOP was initially approved by shareholders of the Company at the annual and special meeting of shareholders on December 2, 2011.

Equity Compensation Plan Information

For information in tabular format regarding those securities of the Company which have been authorized for issuance under equity compensation plans as at December 31, 2018, see Part II, Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities – Equity Compensation Plan Information."

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth the outstanding option awards held by the NEO of the Company as of December 31, 2018.

Outstanding Equity Awards at Fiscal Year-End

	Option awards			
Name	**Number of securities underlying unexercised options**	**Number of securities underlying unexercised options**	**Option exercise price**	**Option expiration date**
	(#)	**(#)**	**($)**	

	exercisable	unexercisable		
	125,000	125,000	0.25	11/17/2022
	200,000	–	0.04	12/29/2021
Randall J. Scott	150,000	–	0.04	12/13/2021
	100,000	–	0.32	1/22/2020

Option Exercises

There were no options exercised by the NEO during the year ended December 31, 2018.

Pension Benefits and Non-Qualified Deferred Compensation

The Company does not have a pension plan that provides for payments or benefits to the NEO at, following or in connection with retirement. During the fiscal year ended December 31, 2018 the Company did not have any nonqualified deferred compensation.

Potential Payments upon Termination or Change of Control

Previously, the Company had entered into employment and severance compensation agreements with Mr. Scott, which agreements were replaced with the Employment Agreement effective as of January 1, 2018. Pursuant to the Employment Agreement, Mr. Scott is entitled to separation benefits in the event that his employment is or was terminated by the Company without "cause" or by Mr. Scott for "good reason" (in each case, as defined in the Employment Agreement) due to certain reasons, including a material change in title or duties, a material reduction in compensation, a material geographic relocation, or a material breach of the Employment Agreement by the Company, in each case which the Company has failed to cure. The separation benefits to be received by Mr. Scott upon termination under the circumstances described above are equal to Mr. Scott's base salary in effect on the date of termination. The separation benefits are not contingent upon any change in control and are to be paid to Mr. Scott in a lump sum 60 days after the date of such termination. In addition, Mr. Scott's equity incentive awards vest automatically upon such termination.

The table below sets out the estimated payments due to the NEO employed by the Company as of December 31, 2018 on a qualifying termination without cause, assuming termination took place pursuant to the Employment Agreement effective as of December 31, 2018:

Name	Base Salary ($)	Total (1) ($)
Randall J. Scott	210,000	210,000

(1) Termination payments, if applicable, are made in a lump sum to the NEO upon a qualifying termination. The January 1, 2018 Employment Agreement replaced Mr. Scott's prior employment and severance compensation agreements, as amended, which provided for additional payments of an average bonus payment.

Director Compensation

From January 1, 2016 to December 31, 2017, the non-employee directors received no annual cash compensation as such compensation had been suspended as part of the Company's cash conservation measures. As of January 1, 2018, the Board determined that director cash-retainer compensation would resume. As of that date, non-employee directors

other than the Chairman receive annual compensation of $12,500, paid pro rata on a quarterly basis. The Chairman receives annual compensation of $30,000 per year. The directors of the Company are encouraged to hold common shares in the Company, thereby aligning their interests with those of the shareholders. In addition to the annual compensation and stock option awards, the Company pays compensation to the chair of the Audit Committee of $7,500 and the chair of the NCG&C Committee of $5,000 per year.

The following table sets forth information regarding the compensation received by each of the Company's non-employee directors during the fiscal year ended December 31, 2018:

Director Compensation

Name	Fees earned or paid in cash ($)	Option awards ($)	All other compensation ($)	Total ($)
Gerald W. Grandey	30,000	–	–	30,000
Paul J. Schlauch	17,500	–	–	17,500
Lowell Shonk	20,000	–	–	20,000
F. Steven Mooney	7,292	–	–	7,292
Kenneth J. Mushinski (1)	–	–	–	–
David L. Roberts (1)	–	–	–	–

(1) Messrs. Mushinski and Roberts waived all compensation as directors as the Synchron delegates to the Board, including any stock options granted to Directors.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Security Ownership of Certain Beneficial Owners

10The following table sets forth certain information regarding beneficial ownership, control or direction, directly or indirectly, of the Company's common shares, as of March 19, 2019 by (i) each of the Company's NEOs and directors and (ii) the Company's NEOs and directors as a group.

Name and Position (1)	Amount and Nature of Beneficial Ownership * Common Shares(2)	Percentage of Class (3)
Randall J. Scott – *Chief Executive Officer and President, Director*		
Littleton, CO, USA	589,000 (4)	0.74%
Paul J. Schlauch – *Director*		
Greenwood Village, CO, USA	430,000 (5)	0.54%
Lowell A. Shonk – *Director*		
Paradise Valley, Arizona, USA	450,000 (6)	0.57%
F. Steven Mooney – *Director*	400,000 (7)	0.50%

Denver, CO, USA Gerald W. Grandey – *Director and Chairman*		
Saskatoon, SK, Canada Kenneth J. Mushinski – *Director*	695,000 (8)	0.87%
Escondido, CA, USA David I. Roberts – *Director*	Nil	0.00%
Solana Beach, CA, USA	Nil	0.00%
All named executive officers and directors as a group	**2,564,000**	**3.22%**

*****Pursuant to Rule 13d-3 under the Exchange Act, beneficial ownership includes shares as to which the individual has or shares voting power or investment power, and any shares that the individual has the right to acquire within 60 days of March 19, 2019, including through the exercise of any option, warrant, or right. For each individual who holds options, warrants or rights to acquire shares, the common shares of the Company underlying those securities are treated as owned by that holder and as outstanding shares when that holder's percentage ownership of common shares is calculated. Those common shares of the Company are not treated as outstanding when the percentage ownership of any other holder is calculated.

(1) Mailing address for all directors and executive officers is c/o Rare Element Resources, Ltd., P.O. Box 271049, Littleton, CO 80127.

(2) Includes common shares held as of March 19, 2019, plus common shares which may be acquired pursuant to the exercise of stock options exercisable within 60 days after March 15, 2017.

(3) In accordance with Rule 13d-3(d)(1) under the Exchange Act, the applicable percentage of ownership for each person is based on 79,591,880 common shares outstanding as of March 19, 2019.

(4) Includes 14,000 common shares and 575,000 common shares subject to options held by Mr. Scott personally.

(5) Includes 10,000 common shares and 420,000 common shares subject to options held by Mr. Schlauch personally.

(6) Includes 30,000 common shares and 420,000 common shares subject to options held by Mr. Shonk personally.

(7) Includes 80,000 common shares and 320,000 common shares subject to options held by Mr. Mooney personally.

(8) Includes 200,000 common shares and 495,000 common shares subject to options held by Mr. Grandey personally.

(9) Excludes shares owned by Synchron. Messrs. Mushinski and Roberts do not exercise any voting or dispositive power over such shares. Pursuant to and subject to the terms and conditions of an Investment Agreement between the Company and Synchron, as long as Synchron's fully diluted ownership in the Company is at least 33.0%, Synchron has the right to designate two directors for appointment or election to the Board, where the Board is comprised of six or seven directors following such appointment. Messrs. Mushinski and Roberts are the Synchron designees.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS; AND DIRECTOR INDEPENDENCE

Transactions with Related Persons

Interests of Related Persons in Material Transactions

On April 24, 2018, the Company executed an agreement with Umwelt-und Ingenieurtechnik GmbH Dresden ("UIT"), an affiliate of Synchron, to validate the Company's rare earth processing technology as well as progress the Company's intellectual property. Because Synchron is a significant shareholder of the Company, the two directors of Rare Element appointed by Synchron abstained, and the remaining members of the Board of Directors of Rare Element approved the UIT engagement on April 17, 2018. The UIT agreement is for an amount not to exceed $600, and the work was concluded in January 2019.

On February 14, 2019, the Company and UIT executed a second technology test work agreement to further validate the Company's rare earth processing technology at pilot plant scale. The Board of Directors of Rare Element approved the UIT pilot plant engagement on February 7, 2019. Consistent with the Board action in 2018 approving the first

engagement of UIT, the two directors of Rare Element appointed by Synchron abstained because Synchron is a significant shareholder of the Company and is an affiliate of UIT. The UIT pilot plant agreement is for an amount not to exceed $700. The results of the UIT pilot plant test work is expected to conclude in third quarter 2019.

Indebtedness of Directors and Executive Officers

None of the current or former directors, executive officers of the Company or the proposed nominees for election to the Board of the Company, nor any associate or affiliate of the foregoing persons, are or have been indebted to the Company since the beginning of the fiscal year ended December 31, 2018.

Management Contracts

No management functions of the Company are, to any substantial degree, performed by a person or company other than the directors or executive officers of the Company, in their roles as such.

Review, Approval or Ratification of Transactions with Related Persons

The Company's written corporate governance policies generally discourage transactions involving a potential conflict of interest. The NCG&C Committee is generally responsible for overseeing compliance with the Company's corporate governance policies, which require that transactions that could reasonably be considered to present a conflict of interest be reported to the NCG&C Committee. However, the Audit Committee is responsible for overseeing compliance with the Code of Conduct contained in the Company's corporate governance policies. Specifically, the Audit Committee is responsible for reviewing and overseeing any transaction or contract exceeding or likely to exceed $120,000 involving the Company and a related party, including transactions subject to disclosure under Item 404 of Regulation S-K. Generally, in reviewing such transactions, the Audit Committee considers the relevant facts and circumstances available and deemed relevant to each determination.

Except for the agreement with UIT referenced above, there are no material interests, direct or indirect, of any other director nominee or any of the current directors, executive officers, or any shareholder who beneficially owns, directly or indirectly, more than 5% of the outstanding common shares, or immediate family members of such persons, in any transaction since January 1, 2017, or in any proposed transaction in which the amount involved exceeded $120,000.

Director Independence

The Board reviewed and determined independence under National Instrument 58-101 – Disclosure of Corporate Governance Practices ("NI 58-101") of each current director and director nominee. In making its independence determination, the Board considered the circumstances described below.

Based upon his position as an executive officer of the Company, the Board determined that Mr. Scott is not independent.

The Board has concluded that each of Messrs. Grandey, Mooney, Mushinski, Roberts, Schlauch and Shonk are independent. As a result of these analyses, the Board has determined the current Board consists of a majority of independent directors, as required under NI 58-101.

Family Relationships

There are no family relationships among any directors, officers or persons nominated to be directors of the Company.

Individual Bankruptcies

No director or proposed director of the Company has, within the 10 years prior to the date of this Annual Report, become bankrupt or made a proposal under any legislation relating to bankruptcy or insolvency, or been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of that individual.

Penalties or Sanctions

None of the proposed directors has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority, has entered into a settlement agreement with a securities regulatory authority or has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable security holder making a decision about whether to vote for the proposed director or in making an investment decision.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Audit Committee Pre-Approval Policies and Procedures

The Audit Committee has not adopted any specific policies and procedures for the engagement of non-audit services. Consistent with applicable laws, other than audit, review or attestation services, all other services provided

by the Company's auditor are to be approved by one or more members of the Audit Committee pursuant to authority delegated by the Audit Committee, provided that the Audit Committee is informed of each particular service. All of the engagements and fees discussed below under the heading "Audit Fees" for the fiscal years ended December 31, 2018 and 2017 were pre-approved by the Audit Committee.

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

Audit Fees

Effective as of October 1, 2018, EKS&H LLLP ("EKS&H"), the independent registered public accounting firm for the Company, combined with Plante & Moran PLLC ("Plante Moran"). As a result of this transaction, on October 1, 2018, EKS&H resigned as the independent registered public accounting firm for the Company. Concurrent with such resignation, the Audit Committee of the Board of Directors of the Company approved the engagement of Plante Moran as the new independent registered public accounting firm for the Company. The following table sets forth the fees paid by the Company to Plante Moran and EKS&H for services rendered in the fiscal years ended December 31, 2018 and 2017:

	2018	**2017**
Audit Fees	$82,610	$56,065
Audit-Related Fees	–	–
Tax Fees	13,980	–
All Other Fees	–	–
Total	**$96,590**	**$56,065**

"Audit Fees" represent fees for the audit of the Company's annual financial statements and attestation services that are provided in connection with statutory and regulatory filings or engagements.

"Audit-Related Fees" represent fees for professional services.

"Tax Fees" represent fees for professional services rendered for tax compliance, tax advice and tax planning on actual or contemplated transactions.

"All Other Fees" consist of fees for products and services other than the services reported above.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Documents filed as part of this Annual Report or incorporated by reference:

(1) The consolidated financial statements are presented in "Item 8. Financial Statements and Supplementary Data."

(2) Financial Statement Schedules (omitted because they are either not required, not applicable, or the required information is disclosed in the Notes to the Consolidated Financial Statements or related notes).

(3) Reference is made to the Exhibit Index that follows the signature pages on this report.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: March 29, 2019

By /s/ Adria Hutchison
Adria Hutchison, (Principal Financial Officer)

Date: March 29, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ Gerald W. Grandey
Gerald W. Grandey, Chairman of the Board of Directors
Date: March 29, 2019

By: /s/ F. Steven Mooney
F. Steven Mooney, Director
Date: March 29, 2019

By: /s/ Paul J. Schlauch
Paul J. Schlauch, Director
Date: March 29, 2019

By: /s/ Lowell A. Shonk
Lowell A. Shonk, Director
Date: March 29, 2019

By: /s/ David Roberts
David Roberts, Director
Date: March 29, 2019

By: /s/ Kenneth J. Mushinski

Kenneth J. Mushinski, Director
Date: March 29, 2019

By: /s/ Randall J. Scott
Randall J. Scott, President, CEO and Director (Principal Executive Officer)
Date: March 29, 2019

By: /s/ Adria Hutchison
Adria Hutchison, (Principal Financial Officer)

Date: March 29, 2019

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INDEX TO EXHIBITS

Exhibit Number	Description
3.1	Certificate of Incorporation (incorporated by reference to Exhibit 1.1 to the Company's Form 20-F filed with the SEC on November 17, 2009)
3.2	Certificate of Name Change (incorporated by reference to Exhibit 1.2 to the Company's Form 20-F filed with the SEC on November 17, 2009)
3.3	Articles (incorporated by reference to Exhibit 1.3 to the Company's Form 20-FR filed with the SEC on November 17, 2009)
10.1*	Form of Stock Option Agreement under 10% Rolling Stock Option Plan (incorporated by reference to Schedule C of the Company's Definitive Proxy Statement on Schedule 14A filed with the SEC on October 28, 2011)
10.2*	10% Rolling Stock Option Plan of the Company (incorporated by reference to Schedule C of the Company's Definitive Proxy Statement on Schedule 14A filed with the SEC on October 28, 2011)
10.3*	Form of Stock Option Agreement under 10% Rolling Stock Option Plan (incorporated by reference to Schedule C of the Company's Definitive Proxy Statement on Schedule 14A filed with the SEC on October 28, 2011)
10.4	Term Sheet for Purchase of Common Shares, Options and Intellectual Property Rights, dated August 18, 2017, by and between the Company and General Atomics Uranium Resources, LLC (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on November 13, 2017)
10.5	Investment Agreement, dated October 2, 2017, by and between the Company and Synchron (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed with the SEC on November 13, 2017)
10.6	Common Share Purchase Option, dated October 2, 2017 (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed with the SEC on November 13, 2017)
10.7	Intellectual Property Rights Agreement, dated October 2, 2017, by and between the Company and Synchron (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed with the SEC on November 13, 2017)
10.8*	Employment Agreement, effective January 1, 2018, by and between Rare Element Resources, Inc. and Randall J. Scott (incorporated by referenced to Exhibit 10.1 to the Company's Form 8-K filed with the SEC on February 26, 2018)
16.1	Letter from EKS&H LLLP, dated October 4, 2018 (incorporated by reference to Exhibit 16.1 to the Company's Form 8-K filed with the SEC on October 5, 2018)
21.1	Subsidiaries of the Company (incorporated by reference to Exhibit 21.1 to the Company's Form 10-K filed with the SEC on September 28, 2011)
23.1+	Consent of Plant & Moran, LLLP
23.2+	Consent of EKS&H LLP
23.3+	Consent of Alan Noble, Ore Reserves Engineering
23.4+	Consent of Jaye Pickarts
31.1+	Certification of the Principal Executive Officer pursuant to Rule 13a-14 of the Exchange Act
31.2+	Certification of the Principal Financial Officer pursuant to Rule 13a-14 of the Exchange Act
32.1+	Certification of the Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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32.2+	Certification of the 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.

* Indicates a management contract or compensatory plan or arrangement.