

RARE ELEMENT RESOURCES LTD

Form ARS

October 31, 2011

ANNUAL REPORT TO SHAREHOLDERS

2011

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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. Browns 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.

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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:

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

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

.
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;

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

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

.
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;

.

risks associated with the governmental and environmental regulations;

.
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;

.
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;

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

.
risks related to title in the Company's properties;

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

.
risks related to the Company's securities; and

.
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