

RARE ELEMENT RESOURCES LTD

Form ARS

October 31, 2011

ANNUAL REPORT TO SHAREHOLDERS

2011

TABLE OF CONTENTS

Letter From The President

3

Our Management Team

7

Additional Information

10

Cautionary Note Regarding Forward-Looking Statements

10

Cautionary Note Regarding Mineral Estimates

11

Annual Report on Form 10-K

Attached

Letter from the President

Donald E. Ranta President, CEO, & Director

Dear Shareholders,

The past year has been exciting on numerous fronts with many significant milestones achieved at Rare Element Resources. With our Preliminary Feasibility Study in progress, the Company is positioned to advance quickly and help meet the rare-earth needs of the western world. It was a year of historic changes in the rare-earth industry, with modern-era record high prices resulting from China's continuing reductions in exports of rare-earth commodities.

The milestones reached in advancing the Bear Lodge rare-earth project and the Sundance gold project this past year include:

.
Completion of the Preliminary Economic Assessment (PEA or Scoping Study) with positive results in November, 2010

.
Completion of a \$57.5 million financing in December, 2010

.

Completion of the third updated rare-earths resource estimate that resulted in defining Indicated and Inferred resources in June, 2011

Completion of the first gold resource estimate for the Sundance gold project in March, 2011

Significant drilling completed on both the Bear Lodge and Sundance projects

Substantial progress made in advancing the metallurgical testing program

Discovery of areas enriched in higher value heavy rare-earth elements (REE) in two new targets plus the Whitetail Ridge resource, all located in the western half of the Bear Lodge rare-earth district

Rare-Earth Industry and Impact of China

Recognition of REEs as being vital and critical to the High Technology and Green Technology industries is now widely known. At the same time, China has been limiting its REE production and exports, causing rare earths to become a topic of international concern for many governments, manufacturing companies, and other end-users of the elements. The Green Technology revolution is one of the key drivers in the demand for REEs, and it is clear that demand will increase further as the clean technologies are implemented. Some of these technologies include hybrid and electric vehicles, advanced wind turbines, high-efficiency lighting, and solar panels.

China remains the predominant producer of rare earths with production of approximately 96% of the world's supply. However, now there are indications that the country is near its capacity to supply rare earths to the rest of the world. China has reduced its annual export quotas substantially over a seven year period and increased its export tariffs on REEs. As a result of a drastic reduction of Chinese export quotas beginning in July 2010 (70% decline for the second half of 2010 and overall 40% for the year), REE prices have exploded, rising 1000% to 3000%, depending on the element. Beginning in August 2011 REE prices, after having risen too fast and too high, have begun to decline, prompting more Chinese actions to keep prices high. REE prices remain at very high levels with most being up more than 1000% compared to historical average prices over the past four years. Share prices of all rare-earth companies have declined following the decline in REE prices.

Technical Achievements During the Past Year

One of the most significant achievements in advancing the Bear Lodge REE project was the completion of the Scoping Study/PEA on the Bull Hill deposits late last year. The results of this Scoping Study demonstrated that the Bear Lodge REE project can achieve favorable after-tax returns on invested capital and therefore warrants further investment to advance the project to a prefeasibility level of analysis. Increased rates of return were deemed potentially achievable through any combination of higher prices, increased product sales, higher resource/reserve grades, lower operating costs, or higher metal recoveries. We were very pleased with the economic results and have worked hard to steadily advance the project, primarily through significant drill programs on the most prospective areas in the Bear Lodge district. These results have been reported in numerous press releases throughout the past twelve months, and more will be forthcoming.

Through our active exploration team, we were able to provide resource estimates on both the Bear Lodge REE project and the Sundance gold project. The Bear Lodge project has an Indicated resource of 4.9 million tons averaging 3.77% REO (rare-earth oxide) and an Inferred resource of 17.8 million tons averaging 3.03% REO, and these are compliant with National Instrument 43-101 (a Canadian standard of disclosure). The Sundance Gold project has an Inferred gold resource of 76 million tons averaging 0.0125 opt for 947,000 ounces of gold. The REE resource estimate confirms that the Bear Lodge project has the second highest grade of any North American REE deposits, and it is one of the highest grade deposits in the world. Drilling on two of our gold targets resulted in the discovery of substantial heavy REE-enriched mineralization in targets that were subjected to further drilling this fall. Other key distinguishing characteristics of the Bear Lodge resources are their amenability to relatively simple and low-cost mineral concentration and chemical concentration, and their location near roads, skilled labor, low-cost power, railroads, and sources of inexpensive chemicals for hydrometallurgical processing.

Metallurgical testing programs indicate that processing of the Bear Lodge oxide zone REE mineralization is considered to be favorable with mineral concentration resulting in pre-concentrate grades ranging from 15 to 20% rare-earth oxide (REO) and 90% recovery of the contained REO. Favorable mineralogy (bastnasite and monazite) allows relatively simple chemical cracking of the pre-concentrate minerals and dissolution of all the REEs with recoveries of nearly 95%, and an overall recovery of 80-85%. A pilot plant test of more than 13 tons of high-grade and some lower-grade mineralization is currently in progress. The purposes of the pilot plant tests are to demonstrate the ability to scale-up from the previous bench-scale tests, to develop the design criteria for the Prefeasibility Study, and to produce significant quantities of bulk mixed REE carbonate concentrate for marketing.

Corporate Achievements During the Past Year

The Bear Lodge project continues to gain recognition as one of the world's best advanced-stage rare-earth deposits. Leveraging this recognition and a robust share price, a financing effort raised \$57.5 million (at \$9.25 per share) in December 2010. The financing increased the total funds held by the company to more than \$72 million in early 2011. Rare Element is one of the best financed mining companies in the rare-earth industry and has a project at the Preliminary Feasibility stage. We project that our cash reserves are sufficient to meet our operating plans for at least the next two years. Not only does this give us flexibility to pursue various financing options as we progress with the development of the Bear Lodge project, but also it makes the Company more attractive as an investment vehicle in the rare-earth space.

There were many additional corporate achievements during the past twelve months, including the following:

.
Commencement of trading of RES shares on the Toronto Stock Exchange (graduating from the TSX Venture exchange)

.
Listing of REE shares on the NYSE Amex stock exchange, which greatly increased volume and liquidity

.
Relocation of the corporate headquarters to new offices in Lakewood, Colorado, USA, and the opening of an exploration office near the project in Sundance, Wyoming

.
Significant increases in personnel that strengthen the development team including Jaye Pickarts, COO; David Suleski, CFO; George Byers, VP Government and Community Relations; and our long-time head of Rare Element s exploration Dr. James Clark, Vice President of Exploration

.
Strengthening of the Board of Directors through the addition of Paul Schlauch and naming Norman Anderson as Chairman of the Board

We appreciate the fantastic job done by our former CFO, Mark T. Brown, who will remain on the board and help guide the Company forward. We have a tremendous group of hardworking and very successful people dedicated to helping Rare Element Resources achieve its goals.

The Company has engaged in a series of meetings throughout Wyoming and in Washington DC with the state, the Congress, and the federal government to demonstrate how work is progressing to make the Bear Lodge rare-earth district the next primary REE producer in the western hemisphere. Activities have ranged from numerous briefings to

local and state agencies and legislative committees, to participation in studies conducted by the US Departments of Defense and Energy.

Plans for the Coming Year

Much additional work will be required in the continuing evaluation and advancement of the Bear Lodge rare-earths project. A considerable amount of additional exploration is necessary to fully evaluate the Bear Lodge rare-earth district, and more than half of the potential areas that may host high-grade mineralization remain to be tested. Our 2011 drilling program is similar in scope to that completed in 2010, and is making excellent progress in testing those areas identified as prospective after the 2010 program.

As we approach the year 2012, Rare Element is working to complete our Preliminary Feasibility Study on the Bear Lodge project and move the project ahead as quickly as possible, due both to the robust economics noted in the Scoping Study/PEA report, and to the strategic nature of the deposit. Our plan is to work towards a 2015 production date for REEs. During the remainder of 2011 and through 2012, we will focus on the following objectives:

.
Completion of the Prefeasibility Study early in 2012

.
Submission of a Plan of Operations to the US Forest Service early in 2012

.
Updating of the REE resource estimate in the spring of 2012 with expectations to upgrade more of the 11.7-million-ton oxide resources from the inferred category to the measured and indicated resource categories, and add to the total resources

Additional pilot plant testing of the bulk samples collected in the fall of 2011 for detailed design of a concentration plant and production of concentrate for marketing

Continuation of metallurgical work through 2011 with optimization of our current mineral processing to concentrate the rare-earth minerals, followed by chemical concentration to produce a potentially marketable REE concentrate product

Conduct testing on separation of individual rare-earth elements from our concentrate, and to create a preliminary design for a refinery that can produce separate REOs

Continue discussions with potential partners in off-take agreements and strategic relationships

Begin work on a Feasibility Study assuming positive results from the Prefeasibility Study

Although we have much to do before we reach our ultimate goal of operating a rare-earth mine in Wyoming, we were able to achieve many milestones during the past year. As we work on completing our Prefeasibility Study and beginning the 2012 program, we are very excited to continue working on what we believe is one of the best rare-earth projects in the world.

Sincerely,

Donald E. Ranta

President, CEO, & Director

Rare Element Resources Ltd.

OUR MANAGEMENT TEAM

OFFICERS

Donald E. Ranta, Ph.D., P.Geo.

President, CEO & Director

Donald Ranta is an exploration and development mining executive experienced in planning, implementing and directing successful exploration and acquisitions throughout North and South America and internationally. He is also a former president and board member of SME and is currently the Vice President, Finance and board member of AIME. He has successfully directed and led innovative exploration efforts resulting in the discovery, evaluation and/or acquisition of several major deposits including Montana's McDonald gold and Mexico's Santa Gertrudis gold ore bodies. He has also participated in the acquisition or discovery of a number of other gold deposits including Baja California's Paradones Amarillos, Idaho's Kiglore, Montana's Seven-Up Pete, Mexico's Dolores gold-silver, Burkina Faso's Youga gold and Russia's Kuranakh gold. In addition, he serves as a director of Animas Resources Ltd. and has been a Vice President of Exploration for Echo Bay Mines and Manager/Vice President for North American Exploration at Phelps Dodge Mining Company.

Jaye T. Pickarts, P.E.

Chief Operating Officer

Jaye Pickarts is a senior process engineer with more than 25 years of leadership in project management for project development, acquisitions, engineering design, permitting and reclamation, mine closure, water management, and process operations. He has extensive experience with projects in North and South America, Australia, Africa, and Kazakhstan. His mine operations experience includes supervisory, maintenance, and engineering positions working with precious metals, base metals, and industrial mineral companies, including test programs, capital and operating cost estimates, and start-up and operations assistance. He contributed to the Company's Scoping Study published in November 2010.

David Suleski, B.B.A.

Chief Financial Officer

David Suleski, a past Certified Public Accountant, has held senior financial roles at various international mining companies. Most recently, he was Vice President and Chief Financial Officer of Atna Resources Ltd., a TSX-listed company with an operating gold mine and several advanced stage gold exploration projects. In addition, Mr. Suleski has held financial and accounting positions with increasing levels of responsibility at diverse financial, accounting and mining companies including Arthur Young and Company, Coopers and Lybrand, Cyprus Amax Mineral Company, Pulte Mortgage, Apex Silver Mines Corporation and NM Rothschild & Sons (Denver) Incorporated.

Jim Clark, Ph.D

Vice President, Exploration

Jim Clark brings 30 years of industry experience to Rare Element Resources. He has planned, organized, and conducted all aspects of project exploration and target generation work as an employee and a consultant for a variety of mining companies, including Molycorp and Hecla Mining Company. Dr. Clark has a strong field orientation with extensive supervisory and project management experience in exploration programs for industrial minerals, precious and base metals, and specialty metals. He was

senior geologist, then exploration supervisor, for Hecla from 1986 -- 1992, and played a key role in identifying Rare Element Resources' current Bear Lodge REE resource and the property's underlying gold mineralization potential, now joint ventured with Newmont. Dr. Clark has extensive experience in exploration and academic studies of commodities related to alkaline igneous rocks, including REE's, Nb, and gold. He is the current owner and Chief Geologist of Applied Petrographics, a consulting company he formed in 1998 to provide petrographic and microanalytical services to the mining industry. Clients include Barrick Gold, Newmont Mining, Hecla Mining, AngloGold, and CVRD, as well as many smaller companies. He holds a Ph.D. in volcanic geology and igneous petrology from the University of Oregon, an M.S. in geological oceanography from Oregon State University, and a B.S. in geology from The Ohio State University. He is a licensed geologist in the state of Washington.

George G. Byers, M.A.

Vice President, Government and Community Relations

George Byers is a 35-year mining and energy industry veteran with extensive executive experience in federal, state and local government relations. He has worked extensively in a variety of settings including dealing with public policy issues involved with mineral exploration, project siting and development, land use and public affairs issues in the Western United States. He has been a consultant to the precious metals, rare earths, copper, and uranium industries on a variety of public and government issues. He began the Company's government and community relations initiative in the spring of 2010.

Winnie Wong

Corporate Secretary

Winnie Wong C.A received a Bachelor of Commerce Degree (Honours) from Queen's University in 1996 and is a member of the Institute of Chartered Accountants of British Columbia. She is currently Vice President of Pacific Opportunity Capital Ltd. Her role is to manage the financial administration team and to assist Pacific Opportunity Capital Ltd.'s management group on corporate finance projects. Prior to joining Pacific Opportunity Capital Ltd., Ms. Wong was the controller of Pivotal Corporation a company providing software, services and support to a variety of businesses. Between 1996 and 1999, Ms. Wong worked with Deloitte & Touche, Chartered Accountants.

DIRECTORS

M. Norman Anderson, P.Eng.

Director

Mr. Anderson has had a long and distinguished career in the mining industry. Since 1987 he has been an active consultant, with a focus on due diligence and evaluation for financial institutions and mining companies. Prior to this, he worked for Cominco during which time he spent a four-year period in an executive position with Amax Lead Zinc. Inc. In 1978 he became President and Chief Operation Officer, and in 1980 he assumed complete responsibility for Comincos business as Chairman and Chief Executive Officer. Mr. Anderson brings a wealth of experience in specialized metals to Rare Element.

Mark T. Brown, B.Comm., C.A.

Director

Mark Brown is president and director of Pacific Opportunity Capital Ltd. Headquartered in Vancouver, BC, Pacific Opportunity is a financial consulting and merchant banking firm active in venture capital markets in North America. Mr. Brown is also an officer and/or director of a number of public and private companies, including Almaden Minerals, Animas Resources, Avrupa Minerals, Pitchstone Exploration, and Tarsis Resources. His corporate activities include transactions, financings and corporate financial planning. Prior to joining Pacific Opportunity, Mr. Brown's background included managing financial departments of two TSE 300 mining corporations: Eldorado Gold and Miramar Mining. Mr. Brown has a Bachelor of Commerce from the University of British Columbia and became a Chartered Accountant while with PriceWaterhouseCoopers.

Norman Burmeister, P.Eng.

Director

Mr. Burmeister graduated from the Colorado School of Mines in Mining Geology in 1961 and has over 40 years of experience in the mining industry. He was Chief Geologist for Silver Standard Resources from 1965 to 1978. In 1980 he founded Bull Run Corporation and served as its Chairman and CEO until 1992. During that period Bull Run successfully found, explored and developed a significant gold mine in Elko County, Nevada.

Gregory McKelvey, Registered Professional Geologist, QP

Director

Mr. McKelvey, MS. Geol., has more than forty years of extensive, international experience in Latin America, Africa, and Europe in expanding responsibilities for significant mining companies such as Kennecott, Cominco, Homestake, and Phelps Dodge. He also acts as an Adjunct Faculty member at the University of Arizona in their International Center for Mining Health, Safety, and Environment and worked for the USGS in Latin America. He has also consulted for Lundin, Codelco, Phelps Dodge, Newmont Mining, Gerald Metals, and Quadra Mining. He is currently on the board of directors for Animas Resources, Avrupa Resources, Redhawk Resources and GWR Resources.

Paul Schlauch

Director

Mr. Schlauch has over 40 years of legal experience in the mining industry having recently retired as a partner of Holland & Hart, one of the leading law firms specializing in mining law in the United States. 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 associate with mining, exploration and development of operations. Additionally, 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. Mr. Schlauch is a past president of the Rocky Mountain Mineral Law Foundation and a past president of the International Mining Professionals Society as well as being an Adjunct Professor of Law at the University of Denver School of Law. He is also an Honorary Lecturer and Course Director on the Faculty of the Center for Energy, Petroleum and Minerals Law and Policy at the University of Dundee, Scotland.

ADDITIONAL INFORMATION

The Company's 2011 Annual Report on Form 10-K filed with the Securities and Exchange Commission is fully reproduced in this Annual Report to Shareholders. **You may obtain additional copies of the Annual Report on Form 10-K, including the financial statements and schedules but without exhibits, by writing to the Secretary of the Company at 225 Union Blvd, Suite 250, Lakewood, Colorado, 80228 or by email at ahite@rareelementresources.com.** The Company will provide these documents free of charge to shareholders of the Company. If requested, the Company will provide copies of the exhibits for a reasonable fee. The Company may require the payment of a reasonable charge from any person or corporation who is not a shareholder of the Company and who requests a copy of any such documents. Financial information relating to the Company is provided in the Company's comparative financial statements and management's discussion and analysis for its most recently completed financial year. Additional information relating to the Company is available electronically on SEDAR at www.sedar.com and on EDGAR at www.sec.gov/edgar.shtml.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The president's letter to shareholders contains forward-looking statements within the meaning of the U.S. Securities Act of 1933, as amended, and U.S. Securities Exchange Act of 1934, as amended, and forward-looking information within the meaning of Canadian securities laws. All statements, other than statements of historical facts, included in the president's letter that address activities, events or developments that the Company expects or anticipates will or may occur in the future, including such things as, estimates of mineral resources, timing for the completion of the Prefeasibility Study, the Company's ability to advance quickly to meet market demand for rare element resources, anticipated increased market demand for rare element resources, anticipated release of future drilling results, the timing and results of pilot plant processing tests, the sufficiency of the Company's cash reserves to sustain operations for two years, the anticipated timing for the submission of the Plan of Operations to the US Forest Service, the anticipated timing to update mineral resources, the potential to upgrade inferred resources to indicated resources, the timing and anticipated results of metallurgical testing, the timing and anticipated results of testing the separation of individual rare earth elements, the timing of testing a refinery to produce individual rare earth oxides, the production and timing of a Feasibility Study and other such matters are forward-looking statements and forward-looking information. When used in the president's letter, the words optimistic, potential, indicate, expect, intend, believe, may, will, if, anticipate, and similar expressions are intended to identify forward-looking statements and forward-looking information. These statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such statements. Such factors include, among others, uncertainty of resource estimates, estimates of results based on such resource estimates; risks relating to completing drilling, metallurgical, pilot plant and refinery testing; risks relating to cost increases for capital and operating costs; risks relating to delays in the completion of anticipated Prefeasibility Study, risks related to the timing and the ability to obtain the necessary permits for the Company's projects, risks of shortages and fluctuating costs of equipment or supplies; risks relating to fluctuations in the price of rare earth elements and gold; the inherently hazardous nature of mining-related activities; potential effects on the Company's operations of environmental

regulations; risks due to legal proceedings; as well as those factors discussed under the headings **Cautionary Note Regarding Forward-Looking Statements** and **Risk Factors and Uncertainties** in the Company's latest Annual Report on Form 10-K as filed on September 28, 2011, and other documents filed with the U.S. Securities and Exchange Commission and Canadian securities regulatory authorities. Although the Company has attempted to identify important factors that could cause actual results to differ materially from those described in forward-looking statements and forward-

looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. Except as required by law, the Company assumes no obligation to publicly update any forward-looking statements or forward-looking information; whether as a result of new information, future events or otherwise.

CAUTIONARY NOTE REGARDING MINERAL ESTIMATES

Without limiting the foregoing, the president's letter uses terms that comply with reporting standards in Canada and certain estimates are made in accordance with Canadian National Instrument NI 43-101 (NI 43-101). NI 43-101 is a rule developed by the Canadian Securities Administrators that establishes standards for all public disclosures an issuer makes of scientific and technical information concerning mineral projects. The president's letter uses the terms Indicated resource and Inferred resource . We advise U.S. investors that while these terms are recognized by Canadian regulations, these terms are not defined terms under the United States Securities and Exchange Commission's (the SEC) Industry Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. Inferred resources have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. Under Canadian rules, estimates of inferred mineral resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases. Investors are cautioned not to assume that all or any part of an inferred mineral resource exists or is economically or legally mineable. It cannot be assumed that all or any part of these mineral resources will ever be upgraded to a higher category. The SEC normally only permits issuers to report mineralization that does not constitute SEC Industry Guide 7 compliant reserves as in-place tonnage and grade without reference to unit measures. Under SEC Industry Guide 7 standards, a "final" or "bankable" feasibility study is required to report reserves, the three-year historical average price is used in any reserve or cash flow analysis to designate reserves and the primary environmental analysis or report must be filed with the appropriate governmental authority. U.S. Investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into SEC Industry Guide 7 reserves.

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

FORM 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended June 30, 2011
- OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 001-34852

RARE ELEMENT RESOURCES LTD.

(Exact Name of Registrant as Specified in its Charter)

British Columbia
(State of other jurisdiction of incorporation or
organization)

N/A
(I.R.S. Employer Identification No.)

225 Union Blvd., Suite 250
Lakewood, Colorado

80228

White Rock, British Columbia, Canada V4B 1E6
(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:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Shares, No Par Value	NYSE Amex

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 No

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 No

Indicate by checkmark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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 No

Indicate by checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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.

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 (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: As of December 31, 2010, the aggregate market value of the registrant's voting common stock held by non-affiliates of the registrant was \$631,905,111 based upon the closing sale price of the common stock as reported by the NYSE Amex.

The number of shares of the Registrant's Common Stock outstanding as of September 26, 2011 was 44,096,674

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 2011 Annual General Meeting of Shareholders are incorporated by reference to Part III of this Annual Report on Form 10-K.

TABLE OF CONTENTS

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

1

PRELIMINARY NOTES

3

CAUTIONARY NOTE TO U.S. INVESTORS

4

PART I

5

ITEM 1.

DESCRIPTION OF BUSINESS

5

ITEM 1A.

RISK FACTORS AND UNCERTAINTIES

10

ITEM 1B.

UNRESOLVED STAFF COMMENTS

20

ITEM 2.

DESCRIPTION OF PROPERTIES

21

ITEM 3.

LEGAL PROCEEDINGS

43

ITEM 4.

[REMOVED AND RESERVED].

43

PART II

44

ITEM 5.

MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND
ISSUER PURCHASES OF EQUITY SECURITIES

44

ITEM 6.

SELECTED FINANCIAL DATA

49

ITEM 7.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF
OPERATIONS

50

ITEM 7A.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

62

ITEM 8.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

63

ITEM 9.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

89

ITEM 9A.

CONTROLS AND PROCEDURES

89

ITEM 9B.

INFORMATION

90

PART III

90

ITEM 10.

DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

90

ITEM 11.

EXECUTIVE COMPENSATION

90

ITEM 12.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT RELATED

STOCKHOLDER MATTERS

90

ITEM 13.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

91

ITEM 14.

PRINCIPAL ACCOUNTING FEES AND SERVICES

91

PART IV

91

ITEM 15.

EXHIBITS, FINANCIAL STATEMENT SCHEDULES

91

SIGNATURES

92

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K and the exhibits attached hereto contain forward-looking information within the meaning of Canadian securities legislation and forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 (collectively, forward-looking statements). Such forward-looking statements concern the Company's anticipated results and developments in the Company's operations in future periods, planned exploration and development of its properties, plans related to its business and other matters that may occur in the future. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management.

Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as expects or does not expect, is expected, anticipates or does not anticipate, plans, estimates or stating that certain actions, events or results may, could, would, might or will be taken, occur or be achieved) statements of historical fact and may be forward-looking statements. Forward-looking statements in this Annual Report on Form 10-K, include, but are not limited to:

.
The progress, potential and uncertainties of the Company's 2011 rare-earth drill program, metallurgical testing and 2011 gold exploration drilling program at the Bear Lodge Property;

.
The potential and expectations set out in the NI 43-101 Mineral Resource Reports and the Preliminary Economic Assessment on the Bear Lodge Property;

.
The success of getting the necessary permits for the drill programs and future project development;

.
Expectations regarding the ability to raise capital and to continue its exploration and development plans on its properties;

.
Plans to complete an updated mineral resource estimate and the Preliminary Prefeasibility Study level of analysis; and

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

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

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risks related to the Company’s history of losses and need for additional financing;

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risks associated with the Company’s lack of history of producing metals from its mineral properties;

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risks associated with increased costs affecting financial condition;

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risks associated with a shortage of equipment and supplies;

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risks associated with mining and resource exploration being an inherently dangerous activity;

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risks associated with operating in the resource industry, which is highly speculative;

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risks associated with the Company’s lack of known reserves;

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risks associated with resource estimates;

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risks associated with material changes in mineral resource estimates;

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risks associated with the difference in U.S. and Canadian practices for reporting reserves and resources;

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risks associated with the Company's lack of insurance for its operations;

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risks associated with mineral operations being subject to market forces outside of the Company's control;

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risks associated with the permitting, licensing and approval processes for the Company's operations;

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risks associated with the governmental and environmental regulations;

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risks associated with future legislation regarding the mining industry and climate change;

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risks associated with the Company's land reclamation requirements;

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risks related to competition in the mining and rare earth elements industries;

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risks related to joint ventures and partnerships;

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risks related to foreign currency fluctuations;

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risks related to the Company's dependence on key personnel;

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risks related to the potential difficulty of attracting and retaining qualified personnel;

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risks related to the Company's executive officers and directors being engaged in other businesses;

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risks related to title in the Company's properties;

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risks related to enforcement of civil liabilities in the United States;

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risks related to the Company's securities; and

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risks associated with tax consequences to U.S. shareholders.

This list is not exhaustive of the factors that may affect the Company's 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. Description of the 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 the Company has 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 materially from those anticipated, believed, estimated or expected. The Company cautions 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, the Company disclaims any obligation subsequently 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. **The Company qualifies all the forward-looking statements contained in this Annual Report by the foregoing cautionary statements.**

PRELIMINARY NOTES

As used in this Annual Report on Form 10-K (Annual Report), references to Rare Element , the Company, we, us mean Rare Element Resources Ltd., its predecessors and consolidated subsidiaries, or any one or more of them, as the context requires.

Change of Reporting Status

Effective July 1, 2011, Rare Element ceased to be a foreign private issuer as defined in Rule 3b-4 of the Securities Exchange Act of 1934, as amended (the Exchange Act), and became subject to the rules and regulations under the Exchange Act applicable to domestic issuers. As a result, we are required to prepare and file this Annual Report on Form 10-K for the fiscal year ended June 30, 2011, whereas our Annual Reports were previously filed on Form 20-F.

Financial and Exchange Rate Information

In this Annual Report, unless otherwise specified, all dollar amounts are expressed in United States Dollars (US\$ or (\$). The Government of Canada permits a floating exchange rate to determine the value of the Canadian Dollar (CDN\$) against the United States Dollar.

The following table sets forth the exchange rates for the Canadian Dollar for the last five fiscal years ended June 30th. The average rates for the periods, the range of how and low rates for the periods and the closing values for the periods are disclosed. The data for each month during the most recent six months is also provided.

For purposes of this table, the rate of exchange means the noon exchange rate as reported by the Bank of Canada on its web site at www.bankofcanada.ca. The table sets forth the number of Canadian Dollars required under that formula to buy one United States Dollar. The average rate means the average of the noon exchange rates on each day of each month during the period as reported by the Bank of Canada.

Period	Average	High	Low	Close
September 2011 (through September 26, 2011)	1.00	1.04	0.98	1.03
August 2011	0.98	0.99	0.96	0.98
July 2011	0.96	0.97	0.94	0.95
June 2011	0.98	0.99	0.96	0.96
May 2011	0.97	0.98	0.95	0.97
April 2011	0.96	0.97	0.95	0.95
March 2011	0.98	0.99	0.97	0.97
Fiscal Year Ended 6/30/2011	1.00	1.07	0.94	0.96

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Fiscal Year Ended 6/30/2010	1.07	1.16	1.01	1.16
Fiscal Year Ended 6/30/2009	1.17	1.30	1.00	1.16
Fiscal Year Ended 6/30/2008	1.01	1.08	0.92	1.02
Fiscal Year Ended 6/30/2007	1.13	1.19	1.06	1.06

Financial information is presented in accordance with generally accepted accounting principles (GAAP) in the United States (US GAAP) which do not differ in any material respects from GAAP in Canada.

CAUTIONARY NOTE TO U.S. INVESTORS

The technical information in this Annual Report on Form 10-K and incorporated by reference herein has been prepared in accordance with the requirements of the securities laws in effect in Canada, which differ from the requirements of United States securities laws. The terms mineral reserve, proven mineral reserve and probable mineral reserve are Canadian mining terms as defined in accordance with Canadian National Instrument 43-101 Standards of Disclosure for Mineral Projects (NI 43-101) and the Canadian Institute of Mining, Metallurgy and Petroleum (the CIM) - *CIM Definition Standards on Mineral Resources and Mineral Reserves*, adopted by the CIM Council, as amended. These definitions differ from the definitions in United States Securities and Exchange Commission (SEC) Industry Guide 7 under the United States Securities Act of 1993, as amended (the Securities Act). Under SEC Industry Guide 7 standards, a final or bankable feasibility study is required to report reserves, the three-year historical average price is used in any reserve or cash flow analysis to designate reserves and the primary environmental analysis or report must be filed with the appropriate governmental authority.

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

Accordingly, information contained in this Annual Report on Form 10-K and the documents incorporated by reference herein contain descriptions of our mineral deposits that may not be comparable to similar information made public by U.S. companies subject to the reporting and disclosure requirements under the United States federal securities laws and the rules and regulations thereunder.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Corporate Background

Rare Element Resources Ltd. was incorporated under the laws of the Province of British Columbia, Canada, on June 3, 1999 as Spartacus Capital Inc. On July 25, 2003, the Company's name was changed to Rare Element Resources Ltd. 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 also maintain an administrative office in Canada at 325 Howe Street, Suite 410, Vancouver, British Columbia, Canada V6C 1Z7. We maintain a website at www.rareelementresources.com.

Our common shares are traded on the Toronto Stock Exchange (the "TSX") under the symbol "RES" and on the NYSE Amex under the symbol "REE". The Company's common shares are also traded on the Deutsche Brose (Berlin), Frankfurt, and XETRA Stock Exchanges.

The authorized capital of the Company consists of an unlimited number of common shares without par value. As of June 30, 2011, the end of the latest completed fiscal year, there were 44,076,674 common shares issued and outstanding. On the date of this Form 10-K, there were 44,096,674 common shares issued and outstanding.

History

Originally organized as a venture capital pool company whose activities were focused on the identification and completion of a qualifying transaction on the TSX Venture Exchange ("TSX-V"), the Company transitioned to a venture company on July 25, 2003, coincident with the completion of its qualifying transaction, the reverse takeover ("RTO") acquisition of Paso Rico Resources Ltd. (subsequently known as Rare Element Holdings Ltd.) and 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. (previously known as Paso Rico (USA), Inc. ("RER, Inc.")), is the 100% interest in a group of unpatented mineral claims and one leased state section, together known as the Bear Lodge Property which contains two exploration projects: the Bear Lodge rare earth element ("REE") project ("Bear Lodge REE Project") and the Sundance gold project ("Sundance Gold Project"). Effective December 20, 2004, the Company's authorized share capital was changed from 100,000,000 common shares to an unlimited number of common shares without par value.

Effective October 8, 1999, the Company completed its initial public offering of 1,500,000 common shares at \$0.20 per share, raising \$300,000. The common shares began trading on the TSX-V in Canada on November 15, 1999 under the symbol SCI , and on the NYSE Amex on August 18, 2010 under the symbol REE . On May 27, 2011, the Company graduated from listing on the TSX-V to the TSX and trades under the symbol RES .

Subsidiaries

The Company has one wholly-owned subsidiary, incorporated under the laws of British Columbia, Canada, on July 12, 1996 under the name Paso Rico Resources Ltd. which subsequently changed its name to Rare Element Holdings Ltd. on April 1, 2011. That subsidiary has one wholly-owned subsidiary, Paso Rico (USA) Inc., incorporated on August 21, 1997 in the State of Wyoming, USA which subsequently changed its name to Rare Element Resources, Inc. on February 28, 2011.

Narrative Description of Business

The Company's business is the acquisition, exploration and development of mineral properties. The Company's principal property is the Bear Lodge Property located in northeastern Wyoming, USA. This property contains the Bear Lodge REE Project, a large disseminated REE deposit, as well as the Sundance Gold Project, extensive gold occurrences.

The Bear Lodge Property was acquired through the July 2003 reverse-takeover acquisition of Rare Element Holdings Ltd. (formerly Paso Rico Resources Ltd.), which originally had an option to acquire full ownership of the property through exploration expenditures on the property before the reverse-takeover by Rare Element, and had obtained 100% ownership in September 2002.

The Company is exploring the Bear Lodge REE Project and, as of June 30, 2011, had expended \$11,261,353 on exploration.

In June 2006, the Company optioned the Sundance Gold Project to Newmont North America Exploration Limited (Newmont) whereby Newmont had the right to earn a 65% participating interest in the Sundance Gold Project by spending \$5 million on property exploration by 2011. The option agreement was terminated on May 14, 2010, resulting in the Company retaining ownership of 100% of its Sundance Gold Project including a group of unpatented claims on land originally held by Newmont only. Newmont expended approximately \$2.85 million on the exploration of the Sundance Gold Project. The Company is also exploring the Sundance Gold Project and, as of June 30, 2011, had expended \$1,242,391 on exploration.

The Eden Lake property in Manitoba, Canada (Eden Lake Property) was acquired on October 30, 2009 for 300,000 common shares and the seller's retention of a 3% net smelter royalty. On February 23, 2010, the Company granted Medallion Resources Ltd. (Medallion) the right to earn a 65% interest in the Eden Lake Property. Subsequent to June 30, 2011, Medallion dropped its option right and returned the property to the Company.

The Nuiklavik property in Labrador, Canada (Nuiklavik Property) was acquired by the Company on January 6, 2010 for 200,000 common shares and the seller retaining a 2% gross overriding royalty.

Further description of the acquisition of the above properties is included under the section heading Item 2. Description of Properties in this Annual Report.

Recent Corporate Developments

The following significant corporate developments occurred during our fiscal year ended June 30, 2011:

Incorporated the 2010 REE drilling program results into an updated mineral resource and announced an upgraded and increased NI 43-101 compliant mineral resource estimate on June 14, 2011.

Completed the 2010 drilling program on the Bear Lodge REE Project in November 2010. The drilling included 61 drill holes and an additional 40 large diameter core holes. The 40 large diameter core holes provided a bulk sample for pilot-plant testing.

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Advanced a preliminary REE metallurgical recovery process in July 2010, with 80 percent estimated recoveries of rare-earth elements from the Bear Lodge REE Project with a goal to produce a 42-45 percent rare-earth-oxide (“REO”) concentrate.

Completed a Preliminary Economic Assessment, in compliance with the NI 43-101, which shows positive economics using 3-year trailing average prices for rare-earth concentrates.

Collected an 8.8 ton sample of REE mineralized material with the 40 large diameter core holes and additional bulk sample material excavated to be used in a pilot plant test in 2011.

Completed a 34-hole gold-focused drilling program in November 2010 on the Sundance Gold Project focusing on three main gold targets. The targets provided the highest gold grades found to date. Filing of the Company’s first NI 43-101-compliant inferred mineral resource estimate reported 947,000 ounces of gold in these three deposits contained in 69.3 million metric tonnes averaging 0.42 g Au/t using a 0.15 g/t cutoff grade.

Discovery of heavy rare earths enriched mineralization at Whitetail Ridge, East Taylor and Carbon and higher grade at East Taylor within the Bear Lodge REE Project.

Successfully listed the Company’s common shares for trading on the NYSE Amex headquartered in New York, NY, as well as graduating the trading of our common shares in Canada from Tier One of the TSX Venture Exchange to the TSX main trading board.

Established an executive office in Lakewood, Colorado. Successfully hired various key executives, including Chief Operating Officer, Chief Financial Officer and VP of Government and Community Relations.

Completed two significant financings, April, 2010 and December, 2010, that combined raised gross proceeds of approximately CDN\$65 million. As of the date of this Annual Report, the Company has 44.1 million common shares outstanding and approximately \$73 million of cash and no debt.

Cautionary Note to U.S. Investors: Please read carefully the section titled “Cautionary Note to U.S. Investors Regarding Resource and Reserve Estimates” above.

Plan of Operations

Source of Funds for Fiscal Year Ending June 30, 2012

The Company's primary source of funds since incorporation has been through the issuance of common shares. As at June 30, 2011, the Company had cash of \$72,311,970. During the period ended September 26, 2011, a total of 20,000 options were exercised, resulting in an increase in cash by CDN\$54,200.

The Company had working capital of \$71,952,619 at June 30, 2011.

As of September 26, 2011: the Company had 119,287 outstanding warrants with an exercise price of CDN\$4.75, which if exercised, would raise an additional CDN\$566,613; 3,526,500 outstanding stock options with exercise prices ranging from CDN\$0.55 to CDN\$15.16, which if exercised, would raise an additional CDN\$23,355,780; and 211,002 outstanding broker's warrants with an exercise price of CDN\$9.00, which if exercised, would raise an additional CDN\$1,899,018. There is no guarantee that the warrants, the stock options or the broker's warrants will be exercised. Management believes that with the cash the Company currently has on hand and with the potential exercise of the stock options, warrants and broker's warrants, the Company will be able to fund its expenditures through the end of fiscal year 2012.

Use of Funds for Fiscal Year Ending June 30, 2012

The Company's current capital expenditures are for the exploration/acquisition and evaluation expenses in its rare-earth and gold properties. For fiscal 2012, the Company estimates that it might expend \$3 million on general/administrative expenses and \$7 million on prefeasibility study and property acquisitions. During fiscal 2012, the Company estimates that it might expend \$5 million on rare-earth acquisition/exploration expenses and \$1 million on gold acquisition/exploration expenses.

Anticipated Changes to Facilities/Employees

The Company has established an office in Denver, Colorado, USA and hired a full-time Chief Operating Officer and Chief Financial Officer. The Company will continue to add key personnel to develop the corporate infrastructure to support the current project development and future production operation.

Trends Rare-Earth Market

Prices of rare-earth elements are affected by the supply and demand fundamentals of the market. Recent years has seen raising prices due to increased demand and a reduction in supply. Raising demand has come from various new uses of rare-earth metals in batteries, magnets and other high tech uses. The Chinese control most of the world's production of rare-earth metals and the Chinese have reduced exports to the rest of the world. We expect the demand of rare-earth elements to continue to increase. We also expect supply to also increase due to several large mines outside China that are expected to be in production soon. We cannot anticipate with any certainty what the Chinese may do in the future as to rare-earth metal exports.

Our ability to raise additional funds in order to complete our plan of operations at our Bear Lodge Property may be impacted by future prices for metals. As a natural resource exploration and development company, the marketability of our common shares and our ability to raise other sources of financing has been dependent on the prices of rare-earth elements and gold. If the global demand for rare-earth and gold decrease, it could adversely impair the Company's ability to raise financing and fund the exploration and future development of its mineral properties.

Factors that could influence upward demand for rare earth products include:

the use of neodymium, praseodymium, terbium and dysprosium in high-strength NdFeB magnets that are critical to hybrid and electric vehicles and the increased construction of wind power generation facilities, particularly off-shore installations;

the use of lanthanum and cerium for NiMH batteries that are utilized in hybrid and electric vehicles;

the use of europium, terbium and yttrium in the production of compact fluorescent light bulbs;

the use of high-strength NdFeB magnets in the miniaturization of electronic products;

the use of lanthanum in fluid cracking catalysts by refineries processing lower quality crude oil that consumes greater quantities of the catalysts;

the increased use of REEs in the drive to improve energy efficiency and reduce greenhouse gas, or GHGs, by the United States and the European Union;

the use of cerium in glass, ceramics, glass polishing, and advanced water filtration applications; and

continued research and commercialization of new applications for rare earths products

The Company's acquisition/exploration/evaluation activities vary from period to period depending upon property acquisition opportunities and exploration results. Accordingly, amounts expended in past periods may not be indicative of future activities. Likewise, amounts of external capital raised to finance such activities may vary from period to period.

Segment Information

Segmented information is contained in note 15 of the "*Notes to the Consolidated Financial Statements*" contained under the section heading "Item 8. Financial Statements and Supplementary Data" below of this Annual Report and is incorporated herein by reference.

Sources and Availability of Raw Materials

The Company is currently in the predevelopment stage and as such does not require any significant raw materials in order to carry out its primary operating objectives. The Company's primary operating objective is to gather geological and processing information in order to complete a prefeasibility study on the Bear Lodge Project. For at least the next year, the Company is expected to continue to require the use of contract drilling services in order to obtain additional geological information. In the past year the Company has been able to secure contract drilling services without excess delay and excessive costs. We expect the contract drilling services will continue to be available over the next year.

The raw materials that the Company's current operations rely are gasoline and diesel fuel for the exploration vehicles and for the heavy equipment required to build roads and conduct drilling operations. In addition water is purchased from local municipalities to assist with the drilling activities, and a variety of drilling muds and additives are needed to ensure drill sample recovery.

Seasonality

Seasonality in the state of Wyoming is not a material factor to the Company's operations for its project. Snow fall in the winter limits access to the Company's Bear Lodge Property, but it is not a material issue for the Company.

Competition

Our industry is highly competitive. We compete with other mining and exploration companies in connection with the acquisition, exploration and development of mineral properties. There is competition for the limited number of mineral property acquisition opportunities, some of which is with other companies having substantially greater financial resources, staff and facilities than we do. As a result, we may have difficulty acquiring attractive exploration properties, staking claims related to our properties, and exploring and developing our properties.

China accounts for the vast majority of rare earth element production. While rare earth element projects exist outside of China, very few are in actual production. Further, given the timeline for current exploration projects to come into production, if at all, it is likely that the Chinese will be able to dominate the market for rare earth elements into the future. This gives the Chinese a competitive advantage in controlling the supply of rare earth elements and engaging in competitive price reductions to discourage competition. Any increase in the amount of rare earth elements exported from other nations, and increased competition, may result in price reductions, reduced margins and loss of potential market share, any of which could materially adversely affect our profitability. As a result of these factors, we may not be able to compete effectively against current and future competitors.

Environmental Regulation

The Company's exploration activities are subject to extensive and costly environmental requirements regulated in all countries in which the Company operates under various federal, state, provincial and local laws relating to the protection of the environment, which generally includes air and water quality, hazardous waste management and reclamation. Environmental hazards may exist on the properties in which the Company holds interests which are unknown to the Company at present and which have been caused by previous or existing owners or operators of the properties. Environmental legislation is evolving in a manner that will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. Current and future laws, regulations and permits will impose significant costs, liabilities or obligations or could limit or prevent the Company's ability to continue operations or undertake new operations.

In particular, the Company's Bear Lodge REE Project and Sundance Gold Project in Wyoming are subject to federal and state environmental laws, regulations, and permits. The federal agency involved with compliance is the United States Forest Service, Sundance, Wyoming District Office. The state agency involved is the Wyoming Department of Environmental Quality. The Company operates under permits granted by these two agencies and has established bonds to ensure environmental reclamation of areas disturbed. In addition, the Company's operations and exploration activities in Canada are subject to national and provincial laws and regulations governing protection of the environment. As of June 30, 2011, the Company had reclamation bonds totaled \$422,283.

Minerals Exploration Regulation

Mining operations and exploration activities are subject to various national, state, provincial and local laws and regulations in the United States, which govern prospecting, development, mining, production, exports, taxes, labor standards, occupational health, waste disposal, protection of the environment, mine safety, hazardous substances and other matters. We believe that we are in compliance in all material respects with applicable mining, health, safety and environmental statutes and the regulations passed thereunder in the United States. There are no current orders or directions relating to us with respect to the foregoing laws and regulations.

Compliance with these laws and regulations may impose substantial costs on us and will subject us to significant potential liabilities. Changes in these regulations could require us to expend significant resources to comply with new laws or regulations or changes to current requirements and could have a material adverse effect on our business operations.

Mine Safety and Health Administration Regulations

Pursuant to Section 1503(a) of the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act (The Dodd-Frank Act), issuers that are operators, or that have a subsidiary that is an operator, of a coal or other mine in the United States are required to disclose in their periodic reports filed with the SEC information regarding specified health and safety violations, orders and citations, related assessments and legal actions, and mining-related fatalities. During the fiscal year ended June 30, 2011, our U.S. exploration properties were not subject to regulation by the Federal Mine Safety and Health Administration (MSHA) under the *Federal Mine Safety and Health Act of 1977* (the "Mine Act").

Employees

At September 26, 2011, the Company had twenty three (23) full-time employees/consultants and thirty one (31) part-time employees/consultants, Sixteen (16) of the full-time and two (2) of the part-time employees/consultants are directly engaged in exploration activities, and three (3) full-time and twenty five (25) of the part-time employees/consultants are directly engaged in evaluation and development activities. As of June 30, 2011, the Company had nineteen (19) full-time and eighteen (18) part-time employees/consultants, including the three Senior Management. Donald R. Ranta, President & CEO of the Company, is involved in both administration and exploration. He is based in Lakewood, Colorado, USA. None of the Company s employees are covered by collective bargaining agreements.

Available Information

The Company makes available, free of charge, on or through its Internet website, at www.rareelementresources.com its annual report on Form 10-K, its quarterly reports on Form 10-Q and its current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. The Company s Internet website and the

information contained therein or connected thereto are not intended to be, and are not incorporated into this Annual Report on Form 10-K.

The Company's filings can be also be viewed at its Canadian administrative office, located at: 325 Howe Street, #410, Vancouver, British Columbia, Canada V6C 1Z7. The Company's reports, registration statements and other information can be inspected on the SEC's website at www.sec.gov and such information can also be inspected and copies ordered at the public reference facilities maintained by the SEC at the following location: Judiciary Plaza, 100 F Street NE, Washington, D.C. 20549. Further, the Company also files reports under Canadian regulatory requirements on SEDAR; you may access its reports filed on SEDAR by accessing their website at www.sedar.com.

ITEM 1A. RISK FACTORS AND UNCERTAINTIES

Readers should carefully consider the risks and uncertainties described below before deciding whether to invest in our common shares.

Our failure to successfully address the risks and uncertainties described below would have a material adverse effect on our business, financial condition and/or results of operations, and the trading price of our common shares may decline and investors may lose all or part of their investment. We cannot assure you that we will successfully address these risks or other unknown risks that may affect our business.

Estimates of mineralized material are forward-looking statements inherently subject to error. Unforeseen events and uncontrollable factors can have a significant impact on mineralized material estimates and actual results may differ from estimates.

Risks Related to Our Business

We have a history of losses and will require additional financing to fund exploration and, if warranted, development and production. Failure to obtain additional financing could have a material adverse affect on our financial condition and results of operation and could cast uncertainty on our ability to continue as a going concern.

For the fiscal year ended June 30, 2011, our net loss was (\$16,657,962). Our accumulated deficit at June 30, 2011 was (\$26,770,730). At June 30, 2011, our cash position was \$72,311,970 and our working capital position was \$71,952,619. We have not commenced commercial production on any of our mineral properties. We have no revenues from operations and anticipate we will have no operating revenues until we place one or more of our properties into production. All of our properties are in the exploration stage.

Our management believes that based on our current working capital position, we will be able to continue operations only through the end of Fiscal 2013 without raising additional capital either through debt or equity financing. We currently do not have sufficient funds to fully complete exploration and development work on any of our properties, which means that we will be required to raise additional capital, enter into joint venture relationships or find alternative means to finance placing one or more of our properties into commercial production, if warranted. If we fail to raise additional funds we will curtail our activities and may risk being unable to maintain our interests in our mineral properties.

Failure to obtain sufficient financing may result in the delay or indefinite postponement of exploration and development or production on one or more of our properties and any properties we may acquire in the future or even a loss of property interests. This includes our leases over claims covering the principal deposits on our properties, which may expire unless we expend minimum levels of expenditures over the terms of such leases. We cannot be certain that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favorable or acceptable to us. Future financings may cause dilution to our shareholders. Our ability to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions as well as our business performance.

The most likely source of future financing presently available to us is through the sale of our securities. Any sale of common shares will result in dilution of equity ownership to existing shareholders. This means that if we sell common shares, more common shares will be outstanding and each existing shareholder will own a smaller percentage of the shares then outstanding. Alternatively, we may rely on debt financing and assume debt obligations that require us to make substantial interest and capital payments. Also, we may issue or grant warrants or options in the future pursuant to which additional common shares may be issued. Exercise of such warrants or options will result in dilution of equity ownership to our existing shareholders.

We have no history of producing metals from our mineral properties.

We have no history of producing metals from any of our properties. Our properties are all exploration stage properties in various stages of exploration and evaluation. Our Bear Lodge REE Project and Sundance Gold Project are advanced exploration stage projects with identified mineralization, and our Eden Lake Property and Nuiklavik Property are each early stage exploration projects. Advancing properties from exploration into the development stage requires significant capital and time, and successful commercial production from a property, if any, will be subject to completing feasibility studies, permitting and construction of the mine, processing plants, roads, and other related works and infrastructure. As a result, we are subject to all of the risks associated with developing and establishing new mining operations and business enterprises including:

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completion of feasibility studies to verify reserves and commercial viability, including the ability to find sufficient REE or gold reserves to support a commercial mining operation;

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the timing and cost, which can be considerable, of further exploration, preparing feasibility studies, permitting and construction of infrastructure, mining and processing facilities;

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the availability and costs of drill equipment, exploration personnel, skilled labor and mining and processing equipment, if required;

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the availability and cost of appropriate smelting and/or refining arrangements, if required, and securing a commercially viable sales outlet for our products;

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compliance with environmental and other governmental approval and permit requirements;

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the availability of funds to finance exploration, development and construction activities, as warranted;

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potential opposition from non-governmental organizations, environmental groups, local groups or local inhabitants which may delay or prevent development activities;

potential increases in exploration, construction and operating costs due to changes in the cost of fuel, power, materials and supplies; and

potential shortages of mineral processing, construction and other facilities related supplies.

The costs, timing and complexities of exploration, development and construction activities may be increased by the location of our properties and demand by other mineral exploration and mining companies. It is common in exploration programs to experience unexpected problems and delays during drill programs and, if warranted, development, construction and mine start-up. Accordingly, our activities may not result in profitable mining operations and we may not succeed in establishing mining operations or profitably producing metals at any of our properties.

Increased costs could affect our financial condition.

We anticipate that costs at our projects that we may explore or develop, will frequently be subject to variation from one year to the next due to a number of factors, such as changing ore grade, metallurgy and revisions to mine plans, if any, in response to the physical shape and location of the ore body. In addition, costs are affected by the price of commodities such as fuel, rubber, and electricity. Such commodities are at times subject to volatile price movements, including increases that could make production at certain operations less profitable. A material increase in costs at any significant location could have a significant effect on our profitability.

A shortage of equipment and supplies could adversely affect our ability to operate our business.

We are dependent on various supplies and equipment to carry out our mining exploration and, if warranted, development operations. The shortage of such supplies, equipment and parts could have a material adverse effect on our ability to carry out our operations and therefore limit or increase the cost of production.

Mining and resource exploration is inherently dangerous and subject to conditions or events beyond our control, which could have a material adverse effect on our business and plans.

Mining and mineral exploration involves various types of risks and hazards, including:

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environmental hazards;

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power outages;

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metallurgical and other processing problems;

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unusual or unexpected geological formations;

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personal injury, flooding, fire, explosions, cave-ins, landslides and rock-bursts;

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inability to obtain suitable or adequate machinery, equipment, or labor;

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metals losses;

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fluctuations in exploration, development and production costs;

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labor disputes;

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unanticipated variations in grade;

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mechanical equipment failure; and

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periodic interruptions due to inclement or hazardous weather conditions.

These risks could result in damage to, or destruction of, mineral properties, production facilities or other properties, personal injury, environmental damage, delays in mining, increased production costs, monetary losses and possible legal liability. We may not be able to obtain insurance to cover these risks at economically feasible premiums. Insurance against certain environmental risks, including potential liability for pollution or other hazards as a result of the disposal of waste products occurring from production, may be prohibitively expensive. We may suffer a material adverse effect on our business if we incur losses related to any significant events that are not covered by our insurance policies.

We operate in the resource industry, which is highly speculative, and has certain inherent exploration risks which could have a negative effect on our operations.

Our long-term success depends on our ability to identify mineral deposits on our existing properties and other properties we may acquire, if any, that we can then develop into commercially viable mining operations. Resource exploration is a highly speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but from finding mineral deposits which, though present, are insufficient in quantity and quality to return a profit from production. Substantial expenditures are required to establish proven and probable reserves through drilling and analysis, to develop metallurgical processes to extract metal, and to develop the mining and processing facilities and infrastructure at any site chosen for mining. The marketability of minerals acquired or discovered by us may be affected by numerous factors which are beyond our control and which cannot be accurately predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment, and such other factors such as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environment protection. Any one or a combination of these factors may result in us not receiving an adequate return on our investment capital. The decision to abandon a project may have an adverse effect on the market value of our securities and our ability to raise future financing

We have no known reserves and no economic reserves may exist on our properties, which could have a negative effect on our operations and valuation.

Despite exploration work on our mineral claims, no known bodies of commercial ore or economic deposits have been established on any of our mineral properties. In addition, we are at the exploration stage on all of our properties and substantial additional work will be required in order to determine if any economic deposits exist on its properties. We may expend substantial funds in exploring its properties only to abandon them and lose its entire expenditure on the properties if no commercial or economic quantities of minerals are found. Even if commercial quantities of minerals are discovered, the exploration properties might not be brought into a state of commercial production. Finding mineral deposits is dependent on a number of factors, including the technical skill of exploration personnel involved. The commercial viability of a mineral deposit once discovered is also dependent on a number of factors, some of which are the particular attributes of the deposit, such as content of the deposit including harmful substances, size, grade and proximity to infrastructure, as well as element prices and the availability of power and water in sufficient supply to permit development.

Most of these factors are beyond the control of the entity conducting such mineral exploration. We are an exploration stage company with no history of pre-tax profit and no income from its operations. There can be no assurance that our operations will be profitable in the future. There is no certainty that the expenditures to be made by us in the exploration of our properties will result in discoveries of mineralized material in commercial quantities. Most exploration projects do not result in the discovery of commercially mineable deposits and no assurance can be given that any particular level of recovery of mineral reserves will in fact be realized or that any identified mineral deposit will ever qualify as a commercially mineable (or viable) mineral deposit which can be legally and economically exploited. There can be no assurance that minerals recovered in small scale tests will be duplicated in large scale tests under on-site conditions or in production. If we are unsuccessful in our exploration efforts, we may be forced to acquire additional projects or cease operations which may have an adverse effect on the market value of our securities and our ability to raise future financing.

The figures for our resources are estimates based on interpretation and assumptions and may yield less mineral production under actual conditions than is currently estimated.

Unless otherwise indicated, mineralization figures presented in this Annual Report and in our filings with securities regulatory authorities, press releases and other public statements that may be made from time to time are based upon estimates made by independent geologists and our internal geologists. When making determinations about whether to advance any of our projects to development, we must rely upon such estimated calculations as to the mineral reserves and grades of mineralization on our properties. Until ore is actually mined and processed, mineral reserves and grades of mineralization must be considered as estimates only.

Estimates can be imprecise and depend upon geological interpretation and statistical inferences drawn from drilling and sampling analysis, which may prove to be unreliable. We cannot assure you that:

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these estimates will be accurate;

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resource or other mineralization estimates will be accurate; or

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this mineralization can be mined or processed profitably.

Any material changes in mineral resource estimates and grades of mineralization will affect the economic viability of placing a property into production and a property's return on capital.

Because we have not completed feasibility studies on any of our properties and have not commenced actual production, mineralization estimates, including resource estimates, for our properties may require adjustments or downward revisions. In addition, the grade of ore ultimately mined, if any, may differ from that indicated by our feasibility studies and drill results. Minerals recovered in small scale tests may not be duplicated in large scale tests under on-site conditions or in production scale.

The resource estimates contained in this Annual Report have been determined and valued based on assumed future prices, cut-off grades and operating costs that may prove to be inaccurate. Extended declines in market prices for gold, silver or other commodities may render portions of our mineralization and resource estimates uneconomic and result in reduced reported mineralization or adversely affect the commercial viability determinations we reach. Any material reductions in estimates of mineralization, or of our ability to extract this mineralization, could have a material adverse effect on our share price and the value of our properties.

There are differences in U.S. and Canadian practices for reporting reserves and resources.

Our reserve and resource estimates are not directly comparable to those made in filings subject to SEC reporting and disclosure requirements, as we generally report reserves and resources in accordance with Canadian practices. These practices are different from the practices used to report reserve and resource estimates in reports and other materials

filed with the SEC. It is Canadian practice to report measured, indicated and inferred resources, which are generally not permitted in disclosure filed with the SEC by United States issuers. In the United States, mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. United States investors are cautioned not to assume that all or any part of measured or indicated resources will ever be converted into reserves.

Further, "inferred resources" have a great amount of uncertainty as to their existence and as to whether they can be mined legally or economically. Disclosure of "contained ounces" is permitted disclosure under Canadian regulations; however, the SEC only permits issuers to report "resources" as in place tonnage and grade without reference to unit measures.

Accordingly, information concerning descriptions of mineralization, reserves and resources contained in this report, or in the documents incorporated herein by reference, may not be comparable to information made public by other United States companies subject to the reporting and disclosure requirements of the SEC. See Cautionary Note to U.S. Investors Regarding Resource and Reserve Estimates above.

Our operations contain significant uninsured risks which could negatively impact future profitability as we maintain no insurance against our operations.

Our exploration of our mineral properties contains certain risks, including unexpected or unusual operating conditions including rock bursts, cave-ins, flooding, fire and earthquakes. It is not always possible to insure against these risks. Should events such as these arise, they could reduce or eliminate our assets and shareholder equity as well as result in increased costs and a decline in the value of our securities. We expect to maintain only general liability and director and officer insurance but no insurance against our properties or operations. We may decide to take out this insurance in the future if it is available at economically viable rates.

Mineral operations are subject to market forces outside of our control which could negatively impact our operations.

The marketability of minerals is affected by numerous factors beyond our control including market fluctuations, government regulations relating to prices, taxes, royalties, allowable production, imports, exports and supply and demand. One or more of these risk elements could have an impact on the costs of our operations and if significant enough, reduce the profitability of our operations.

Permitting, licensing and approval processes are required for our operations and obtaining and maintaining these permits and licenses is subject to conditions which we may be unable to achieve.

Many of our operations require licenses and permits from various governmental authorities. We believe we hold or are in the process of obtaining all necessary licenses and permits to carry on the activities which we are currently conducting or propose to conduct under applicable laws and regulations. Such licenses and permits are subject to changes in regulations and changes in various operating circumstances. There can be no guarantee that we will be able to obtain all necessary licenses and permits that may be required to maintain our exploration and mining activities including constructing mines or milling facilities and commencing operations of any of our exploration properties. In addition, if we proceed to production on any exploration property, we must obtain and comply with permits and licenses which may contain specific operating conditions. There can be no assurance that we will be able to obtain such permits and licenses or that we will be able to comply with any such conditions. Costs related to applying for and obtaining permits and licenses may be prohibitive and could delay our planned exploration and development activities. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions.

Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on our operations and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

We are subject to significant governmental regulations, which affect our operations and costs of conducting our business.

Our current and future operations are and will be governed by laws and regulations, including:

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laws and regulations governing mineral concession acquisition, prospecting, development, mining and production;
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laws and regulations related to exports, taxes and fees;
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labor standards and regulations related to occupational health and mine safety;
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environmental standards and regulations related to waste disposal, toxic substances, land use and environmental protection; and
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other matters.

Companies engaged in exploration activities often experience increased costs and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits. Failure to comply with applicable laws, regulations and permits may result in enforcement actions, including the forfeiture of claims, orders issued by regulatory or judicial authorities requiring operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or costly remedial actions. We may be required to compensate those suffering loss or damage by reason of our mineral exploration activities and may have civil or criminal fines or penalties imposed for violations of such laws, regulations and permits.

Existing and possible future laws, regulations and permits governing operations and activities of exploration companies, or more stringent implementation, could have a material adverse impact on our business and cause increases in capital expenditures or require abandonment or delays in exploration.

Our operations are subject to environmental risks and compliance with environmental regulations which are increasing and costly.

All phases of our operations are subject to environmental regulation in the jurisdictions in which we operate. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. These laws address emissions into the air, discharges into water, management of waste, management of hazardous substances, protection of natural resources, antiquities and endangered species and reclamation of lands disturbed by mining operations. Compliance with environmental laws and regulations and future changes in these laws and regulations may require significant capital outlays and may cause material changes or delays in our operations and future activities. It is possible that future changes in these laws or regulations could have a significant adverse impact on our properties or some portion of our business, causing us to re-evaluate those activities at that time.

U.S. Federal Laws

The Comprehensive Environmental, Response, Compensation, and Liability Act (CERCLA), and comparable state statutes, impose strict, joint and several liability on current and former owners and operators of sites and on persons who disposed of or arranged for the disposal of hazardous substances found at such sites. It is not uncommon for the government to file claims requiring cleanup actions, demands for reimbursement for government-incurred cleanup costs, or natural resource damages, or for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by hazardous substances released into the environment. The Federal Resource Conservation and Recovery Act (RCRA), and comparable state statutes, govern the disposal of solid waste and hazardous waste and authorize the imposition of substantial fines and penalties for noncompliance, as well as requirements for corrective actions. CERCLA, RCRA and comparable state statutes can impose liability for clean-up

of sites and disposal of substances found on exploration, mining and processing sites long after activities on such sites have been completed.

The Clean Air Act, as amended, restricts the emission of air pollutants from many sources, including mining and processing activities. Our mining operations may produce air emissions, including fugitive dust and other air pollutants from stationary equipment, storage facilities and the use of mobile sources such as trucks and heavy construction equipment, which are subject to review, monitoring and/or control requirements under the Clean Air Act and state air quality laws. New facilities may be required to obtain permits before work can begin, and existing facilities may be required to incur capital costs in order to remain in compliance. In addition, permitting rules may impose limitations on our production levels or result in additional capital expenditures in order to comply with the rules.

The National Environmental Policy Act (NEPA) requires federal agencies to integrate environmental considerations into their decision-making processes by evaluating the environmental impacts of their proposed actions, including issuance of permits to mining facilities, and assessing alternatives to those actions. If a proposed action could significantly affect the environment, the agency must prepare a detailed statement known as an Environmental Impact Statement (EIS). The U.S. Environmental Protection Agency, other federal agencies, and any interested third parties will review and comment on the scoping of the EIS and the adequacy of and findings set forth in the draft and final EIS. This process can cause delays in issuance of required permits or result in changes to a project to mitigate its potential environmental impacts, which can in turn impact the economic feasibility of a proposed project.

The Clean Water Act (CWA), and comparable state statutes, impose restrictions and controls on the discharge of pollutants into waters of the United States. The discharge of pollutants into regulated waters is prohibited, except in accordance with the terms of a permit issued by the Environmental Protection Agency (EPA) or an analogous state agency. The CWA regulates storm water mining facilities and requires a storm water discharge permit for certain activities. Such a permit requires the regulated facility to monitor and sample storm water run-off from its operations. The CWA and regulations implemented thereunder also prohibit discharges of dredged and fill material in wetlands and other waters of the United States unless authorized by an appropriately issued permit. The CWA and comparable state statutes provide for civil, criminal and administrative penalties for unauthorized discharges of pollutants and impose liability on parties responsible for those discharges for the costs of cleaning up any environmental damage caused by the release and for natural resource damages resulting from the release.

The Safe Drinking Water Act (SDWA) and the Underground Injection Control (UIC) program promulgated thereunder, regulate the drilling and operation of subsurface injection wells. EPA directly administers the UIC program in some states and in others the responsibility for the program has been delegated to the state. The program requires that a permit be obtained before drilling a disposal or injection well. Violation of these regulations and/or contamination of groundwater by mining related activities may result in fines, penalties, and remediation costs, among other sanctions and liabilities under the SWDA and state laws. In addition, third party claims may be filed by landowners and other parties claiming damages for alternative water supplies, property damages, and bodily injury.

Legislation has been proposed that would significantly affect the mining industry.

Members of the U.S. Congress have repeatedly introduced bills which would supplant or alter the provisions of the Mining Law of 1872. If enacted, such legislation could change the cost of holding unpatented mining claims and could significantly impact our ability to develop mineralized material on unpatented mining claims. Such bills have proposed, among other things, to either eliminate or greatly limit the right to a mineral patent and to impose a federal royalty on production from unpatented mining claims. Although we cannot predict what legislated royalties might be, the enactment of these proposed bills could adversely affect the potential for development of unpatented mining claims and the economics of existing operating mines on federal unpatented mining claims. Passage of such legislation could adversely affect our financial performance.

Regulations and pending legislation governing issues involving climate change could result in increased operating costs, which could have a material adverse effect on our business.

A number of governments or governmental bodies have introduced or are contemplating regulatory changes in response to various climate change interest groups and the potential impact of climate change. Legislation and increased regulation regarding climate change could impose significant costs on us, our venture partners and our suppliers, including costs related to increased energy requirements, capital equipment, environmental monitoring and

reporting and other costs to comply with such regulations. Any adopted future climate change regulations could also negatively impact our ability to compete with companies situated in areas not subject to such limitations. Given the emotion, political significance and uncertainty around the impact of climate change and how it should be dealt with, we cannot predict how legislation and regulation will affect our financial condition, operating performance and ability to compete. Furthermore, even without such regulation, increased awareness and any adverse publicity in the global marketplace about potential impacts on climate change by us or other companies in our industry could harm our reputation. The potential physical impacts of climate change on our operations are highly uncertain, and would be particular to the geographic circumstances in areas in which we operate. These may include changes in rainfall and storm patterns and intensities, water shortages, changing sea levels and changing temperatures. These impacts may adversely impact the cost, production and financial performance of our operations.

Land reclamation requirements for our properties may be burdensome and expensive.

Although variable depending on location and the governing authority, land reclamation requirements are generally imposed on mineral exploration companies (as well as companies with mining operations) in order to minimize long term effects of land disturbance.

Reclamation may include requirements to:

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control dispersion of potentially deleterious effluents;

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treat ground and surface water to drinking water standards; and

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

In order to carry out reclamation obligations imposed on us in connection with our potential development activities, we must allocate financial resources that might otherwise be spent on further exploration and development programs. We plan to set up a provision for our reclamation obligations on our properties, 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.

Increased competition could adversely affect our ability to attract necessary capital funding or acquire suitable producing properties or prospects for mineral exploration in the future.

The mining industry is intensely competitive. Significant competition exists for the acquisition of properties producing or capable of producing, REE, gold or other metals. We may be at a competitive disadvantage in acquiring additional mining properties because we must compete with other individuals and companies, many of which have greater financial resources, operational experience and technical capabilities than us. We may also encounter increasing competition from other mining companies in our efforts to hire experienced mining professionals. Competition for exploration resources at all levels is currently 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 acquire suitable producing properties or prospects for mineral exploration in the future.

We compete with larger, better capitalized competitors in the mining industry.

The mining industry is competitive in all of its phases, including financing, technical resources, personnel and property acquisition. We will require significant capital, technical resources, personnel and operational experience to effectively compete in the mining industry. Because of the high costs associated with exploration, the expertise required to analyze a project's potential and the capital required to develop a mine, larger companies with significant resources may have a competitive advantage over us. We face strong competition from other mining companies, some with greater financial resources, operational experience and technical capabilities than us. As a result of this competition, we may be unable to maintain or acquire financing, personnel, technical resources or attractive mining properties on terms we consider acceptable or at all.

Joint ventures and other partnerships may expose us to risks.

Historically, we have entered into joint venture arrangements to help fund the exploration and potential development of our properties. In the future, we may enter into joint ventures or other partnership arrangements with other parties in relation to the exploration, development and production of certain of the properties in which we have an interest. Joint ventures can often require unanimous approval of the parties to the joint venture or their representatives for

certain fundamental decisions such as an increase or reduction of registered capital, merger, division, dissolution, amendments of constating documents, and the pledge of joint venture assets, which means that each joint venture party may have a veto right with respect to such decisions which could lead to a deadlock in the operations of the joint venture or partnership. Further, we may be unable to exert control over strategic decisions made in respect of such properties. Any failure of such other companies to meet their obligations to us or to third parties, or any disputes with respect to the parties' respective rights and obligations, could have a material adverse effect on the joint ventures or their properties and therefore could have a material adverse effect on our results of operations, financial performance, cash flows and the price of the common shares.

Foreign currency fluctuations may have a negative impact on our financial position and results.

Our property interests in the United States make us subject to foreign currency fluctuations that may adversely affect our financial position and results. As we maintain our accounts in Canadian dollars, any appreciation in the US Dollar against the Canadian Dollar will increase our costs of carrying out operations in the United States. Management has not entered into any foreign currency contracts to mitigate this risk; as such, we may suffer losses due to adverse foreign currency fluctuations.

We are dependent on key personnel and the absence of any of these individuals could adversely affect us.

Our success is currently largely dependent on the performance, retention and abilities of our directors, officers, employees and management. The loss of the services of these persons could have a material adverse effect on our business and prospects. There is no assurance that we can maintain the services of our directors, officers, employees or other qualified personnel required to operate its business. Failure to do so could have a material adverse affect on us and our prospects. We do not maintain key man life insurance policies on any of our officers or employees.

We may experience difficulty attracting and retaining qualified management to meet the needs of our anticipated growth, and the failure to manage our growth effectively could have a material adverse effect on our business and financial condition.

Competition for additional qualified management is intense, and we may be unable to attract and retain additional key personnel, or to attract and retain personnel on terms acceptable to us. Management personnel are currently limited and they may be unable to manage our expansion successfully and the failure to do so could have a material adverse effect on our business, results of operations and financial condition. We have not entered into non-competition agreements. As our business is substantially dependent upon the directors, executive officers and consultants, the lack of non-competition agreements poses a significant risk to us in the event such persons were to resign or be terminated from such positions. Under such circumstances, such persons may provide confidential information and key contacts to our competitors and we may have difficulties in preventing the disclosure of such information. Such disclosure would have a material adverse effect on our business and operations.

Our directors/senior management are engaged in other businesses. Potential conflicts of interest and other obligations of management could interfere with corporate operations.

Most of our directors and officers are engaged and will continue to be engaged in the search for additional business opportunities on behalf of other entities, and situations may arise where these directors and officers will be in direct competition with us. Conflicts, if any, will be dealt with in accordance with the relevant provisions of applicable regulations and legislation. Some of our directors and officers are or may become directors or officers of other entities engaged in other business ventures. In order to avoid the possible conflict of interest which may arise between the directors and officers' duties to us and their duties to the other entities they are involved, our directors and officers have been advised as follows by us: participation in other business ventures offered to the directors or officers should be allocated between the various entities and on the basis of prudent business judgment and the relative financial abilities and needs of such entities to participate; no commissions or other extraordinary consideration will be paid to such directors and officers; and business opportunities formulated by or through other entities in which the directors and officers are involved should not be offered to us except on the same or better terms than the basis on which they are offered to third party participants. Our directors and officers are, or may become, involved in other business activities. As a result of their other business endeavors, our directors and officers may not be able to devote sufficient time to our business affairs, which may negatively affect its ability to conduct ongoing operations and to generate revenues. In addition, our management of may be periodically interrupted or delayed as a result of its officers' other business interests.

Title to our properties may be subject to other claims, which could affect our property rights and claims.

There are risks that title to our properties may be challenged or impugned. Our material property is located in Wyoming and may be subject to prior unrecorded agreements or transfers or native land claims and title may be affected by undetected defects. There may be valid challenges to the title of our properties which, if successful, could impair development and/or operations. This is particularly the case in respect of those portions of our properties in which we hold our interest solely through a lease with the claim holders, as such interest is substantially based on contract and has been subject to a number of assignments (as opposed to a direct interest in the property).

Several of the mineral rights to our properties consist of "unpatented" mining claims created and maintained in accordance with the U.S. General Mining Law. Unpatented mining claims are unique property interests, and are generally considered to be subject to greater title risk than other real property interests because the validity of unpatented mining claims is often uncertain. This uncertainty arises, in part, out of the complex federal and state laws and regulations under the U.S. General Mining Law. Also, unpatented mining claims are always subject to possible challenges by third parties or validity contests by the federal government. The validity of an unpatented mining or mill site claim, in terms of both its location and its maintenance, is dependent on strict compliance with a complex body of U.S. federal and state statutory and decisional law. In addition, there are few public records that definitively determine the issues of validity and ownership of unpatented mining claims. Should the federal government impose a royalty or additional tax burdens on the properties that lie within public lands, the resulting mining operations could be seriously impacted, depending upon the type and amount of the burden

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 under the British Columbia *Business Corporations Act*. Many of our directors are residents of Canada, and a substantial portion of their assets are located outside of the United States, predominately in Canada. 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 United States or to realize in the United States upon 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 United States, 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 United States.

Risk Related to Our Securities

We do not currently intend to pay cash dividends.

We have not declared any dividends since 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 operations and the expansion of our business.

Payment of future cash dividends, if any, will be at the discretion of our board of directors and will depend on our financial condition, results of operations, contractual restrictions, capital requirements, business prospects and other factors that our board of directors considers relevant. Accordingly, investors will only see a return on their investment if the value of our securities appreciates.

Dilution through outstanding common share options could adversely affect our shareholders.

Because our success is highly dependent upon our employees and consultants, we have granted to some or all of our key employees, 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 the date of this Form 10-K, there are 3,526,500 share purchase options outstanding, which, if exercised, would result in an additional 3,526,500 common shares being issued and outstanding.

Price volatility of our publicly traded securities could adversely affect investor s portfolios.

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price which 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 price 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 of the Company in creating revenues, cash flows or earnings. The price of our common shares have been subject to price and volume volatility in the past and will likely continue to be subject to such volatility in the future.

We likely constituted a "passive foreign investment company" during the tax year ended June 30, 2011, which will likely have adverse U.S. federal income tax consequences for U.S. shareholders.

U.S. investors in our common shares should be aware that we believe that we were classified as a PFIC during the tax year ended June 30, 2011, and based on current business plans and financial expectations, we expect that we will be a PFIC for the current tax year. If we are a PFIC for any year during a U.S. shareholder s holding period, then such U.S. shareholder generally will be required to treat any gain realized upon a disposition of common shares, or any so-called excess distribution received on its common shares, as ordinary income, and to pay an interest charge on a portion of such gain or distributions, unless the shareholder makes a timely and effective "qualified electing fund" election (QEF Election) or a "mark-to-market" election with respect to the common shares. A U.S. shareholder who makes a QEF Election generally must report on a current basis its share of our net capital gain and ordinary earnings for any year in which we are a PFIC, whether or not we distribute any amounts to our shareholders. However, U.S. shareholders should be aware that there can be no assurance that we will satisfy record keeping requirements that apply to a qualified electing fund, or that we will supply U.S. shareholders with information that such U.S. shareholders require to report under the QEF Election rules, in the event that we are a PFIC and a U.S. shareholder wishes to make a QEF Election. Thus, U.S. shareholders may not be able to make a QEF Election with respect to their common shares. A U.S. shareholder who makes the mark-to-market election generally must include as ordinary income each year the excess of the fair market value of the common shares over the taxpayer s basis therein. 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, U.S. state and local, and foreign tax consequences of the PFIC rules and the acquisition, ownership, and disposition of common shares.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We do not have any unresolved comments from the SEC staff regarding our periodic or current reports under the Securities Exchange Act of 1934, as amended.

ITEM 2. DESCRIPTION OF PROPERTIES

The Company's business is the acquisition, exploration and development of mineral properties. The Company's primary properties are the Bear Lodge REE Project and the Sundance Gold Project located in northeastern Wyoming, USA. During the year ended June 30, 2010, the Company also acquired the Eden Lake property in Manitoba, Canada and the Nuiklavik property in Labrador, Canada. Both Eden Lake and Nuiklavik properties contain REE deposits.

Bear Lodge Property, Northeastern Wyoming, USA

Bear Lodge Property Location Map

Acquisition

The property was acquired through the July 2003 reverse-takeover acquisition of Paso Rico Resources Ltd. (subsequently known as Rare Element Holdings Ltd., (Holdings)), which originally had a property option to acquire full ownership of the property through exploration expenditures on the property and subsequently, before the reverse-takeover by the Company, obtained 100% ownership in September 2002.

Location and Ownership

Rare Element Resources, Inc. (RER, Inc.) (a wholly-owned subsidiary of Holdings) holds a 100 percent mineral rights interest in a group of unpatented mineral claims, known as the Bear Lodge Property, which consists of the Bear Lodge REE Project and the Sundance Gold Project. The property is situated in the Bear Lodge Mountains of Crook County, northeastern Wyoming. These claims were, in part, acquired from Freeport-McMoRan Copper & Gold (Freeport), which was known as Phelps Dodge Corporation at that time, by way of a Mineral Lease and Option for Deed . Some of the claims and a portion of a defined area of influence surrounding the claims were previously subject to a production royalty of 2 percent of Net Smelter Returns ("NSR") payable to Freeport. RER, Inc. owns a portion of the claim group outright and those claims were not subject to the NSR. On March 31, 2009, the Company re-purchased the NSR for \$50,000. The core group of claims is free of royalties.

The total property comprises 494 unpatented mineral claims located on land administered by the U.S. Forest Service and a 640-acre Wyoming state lease for a total of approximately 16 square miles.

AMENDED						
Claim Name	Recording Reception No	RECORDATION RECEPTION NO.	BLM Serial No.	Section	Township	Range
Sun 9-17	581022-30		WMC-275672-80	7,12,13,18	52N	63W
Sun 34-41	581047-54		WMC-275697-704	7	52N	63W
Sun 53	581066		WMC-275716	8	52N	63W
Sun 55	581068		WMC-275718	5, 8	52N	63W
Sun 57-74	581070-87		WMC-275720-37	7,8,17,18	52N	63W
Sun 83	581096		WMC-275746	5	52N	63W
Sun 85	581098		WMC-275748	5	52N	63W
Sun 87-116	581100-129		WMC-275750-79	4,5,8,9,16,17	52N	63W
COLE 7-20	570451-64		WMC-260907-20	22,23,26,27	52N	63W
COLE 22	570466		WMC-260922	23	52N	63W
COLE 24	570468		WMC-260924	23	52N	63W
COLE 26-60	570470-504		WMC-260926-60	14,15,22,23	52N	63W
COLE 60A	612967		WMC-303658	15	52N	63W
COLE 61	570505		WMC-260961	15	52N	63W
				22	52N	63W
COLE 62	570506		WMC-260962	15	52N	63W
COLE 63-74	576950-61		WMC-268910-21	21,22	52N	63W
DEN 1	577594		WMC-270117	26	52N	63W
DEN 6	577599		WMC-270122	26,36	52N	63W
DEN 22	577615		WMC-270138	3	51N	63W
DEN 29	577622		WMC-270145	3	51N	63W
DEN 36	577629		WMC-270152	32	52N	63W
DEN 40-75	577633-68		WMC-270156-91	28,29,31,32,33	52N	63W
DEN 88-97	577681-90	612971-77	WMC-270204-13	28,29	52N	63W
DEN 97A	612969		WMC-303667	29	52N	63W
DEN 98-118	577691-711		WMC-270214-34	29,30	52N	63W
DEN 127-172	577720-65		WMC-270243-88	13,18,19,20,29,30	52N	63W
OGDEN 1-87	576938-7840		WMC-268922-270363	21,22,26,27,28,33,34,35	52N	63W
REU 1-78	570507-87		WMC-260963-040	3,4,5,32,33,34,	51N, 52N	63W
AF 58-62	612960-64		WMC-303651-55	27,28	52N	63W
BL 15-39	571269-300		WMC-262061-84	7,18	52N	63W
BL 45-52	571292-299		WMC-262085-92	17,18	52N	63W
BL 59-65	510598-604	612978-84	WMC-247983-89	17	52N	63W
BL 72-78	510611-17	612985-91	WMC-247996-002	17	52N	63W
BL 85-91	571285-91		WMC-262093-99	16,17	52N	63W
BL 300-19	571277-84	612992-000	WMC-262100-107	21	52N	63W
IVAN 1-23	577036-54		WMC-270381-400	28,29,32,33	52N	63W

Upon Newmont Mining Company's (Newmont) withdrawal from the Sundance Gold Project, it transferred 327 of its claims to the Company in May 2010. There is a sliding scale royalty on certain state lease land due to the State of Wyoming if ore is mined from the state section. All claims are located on federal lands and are subject to annual maintenance fees payable to the United States Bureau of Land Management. These fees are paid up to date.

The Bear Lodge REE Project contains high grades of predominantly the light REE (lanthanum, cerium, praseodymium, neodymium, and samarium) and some of the highest grades in North America of the heavy REE europium and terbium plus significant quantities of the heavy REE--dysprosium.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

The Bear Lodge Property is located in central Crook County, northeastern Wyoming, in the northwestern portion of the Black Hills uplift. The property is situated immediately north of the crest of the Bear Lodge Mountains, a relatively small northwesterly trending range. The property is flanked to the west by the Powder River Basin, famous for its extensive coalmines, and is surrounded by the Great Plains. The Bear Lodge Property lies about 12 road miles northwest of the small town of Sundance, Wyoming, approximately 22 air miles west of the South Dakota state line, 55 air miles east of the larger town of Gillette, Wyoming, and 230 miles north of Cheyenne, the state capitol. Gillette has many of the services required by the mining industry.

Access to the Bear Lodge Property is very good, but in the winter months the property is not as readily accessible due to snow accumulation. Primary access to the property is from the town of Sundance, Wyoming, situated along US Interstate Highway 90. The project area is reached by traveling on paved roads west from Sundance about 1.5 miles along US Highway 14, then north on US Forest Service Taylor Divide Road #838 for 7.4 miles to the summit of Warren Peaks. The final 3.2 miles to the Bull Hill area of the property is on well-maintained gravel roads (continuing on USFS#838 and then right on USFS#851) until the turnoff to the Bull Hill Road, about 0.8 miles of a narrow one-lane dirt road leading to the Bull Hill REE target area. Road access within the property is relatively extensive via a number of good quality logging roads and four-wheel drive trails that were cleared during previous exploration and logging activities.

Motels, restaurants, and gas stations are available to the south in the nearby town of Sundance, and a greater variety of accommodations and services are available to the east in Spearfish, South Dakota.

Necessary infrastructure, such as housing, food, fuel, etc., would be available in either town, or further to the west in Gillette, Wyoming, should the property enter the development stage. Water rights would likely be available through purchase, and a major power line runs within a mile of the property. Supplies can be trucked to the site 60 miles from

Gillette, which is located on both US Interstate Highway 90 and rail lines. A Burlington Northern rail transport line also runs through Moorcroft, 34 miles west of Sundance. The Gillette area has a coal-fired power plant, and the city would be a major logistics center for any development at the Bear Lodge Property. The current size of the property is sufficiently large to support a mining operation, with no foreseeable obstacles regarding expansion, subject to a favorable environmental permitting outcome.

The Bear Lodge Mountains have a warm and relatively dry climate during summer, followed by cold winters with variable amounts of snow. Optimal field conditions extend from April to November. The Taylor Divide Road is not maintained during winter months, and snowmobile access is given priority from December through March. The 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 situated in northeastern Wyoming. Physiographically it is a northwesterly extension of the Black Hills of western South Dakota. The range is characterized by rounded grass- and pine-covered mountains reaching elevations of 6,400 feet within the 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 property is about 5,800 feet elevation.

Bear Lodge REE Project

Mineral Resources

The Company's comprehensive NI 43-101-compliant Technical Report with an initial mineral resource estimate of REE plus yttrium at the Bull Hill deposit was dated April 14, 2009. The report incorporated descriptions of all the exploration work and metallurgical testing completed by the Company since the initial exploration NI 43-101-compliant report was issued in 2002. The report also included recommendations for additional exploration work to expand the REE mineral resource and the metallurgical testing program. The recommended work was completed.

On May 26, 2010, the Company reported an updated mineral resource estimate of REE plus yttrium contained in two deposits located in the Bull Hill area of the Bear Lodge REE Project. The updated mineral resource estimate increased the total pounds of Rare Earth Oxides (REOs) contained in the Bull Hill deposits by more than 50 percent from 800 million pounds to 1,210 million pounds at a 1.5 percent REO cutoff grade. The minera