RARE ELEMENT RESOURCES LTD
Form 10-K
March 12, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2014
OR
p **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 001-34852

RARE ELEMENT RESOURCES LTD.

(Exact Name of Registrant as Specified in its Charter)

British Columbia	**N/A**
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
225 Union Blvd., Suite 250	
Lakewood, Colorado	**80228**
(Address of Principal Executive Offices)	(Zip Code)

(720) 278-2460

(Registrant s Telephone Number, including Area Code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares, No Par Value	**NYSE MKT**

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o Nox

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o Nox

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes xNo o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K. o

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

Large Accelerated Filer o Accelerated Filer x Non-Accelerated Filer o Smaller Reporting Company o

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

As of June 30, 2014, the aggregate market value of the registrant s voting common shares held by non-affiliates of the registrant was $61,197,678 based upon the closing sale price of the common shares as reported by the NYSE MKT.

The number of the Registrant s Common Shares outstanding as of March 12, 2015 was 47,707,216.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the 2014 Annual General Meeting of Shareholders are incorporated by reference to Part III of this Annual Report on Form 10-K.

TABLE OF CONTENTS

PRELIMINARY NOTES

As used in this Annual Report on Form 10-K (Annual Report), references to Rare Element, the Company, we, ou us mean Rare Element Resources Ltd., our predecessors and consolidated subsidiaries, or any one or more of them, as the context requires. Rare Element is focused on advancing into production its Bear Lodge rare earth elements project (the Bear Lodge REE Project) that is located primarily on the Bear Lodge property, near the town of Sundance in the state of Wyoming (the Bear Lodge Property). (See Part I. Item 1. Business).

Change in Fiscal Year-End

On September 7, 2012, the Company s Board of Directors approved a change in our fiscal year-end from June 30 to December 31, with the change to the calendar year reporting cycle beginning January 1, 2013. The intent of the change was to align the reporting of our financial results more closely with that of our peers. References in this report to fiscal 2012 and fiscal 2011 indicate the twelve-month periods ended June 30, 2012 and 2011, respectively. References to the transition period denote the six-month period from July 1, 2012 to December 31, 2012.

Currency

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

In this Annual Report, unless otherwise specified, all dollar amounts are expressed in thousands of United States Dollars ($ or US$). If necessary, we may disclose certain information in Canadian Dollars (CDN$).

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and forward-looking information within the meaning of applicable Canadian securities laws (collectively, forward-looking statements), with respect to our business prospects, plans, objectives, goals, strategies, future events, capital expenditures and exploration and development efforts. Words such as, but not limited to, anticipates, expects, intends, forecasts, likely, projects, plans, believes, seeks, estimates, expressions (including negative and grammatical variations) tend to identify forward-looking statements.

Although we believe that our plans, intentions and expectations reflected in these forward-looking statements are reasonable, we cannot be certain that these plans, intentions or expectations will be achieved. Actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements contained in this Annual Report.

Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, intentions, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases (including grammatical variations) such as expects or does not expect, is expected, anticipates or does not antici plans, estimates or intends, or stating that certain actions, events or results may, could, would, should, m taken, occur or be achieved) are not statements of historical fact and may be forward-looking statements. Forward-looking statements in this Annual Report, include, but are not limited to statements regarding the following:

.

The timing of the Feasibility Study (FS);

.

The progress, potential and uncertainties of our 2015 process technology test work and development at the Bear Lodge REE Project;

.

Our ability and the timing to obtain the necessary permits and licenses, including environmental , project development, mining, beneficiation and processing operations permits;

.

Our expectations regarding the timing for commissioning of the Bear Lodge REE Project;

.

Expectations regarding the ability to raise capital and to continue development plans at our Bear Lodge REE Project;

.

Plans outlined under the section heading Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations - Outlook ; and

.

Expectations as to the marketability and prices of our future rare earth product(s), including the potential impact on a Chinese dominated market.

Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors that could cause actual events or results to differ from those expressed or implied by the forward-looking statements, including, without limitation, risks associated with:

.

our history of losses and need for additional financing;

.

our lack of production from our mineral properties, including the Bear Lodge REE Project;

.

numerous uncertainties that could affect the profitability or feasibility of the Bear Lodge REE Project;

.

the potential outcome of the planned FS that may indicate Bear Lodge REE Project economics are less favorable;

.

the exploration, development and operation of our Bear Lodge REE Project;

.

increased costs affecting our financial condition;

.

volatile rare earth markets, including fluctuations in demand for, and prices of, rare earth products;

.

establishing adequate distribution channels to place our entire future product suite;

.

competition in the mining and rare earths industries, including an increase in global supplies or predatory pricing and dumping by our competitors;

.

technological advancements and the establishment of new uses and markets for rare earth products;

.

the specific product(s) from the Bear Lodge REE Project potentially having a limited number of potential customers, which could limit our bargaining power, product pricing, and profitability;

.

our proprietary, patent-pending, processing technology that could encounter unforeseen problems, unexpected costs or both in scaling it up to commercial application;

.

mineral reserve and mineral resource estimation;

.

the permitting, licensing and regulatory approval processes for our planned operations;

.

continued compliance with current environmental regulations and the possibility of new legislation, environmental regulations or permit requirements adverse to the mining industry, including measures regarding the mining industry and climate change;

.

our dependence on and the potential difficulty of attracting and retaining key personnel and qualified management;

.

a shortage of equipment and supplies;

.

mining and resource exploration and development being a potentially hazardous activity;

.

operating in the resource industry, which can be highly speculative and subject to market forces outside of our control;

.

title in our properties or mining claims;

.

insurance for our operations that could become unavailable, unaffordable or commercially unreasonable or exclude from coverage certain exposures of our business;

.

increased competition affecting our ability to raise capital or acquire additional properties;

.

negative impacts to our business or operations from market factors;

.

our land reclamation and remediation requirements;

.

information technology system disruptions, damage or failures;

.

effects of proposed legislation on the mining industry and our business;

.

foreign currency fluctuations;

.

our executive officers, directors and consultants being engaged in other businesses;

.

costs associated with any unforeseen litigation;

.

enforcement of civil liabilities in the United States and elsewhere;

.

our common shares continuing not to pay cash dividends;

.

our securities, including in relation to both company performance and general security market conditions;

.

the continued listing requirements of the NYSE MKT and the penny stock rules;

.

tax consequences to U.S. shareholders related to our potential status as a passive foreign investment company ;

.

risk factors discussed in this Annual Report; and

.

other factors, many of which are beyond our control.

This list is not exhaustive of the factors that may affect our forward-looking statements. Some of the important risks and uncertainties that could affect forward-looking statements are described further under the section headings Item 1. Business, Item 1A. Risk Factors and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report. Although we have attempted to identify important factors that could cause actual results to differ materially from those described in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary, possibly materially, from those anticipated, believed, estimated or expected. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. Except as required by law, we disclaim any obligation to revise any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. **We qualify all of the forward-looking statements contained in this Annual Report by the foregoing cautionary statements.**

GLOSSARY OF TERMS

Conversion Factors and Abbreviations

All units in this Annual Report are stated in metric measurements unless otherwise noted. For ease of reference, the following conversion factors are provided:

To Convert Imperial Measurement Units	To Metric Measurement Units	Multiply by
Acres	Hectares	0.4047
Feet	Meters	0.3048
Miles	Kilometers	1.6093
Tons (short)	Tonnes	0.9071
Gallons	Liters	3.7850
Ounces (troy)	Grams	31.103
Ounces (troy) per ton (short)	Grams per tonne	34.286

We report our mineralized material under two separate standards to meet the requirements for reporting in both Canada and the United States. Canadian reporting requirements for disclosure of mineral properties are governed by National Instrument 43-101 (NI 43-101). The definitions in NI 43-101 are adopted from those given by the Canadian Institute of Mining, Metallurgy and Petroleum (CIM). United States reporting requirements for disclosure of mineral properties are governed by the Securities and Exchange Commission (SEC) Industry Guide 7. These reporting standards have similar goals in terms of conveying an appropriate level of confidence in the disclosures being reported but embody differing approaches and definitions.

We estimate and report our mineralized material according to the definitions set forth in NI 43-101 and modify them as appropriate to conform to SEC Industry Guide 7 for reporting in the United States. The definitions for each reporting standard are presented below with supplementary explanation and descriptions of the similarities and differences.

NI 43-101 Definitions

Mineral Reserve	The term Mineral Reserve refers to the economically mineable part of a Measured or Indicated Mineral Resource demonstrated by at least a preliminary feasibility study. The study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A Mineral Reserve includes diluting materials and allowances for losses that may occur when the material is mined.
Proven Mineral Reserve	The term Proven Mineral Reserve refers to the economically mineable part of a Measured Mineral Resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified.
Probable Mineral Reserve	The term Probable Mineral Reserve refers to the economically mineable part of an Indicated and, in some circumstances, a Measured Mineral Resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified.
Mineral Resource	The term Mineral Resource refers to a concentration or occurrence of diamonds, natural solid inorganic material, or natural solid fossilized organic material including base and precious metals, coal, rare earth elements and industrial minerals in or on the earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge.
Measured Mineral Resource	The term Measured Mineral Resource refers to that part of a Mineral Resource for which quantity, grade or quality, densities, shape and physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters, to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration,

	sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.
Indicated Mineral Resource	The term Indicated Mineral Resource refers to that part of a Mineral Resource for which quantity, grade or quality, densities, shape and physical characteristics can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.
Inferred Mineral Resource	The term Inferred Mineral Resource refers to that part of a Mineral Resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.

Qualified Person[1]	The term Qualified Person refers to an individual who is an engineer or geoscientist with at least five years of experience in mineral exploration, mine development or operation or mineral project assessment, or any combination of these, and has experience relevant to the subject matter of the mineral project, and the technical report and is a member in good standing of a professional association.

SEC Industry Guide 7 Definitions

Reserve	The term Reserve refers to that part of a mineral deposit that could be economically and legally extracted or produced at the time of the reserve determination. Reserves must be supported by a feasibility study[2] done to bankable standards that demonstrates their economic extraction (bankable standards implies that the confidence attached to the costs and achievements developed in the study is sufficient for the project to be eligible for external debt financing). A reserve includes adjustments to the in-situ tonnes and grade to include diluting materials and allowances for losses that might occur when the material is mined.
Proven Reserve	The term Proven Reserve refers to reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well-defined that size, shape, depth and mineral content of reserves are well established.
Probable Reserve	The term Probable Reserve refers to reserves for which quantity and grade and/or quality are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation.
Mineralized Material[3]	The term Mineralized Material refers to material that is not included in the reserve as it does not meet all of the criteria for adequate demonstration for economic or legal extraction.
Non-Reserves	The term Non-Reserves refers to mineralized material that is not included in the reserve as it does not meet all of the criteria for adequate demonstration for economic or legal extraction.

Exploration Stage	An Exploration Stage prospect is one that is not in either the development or production stage.
Development Stage	A Development Stage project is one that is undergoing preparation of an established commercially mineable deposit for ore extraction but that is not yet in production. This stage occurs after completion of a feasibility study.
Production Stage	A Production Stage project is actively engaged in the process of extraction and beneficiation of Mineral Reserves to produce a marketable metal or mineral product.

(1) SEC Industry Guide 7 does not require designation of a Qualified Person.

(2) For SEC Industry Guide 7 purposes, the feasibility study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified.

(3) This category is substantially equivalent to the combined categories of Measured Mineral Resource and Indicated Mineral Resource specified in NI 43-101.

Additional Definitions

assay a measure of the valuable mineral content.

bastnasite a mixed lanthanide fluoro-carbonate mineral (LaCO3F) that currently provides the bulk of the world's supply of the LREEs. Bastnasite and monazite are the two most common sources of cerium and other REEs. Bastnasite is found in carbonatites, carbonate rocks of igneous derivation.

beneficiation operations that concentrate and separate mineral values in ore from waste material, and typically include, but are not limited to, crushing, grinding, washing, filtration, and leaching.

cerium (Ce) a soft, silvery, ductile metallic element that easily oxidizes in air. Ce is the most abundant of the REEs and is found in a number of minerals, including monazite and bastnasite. Ce has two relatively stable oxidation states (Ce3+ and Ce4+), enabling both the storage of oxygen and its widespread use in catalytic converters. Ce is also widely used in glass polishing.

concentrate a mineral processing product that generally describes the material that is produced after crushing and grinding ore, effecting significant separation of gangue (waste) minerals from the desired metal and/or metallic minerals, and discarding the waste minerals. The resulting concentrate of minerals typically has an order of magnitude higher content of minerals than the beginning ore material.

critical rare earth elements (CREE) Nd, Eu, Dy, Tb and Y were identified by the U.S. Department of Energy (DOE) as critical in its 2011 Critical Materials Strategy Report. CREEs are those projected by the DOE to have the greatest economic importance for clean energy development and highest risk of supply disruption. The Company includes Pr as a CREE because of its use in conjunction with Nd in didymium as a raw material for high-intensity permanent magnets.

cut-off grade when determining economically viable Mineral Reserves, it is the lowest grade of mineralized material that qualifies as ore, i.e., that can be mined and processed at a profit.

didymium a mixture of the elements praseodymium and neodymium. It is used in safety glasses for glassblowing and blacksmithing, especially when a gas (propane) powered forge is used, where it provides a filter which selectively blocks the yellowish light at 589 nm emitted by the hot sodium in the glass, without having a detrimental effect on general vision, unlike dark welder's glasses.

dysprosium (Dy) a soft metallic element of the lanthanide series, mainly used in high-performance, permanent magnets. Dy has a high melting point and absorbs neutrons well. It is therefore also used in nuclear control rods to help control nuclear reactions. Dy is also used in laser materials.

europium (Eu) a very rare metallic element that is the softest member of the lanthanide series. It is used in making color television tubes and lasers and as a neutron absorber in nuclear research. It is desirable due to its photon emission. Excitation of the Eu atom, by absorption of electrons or by UV radiation, results in changes in energy levels that create a visible emission. Almost all practical uses of Eu utilize this luminescent behavior.

fault a surface or zone of rock fracture along which there has been displacement.

Feasibility Study (FS) a comprehensive study of a mineral deposit in which all geological, engineering, legal, operating, economic, social, environmental and other relevant factors are considered in sufficient detail that it could reasonably serve as the basis for a final decision by a financial institution to finance the development of the deposit for mineral production.

FMR mineralization that includes iron oxide, manganese oxide and rare earth elements.

formation a distinct layer or group of layers of sedimentary rock of similar composition and geological origin.

gadolinium (Gd) a malleable, ductile metallic element of the lanthanide series that has seven natural isotopes and 11 artificial isotopes. Two of the natural isotopes, Gd 155 and Gd 157, are the best known neutron absorbers. Gd is used to improve the heat and corrosion resistance of iron, chromium, and various alloys, in medicine as a contrast medium for magnetic resonance imaging and as a radioisotope in bone mineral analysis.

geochemical related to the distribution and amounts of the chemical elements in minerals, ores, rocks, solids, water and the atmosphere.

geophysical related to the mechanical, electrical, gravitational and magnetic properties of the earth's crust.

geophysical surveys survey methods used in the mining industry as exploration tools that apply the properties and methods of physics and engineering to the earth's surface and subsurface.

grade quantity of metal per unit weight of host rock.

heavy rare earth elements (HREEs) defined as the elements Tb, Dy, Ho, Er, Tm, Yb, Lu and Y.

host rock the rock in which a mineral or an ore body is contained.

Lanthanides a series of fifteen metallic chemical elements with atomic numbers 57 through 71, from lanthanum through lutetium. These fifteen lanthanide elements, along with the chemically similar elements scandium and yttrium, are often collectively known as the rare earth elements.

lanthanum (La) the first metallic element of the lanthanide series. La is a strategically important rare earth element due to its use in fluid cracking catalysts (FCC), which are used in the production of transportation and aircraft fuel. La is also used in fuel cells and batteries.

life-of-mine a term commonly used to refer to the likely term of a mining operation and normally determined by dividing the tonnes of Mineral Reserve by the annual rate of mining and processing.

light rare earth elements (LREEs) defined as the elements La, Ce, Pr, Nd, Pm, Sm, Eu and Gd.

mineral a naturally occurring, inorganic crystalline material having a definite chemical composition.

mineralization a natural accumulation or concentration of one or more potentially economic minerals in rocks or soil. Also the process by which minerals are introduced or concentrated in rocks or soil.

monazite a reddish-brown rare earth phosphate mineral. Monazite-group minerals are typically accompanied by elevated concentrations of uranium and thorium. This has historically limited the processing of monazite. However, this mineral is becoming more attractive because it typically has elevated concentrations of heavier rare earth elements.

National Instrument 43-101 (NI 43-101) standards of disclosure for mineral projects prescribed by the Canadian Securities Administrators.

neodymium (Nd) a metallic element of the lanthanide series, occurring principally in REE fluorocarbonate and monazite minerals. Nd is a key constituent of NdFeB permanent magnets and an additive to capacitor dielectrics. NdFeB magnets maximize the power/weight ratio and are found in a large variety of motors, generators, sensors, and hard disk drives. Capacitors containing Nd are found in cellular telephones, computers and nearly all other electronic devices. A minor application of Nd is for lasers.

open pit surface mining in which the ore is extracted from a pit or quarry. The geometry of the pit will vary with the characteristics of the ore body.

ore mineral-bearing rock that can be mined and treated profitably under current, or immediately foreseeable, economic conditions.

ore body a mostly solid and fairly continuous mass of mineralization estimated to be economically mineable.

ore grade the average weight of the valuable metal or mineral contained in a specific weight of ore, i.e., 1.5% REO/tonne.

oxide for purposes of the deposits found at the Bear Lodge Property, rare earth bearing mineralized material that results from the complete oxidation by natural processes of sulfide-bearing material.

p.a. per annum.

preliminary economic assessment (PEA) a study that includes an economic analysis of the potential viability of Mineral Resources taken at an early stage of the project prior to the completion of a preliminary feasibility study.

praseodymium (Pr) a metallic element that constitutes about 4% of the lanthanide content of bastnasite and has a few specific applications, based mainly on its optical properties. It is a common coloring pigment, and is used in photographic filters, airport signal lenses, and welder's glasses. Because it chemically and magnetically is so similar to its periodic chart neighbors Nd and La, it is typically found in small amounts in applications where Nd and La are popular, such as NdFeB magnets and catalysts. These latter applications are actually the largest uses for Pr because the magnet and catalyst markets are so large. Thus Pr plays an important role in extending the availability of the more popular Nd and La.

preliminary feasibility study or **pre-feasibility study (PFS)** each mean a comprehensive study of the viability of a mineral project that has advanced to a stage where the mining method, in the case of underground mining, or the pit configuration, in the case of an open pit, has been established and an effective method of mineral processing has been determined. It includes a financial analysis based on reasonable assumptions of technical, engineering, legal, operating, economic, social, and environmental factors and the evaluation of other relevant factors that are sufficient for a qualified person, acting reasonably, to determine if all or part of the Mineral Resource may be classified as a Mineral Reserve under NI 43-101 standards.

rare earth elements (REE) a group of metallic elements with unique chemical, catalytic, magnetic, metallurgical and phosphorescent properties.

rare earth oxide (REO) the oxide form of REE.

RC (reverse circulation) drilling a rotary drilling method using either a hammer or a tri-cone bit to produce rock cuttings that are forced upward from the bottom of the drill hole to the surface through an outer tube, using liquid and/or air pressure moving downward through an inner tube.

recovery the percentage of contained metal actually extracted from ore in the course of processing such ore.

samarium (Sm) a metallic element of the lanthanide series predominantly used to produce Sm cobalt magnets. Although these magnets are slightly less powerful than NdFeB magnets at room temperature, Sm cobalt magnets can be used over a wider range of temperatures and are less susceptible to corrosion.

sampling and analytical variance/precision an estimate of the total error induced by sampling, sample preparation and analysis.

stockwork complex system of structurally controlled or randomly oriented veins that can be standalone ore bodies or occur on the periphery of larger veins. They are also referred to as *stringer zones*.

strike the direction or trend that a structural surface, e.g., a bedding or fault plane, takes as it intersects the horizontal.

strip to remove overburden in order to expose ore.

sulfide a mineral combining sulfur and base metals, such as iron and less commonly copper, lead, zinc and/or molybdenum; metallic sulfur-bearing mineral associated with primary REE mineralization.

tailings fine ground waste material produced from ore in the process of recovering metals or minerals.

total rare earth oxide (TREO) refers to the sum total of REO present in a deposit.

vein a sheet-like body of mineralized rock. On many properties, veins may consist largely of quartz gangue. However, on the Bear Lodge Property, veins can contain a variable assemblage that includes, but is not limited to, gangue minerals like iron and manganese oxides, quartz, calcite, clay, apatite and/or potassium feldspar with or without ore minerals.

PART I

ITEM 1. BUSINESS

CORPORATE BACKGROUND

Rare Element was incorporated under the laws of the Province of British Columbia, Canada, on June 3, 1999 as Spartacus Capital Inc. Our executive office is located at 225 Union Blvd., Suite 250, Lakewood, Colorado 80228. The telephone number for our executive office is (720) 278-2460. We maintain a corporate website at www.rareelementresources.com.

Effective October 8, 1999, we completed our initial public offering of 1,500,000 common shares at CDN$0.20 per share, raising CDN$300,000. The common shares began trading on the predecessor exchange to the TSX Venture Exchange (TSX-V) in Canada on November 15, 1999 under the symbol SCI.

Originally organized as a capital pool company whose activities were focused on the identification and completion of a qualifying transaction as required by the rules of the TSX-V, we transitioned to a venture company on July 25, 2003, coincident with (1) the completion of a reverse takeover acquisition of Rare Element Holdings Ltd. (the qualifying transaction), (2) a name change of Spartacus Capital, Inc., to Rare Element Resources Ltd., and (3) the completion of a CDN$551,000 private placement. Rare Element Holdings Ltd. s main asset, through its wholly-owned subsidiary, Rare Element Resources, Inc., a Wyoming corporation, is the 100% interest in a group of unpatented mining claims and adjacent property owned in fee, together known as the Bear Lodge Property.

On December 20, 2004, our authorized share capital was changed from 100,000,000 common shares to an unlimited number of common shares without par value. Our common shares began trading on the NYSE MKT on August 18, 2010 under the symbol REE. On May 27, 2011, we graduated from a listing on the TSX-V to the Toronto Stock Exchange (TSX) and trade under the symbol RES. As of December 31, 2014, there were 47,707,216 common shares issued and outstanding.

SUBSIDIARIES

We have one direct wholly-owned subsidiary, incorporated under the laws of British Columbia, Canada, on July 12, 1996 under the name Rare Element Holdings Ltd. That subsidiary has one direct wholly owned subsidiary, Rare Element Resources, Inc., incorporated on August 21, 1997 in the state of Wyoming, USA, formerly known as Paso Rico (USA), Inc.

DESCRIPTION OF BUSINESS

Rare Element is focused on advancing the Bear Lodge REE Project located near the town of Sundance in northeast Wyoming on the Bear Lodge Property. The Bear Lodge REE Project consists of a large, disseminated REE deposit and a proposed hydrometallurgical plant to be located near Upton, Wyoming. The REE deposit is the second highest grade REE deposit identified in North America and one of the highest grade known Eu deposits in the world. In addition, the Bear Lodge REE Project has a favorable distribution of the remaining CREEs. At present, we are undertaking advanced engineering, process confirmation, geological modeling and technical studies while working toward obtaining the necessary permits that will enable us to develop the Bear Lodge REE Project with the intent of commissioning the project as early as mid- 2017, subject to permitting, financing and other factors.

The Bear Lodge REE Project deposit is located near excellent mining infrastructure, including good road access and a power line within two kilometers of the property. The project site is 100 kilometers east of Gillette, Wyoming, a major infrastructure, support and logistics center for coal mines in the Powder River Basin that should provide for ready access to the required production supplies and materials as well as skilled labor. The deposit site is also situated 64 kilometers from the nearest railhead at Upton, Wyoming, allowing access to major distribution channels from the proposed hydrometallurgical plant. The Bear Lodge REE Project has favorable community acceptance, and Wyoming is one of the top-ranked mining jurisdictions globally (based on the Fraser Institute s 2015 ranking of 122 jurisdictions).

Further description of the Bear Lodge REE Project and the Bear Lodge Property is included under the section heading Item 2. Properties in this Annual Report.

RECENT CORPORATE DEVELOPMENTS

Accomplishments in 2014

2014 was a year of significant advancements for Rare Element and its Bear Lodge REE Project on a number of critical fronts. The Company achieved a number of major milestones, including:

§

Finalized the update of the PFS on the Bear Lodge REE Project which indicates a 45-year project life. The economics reflect the benefits of the project s location in northeast Wyoming and the deposit s rich concentration of those REEs essential to critical magnet materials and high-demand phosphors.

§

Initiated the Environmental Impact Statement (EIS) under National Environmental Policy Act (NEPA) process. The U.S. Forest Service (USFS), with support from the Company, started the process in February 2014 and held a public scoping meeting in April. Alternatives identification and assessment is underway, with some sections of the draft EIS already completed.

§

Completed an approximately 70-meter trench on the Bull Hill mineralization that confirmed the location and trending of the high-grade zone that is planned to be the source of initial feed for the project. Excavated a 907-tonne bulk sample to be used for large-scale test work. The bulk sample has an average total rare earth (TREO) grade that exceeds 10%.

§

Significantly improved patent-pending recovery process technology and initiated test work on downstream elemental separation. Improvements resulted in the filing of two additional patent applications. Advancements included:

*

In January 2014, announced the ability to selectively isolate and economically remove nearly all of the naturally occurring thorium in the mineralization.

*

In November 2014, completed test work on improvements to this technology that eliminated thorium while greatly reducing the amount of cerium, the lowest value rare earth, in the concentrate. This advancement resulted in improved purity (99.999% in bench-scale testing) and reduced the mass of material that would go through further separation, which is expected to reduce the associated costs.

*

Bench-scale tested a post-recovery process on the concentrate that effectively separated the concentrate into light and heavy rare earth fractions.

§

Joined the Critical Materials Institute (CMI), a major initiative sponsored by the DOE and committed to ensuring a secure supply of the rare earths necessary to support evolving green technologies. Rare Element became one of only seven industry participants (and the second REE company), along with several national laboratories and research universities.

Plans for 2015

We plan to advance the Bear Lodge REE Project during 2015, including the following tasks and initiatives:

.

Continue to support the USFS s efforts to prepare an Environmental Impact Statement (EIS) on the project in accordance with the National Environmental Policy Act process. The draft EIS is currently anticipated in the second half of 2015. The final EIS and draft record of decision (ROD) are expected in early 2016, with the final ROD anticipated in the first half of 2016.

.

Submit applications for mine and industrial siting permits to the Wyoming Department of Environmental Quality. These tasks are dependent upon completion of the alternative assessment portion of the EIS.

.

Test additional elemental separation methods directed at creating product baskets that meet end-users specific needs and maximize product value to the Company.

.

Initiate engineering studies, including rheology studies, final geotechnical confirmation of waste rock and tailings characteristics to support the next phase of engineering for inclusion in the FS.

.

Exercise responsible cash management, while seeking additional funding sources to finance construction of a planned demonstration plant and ensure continued timely progress toward project construction.

.

Continue to cultivate relationships with potential off-take partners, including supplying upgraded product samples and providing project progress updates.

.

Design planned demonstration plant.

.

Initiate the FS, pending Board approval, incorporating PFS information, project budgets, schedules and other information.

Certain planned activities and potential strategic initiatives are subject to additional financing and other factors including:

.

Construction of the planned demonstration plant.

.

Confirmation of positive results of rare earth separation test work done to date in larger-scale pilot plant testing.

.

Submission of application for a license to possess [radioactive] source material to the U.S. Nuclear Regulatory Commission. This task is dependent upon completion of the alternative assessment portion of the EIS.

TRENDS AND DESCRIPTION OF THE REE MARKET

Uses for REE products

REEs are used in computers, cellular telephones, TV screens, wind turbines, fuel cells, magnetic refrigeration technologies, fluorescent and LED lights, petroleum-refining catalysts and numerous other modern specialty technologies. REEs are also used in hybrid-electric vehicles and all-electric vehicles, many of which contain REE-bearing nickel-metal-hydride batteries and REE super magnets within electrical motors and generators. Prices of REEs are affected by the supply and demand fundamentals of the market.

Trends affecting supplies of REE products

Global REE supply continues to be dominated by production from China, which produced an estimated 85% of the world s REE output in 2014, according to the Industrial Minerals Company of Australia Pty Ltd (IMCOA) and Curtin University. Over the past nine years China has reduced its export quotas for REEs by more than half (with a marked reduction in the summer of 2010) and increased related export taxes. The quota reductions resulted in significantly higher REE prices beginning in 2010, when quotas were reduced by approximately 40%. Since then, the slowdown in global economic growth, coupled with decreased demand due to elevated REE prices in 2010 and 2011 and significant supply from accumulated REE stockpiles, caused dramatic REE price declines from 2012 through 2014. Chinese export quotas for 2014 were set at a roughly equivalent level with those of 2013.

After an initial adverse ruling from the World Trade Organization (WTO) in March 2014, and an affirmation of that ruling against China s trade practices on appeal in August 2014, China abolished export quotas as of January 1, 2015, on rare earths, tungsten and molybdenum. The quotas have been replaced by an export licensing system that many industry sources believe will continue and perhaps even tighten China s control over REE exports. The WTO ruled against the Chinese in a case brought by the U.S., Europe and Japan alleging that China s export quotas and export taxes on rare earths violated global trade rules. China argued unsuccessfully that the quotas and taxes were needed to protect its environment and to conserve its resources, while the plaintiffs complained that the restrictions gave Chinese domestic producers an unfair competitive advantage. China has left its export taxes in place at least until early May 2015, but is reported to be working on an alternative system to achieve its objectives while still complying with WTO rules. It is expected that such a system will include imposition of a domestic, ad valorem, resource tax on REE production.

12

Global supply and demand for rare earths were estimated to be approximately in balance in 2014, based on official statistics, with continued increases in non-Chinese production from Mt. Weld (Australia) and Mountain Pass (California) offsetting slightly reduced exports from China. However, recent estimates that annual illegal mine production of rare earths in China, where environmental concerns continue to grow, might be as much as 30,000-40,000 metric tonnes (25%-30% of global supply) suggest that the REE market was in oversupply, with that condition likely to continue into 2015. Certainly, the continued gradual decline of rare earth prices in 2014 indicates that REE consumers continue to find the needed rare earths readily available.

Chinese official domestic REE production is expected to increase at a rate of more than 8.5% per year from 2014 to 2017, while illegal mining is forecast to decrease by about half of the tonnage increase implied by that growth rate, as the government s measures to consolidate the rare earth industry and curtail illegal mining progress. These two factors together imply a future overall growth rate of around 4% for domestic Chinese production. Rare earths production in the rest of the world, though only 15% of estimated production, is expected to grow at a faster rate as Lynas Corporation s (Lynas) and Molycorp s operations continue to ramp up toward their design capacity. In the quarter ended December 31, 2014, Lynas reached approximately 80% of its design production capacity of 11,000 tonnes per annum. Based on Molycorp s fourth quarter 2014 production report, although production improved significantly, the company continues to struggle with ongoing operating problems, leaving its REE production far below its annual design capacity of 19,050 tonnes. Given their collective design capacity relative to the global market, whether Lynas and Molycorp can resolve their operating and financial difficulties could have a significant impact on future rare earths supply and pricing dynamics.

Industry forecasts indicate that the overall REE market might be oversupplied for the next few years (largely based on illegal mining in China). It is expected that certain REE elements (particularly Ce and La) will represent the largest portion of this oversupply, while other elements may be more in balance or even in deficit, particularly magnet materials and HREEs. Market observers cite magnet materials especially as being at risk of short supplies in the near- to medium-term future.

As a result of increased investment in the REE industry outside of China since 2009, there are several new and refurbished REE projects that are being developed that could add to the non-Chinese supply of rare earths over the next two to five years. New production began to ramp up beginning in 2013 and is expected to continue through 2015. Some market observers believe that this new production may have a negative impact on the pricing of some REE products, especially the LREEs of La and Ce. We believe that current rare earth prices and the present lack of capital available for new rare earth projects are likely to temper this anticipated production growth. According to an IMCOA report dated December 2014 (the IMCOA Report), REE total supply is forecasted to increase from 171,000 tonnes in 2014 to 242,500 tonnes in 2017.

Trends affecting demand of REE products

The global economy plays a key role in the continuation and pace of increased demand for REEs. If the global economy experiences a prolonged period of slow growth, then the projected increase in REE product demand may not occur at the pace expected. In addition, the spike in REE prices in 2010 and 2011 to extremely high levels seems to have accel