

RARE ELEMENT RESOURCES LTD  
Form 10-Q  
November 12, 2013

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

**FORM 10-Q**

**x**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR  
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the quarterly period ended September 30, 2013**

**OR**

**o**

**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**  
(Address of Principal Executive Offices)

**80228**  
(Zip Code)

**(720) 278-2460**

(Registrant's Telephone Number, including Area Code)

**Not Applicable**

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

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

Yes  No

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

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

Large accelerated filer

Accelerated filer

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Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

Yes  No

Number of shares of issuer's common stock outstanding as of November 11, 2013: 47,627,245

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## **Reporting Currency, Financial and Other Information**

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

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

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

### *Change in Fiscal Year End*

On September 7, 2012, the Company's board of directors approved a change in our fiscal year end from June 30 to December 31, with the change to the calendar year reporting cycle beginning January 1, 2013. Consequently, we filed a Transition Report on Form 10-K for the six-month transition period ended December 31, 2012. The intent of the change was to align the reporting of our financial results more closely with that of our peers.

## **Cautionary Note Regarding Forward-Looking Statements**

This Quarterly Report on Form 10-Q contains forward-looking information within the meaning of Canadian securities legislation and forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 (collectively, forward-looking statements ). Such forward-looking statements concern our anticipated results and developments in our operation in future periods, planned exploration and evaluation of our properties, processing test work and expected results, timing for completion of a feasibility study for the Bear Lodge Rare Earth Element ( REE ) Project, our future capital needs and our ability to meet these needs, our ability to obtain additional financing and plans related to our 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 the reasonable 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 states, or stating that certain actions, events or results may, could, would, might or will be taken, occur or be achieved) and may be forward-looking statements.

Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from our expectations and include, among others, the factors referenced in the Risk Factors section of our Transition Report on Form 10-K for the period ended December 31, 2012, including, without limitation, risks associated with:

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our history of losses as an exploration stage company and need for additional financing;

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our lack of history of producing metals from our mineral properties;

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

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

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processing test work and expected results;

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increased costs affecting our financial condition;

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fluctuations in demand for, and price of, rare earth products;

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an extremely volatile rare earth industry;

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an increase in global supply or predatory pricing and dumping by our competitors, including China;

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the establishment of new uses and markets of rare earth products;

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a shortage of equipment and supplies;

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mining and resource exploration being an inherently dangerous physical activity;

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operating in the resource industry, which can be highly speculative;

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resource estimates;

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potentially inadequate insurance for our operations;

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mineral operations being subject to market forces outside of our control;

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permitting, licensing and approval processes for our operations;

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governmental and environmental regulations;

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future legislation regarding the mining industry and climate change;

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our land reclamation requirements;

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proposed legislation;

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competition in the mining and rare earth elements industries;





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foreign currency fluctuations;

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our dependence on key personnel;

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the potential difficulty of attracting and retaining qualified personnel;

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our executive officers and directors may be engaged in other businesses;

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title to our properties;

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enforcement of civil liabilities in the United States;

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our securities; and

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tax consequences to U.S. shareholders.

This list is not exhaustive of the factors that may affect our forward-looking statements. Although we have attempted to identify important factors that could cause actual results to differ materially from those described in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, believed, estimated or expected. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. Except as required by law, we disclaim any obligation to revise or update any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. **We qualify all the forward-looking statements contained in this Quarterly Report by the foregoing cautionary statements.** We advise you to carefully review the reports and documents we file from time to time with the United States Securities and Exchange Commission (the SEC), particularly our Transition Report on Form 10-K for the period ended December 31, 2012. The reports and documents filed by us with the SEC are available at [www.sec.gov](http://www.sec.gov).



**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****RARE ELEMENT RESOURCES LTD.****(an exploration stage company)****CONSOLIDATED BALANCE SHEETS**

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

	<b>September 30, 2013</b> <b>(unaudited)</b>	<b>December 31, 2012</b> <b>(audited)</b>
<b>ASSETS:</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 30,869	\$ 24,985
Short-term investments	-	15,118
Interest receivable	4	303
Prepaid expenses	477	185
Marketable securities	-	32
Accounts receivable	51	17
<b>Total Current Assets</b>	<b>31,401</b>	<b>40,640</b>
Equipment, net	563	517
Land	980	-
Mineral properties	27	27
<b>Total Assets</b>	<b>\$ 32,971</b>	<b>\$ 41,184</b>
<b>LIABILITIES:</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 3,090	\$ 3,448
Asset retirement obligation	182	151
<b>Total Current Liabilities</b>	<b>3,272</b>	<b>3,599</b>
Asset retirement obligation	220	238
<b>Total Liabilities</b>	<b>3,492</b>	<b>3,837</b>

**Commitments and Contingencies****SHAREHOLDERS' EQUITY:**

Common shares, no par value - unlimited shares authorized; shares outstanding September 30, 2013 and December 31, 2012 47,627,245 and 44,949,869, respectively

100,536

93,256

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Additional paid in capital	22,645	21,329
Accumulated other comprehensive loss	-	(43)
Accumulated deficit during exploration stage	(93,702)	(77,195)
<b>Total Shareholders' Equity</b>	<b>29,479</b>	<b>37,347</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 32,971</b>	<b>\$ 41,184</b>

See accompanying notes to consolidated interim financial statements

**RARE ELEMENT RESOURCES LTD.****(an exploration stage company)****CONSOLIDATED UNAUDITED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

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

	Three-months Ended September 30,		Nine-months Ended September 30,		Cumulative during exploration stage
	2013	2012	2013	2012	
<b>Operating income and (expenses):</b>					
Exploration and evaluation	\$ (5,565)	\$ (5,382)	\$ (10,421)	\$ (10,757)	\$ (51,500)
Corporate administration	(1,501)	(2,393)	(4,916)	(10,149)	(40,502)
Depreciation	(49)	(46)	(146)	(126)	(408)
Write-down of mineral property	-	-	-	(943)	(2,924)
Total operating expenses	(7,115)	(7,821)	(15,483)	(21,975)	(95,334)
<b>Non-operating income and (expenses):</b>					
Interest income	32	168	207	494	2,183
Gain/(loss) on currency translation	267	1,802	(1,238)	1,870	392
Loss on sale of marketable securities	-	(7)	(39)	(9)	(57)
Unrealized gain/(loss) on derivatives	(39)	-	96	(138)	(856)
Other expense	-	-	(50)	(32)	(30)
Total non-operating income/(expenses)	260	1,963	(1,024)	2,185	1,632
<b>Net loss</b>	<b>\$ (6,855)</b>	<b>\$ (5,858)</b>	<b>\$ (16,507)</b>	<b>\$ (19,790)</b>	<b>\$ (93,702)</b>
<b>Other comprehensive income/(loss)</b>					
Realized loss on available-for-sale securities	\$ -	\$ 7	\$ 39	\$ 9	\$ 57
	-	(4)	4	(23)	(57)

Unrealized gain/(loss) on available-for-sale securities					
Total other comprehensive income/(loss)	-	3	43	(14)	-
<b>COMPREHENSIVE LOSS</b>	\$ (6,855)	\$ (5,855)	\$ (16,464)	\$ (19,804)	\$ (93,702)
<b>LOSS PER SHARE - BASIC AND DILUTED</b>	\$ (0.15)	\$ (0.13)	\$ (0.36)	\$ (0.45)	
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	45,037,175	44,391,636	45,852,135	44,457,530	

See accompanying notes to consolidated interim financial statements

**RARE ELEMENT RESOURCES LTD.****(an exploration stage company)****CONSOLIDATED UNAUDITED STATEMENTS OF CASH FLOWS**

(Expressed in thousands of U.S. Dollars)

For the Nine-months ended

September 30,

2013

2012

Cumulative  
during  
exploration  
stage**CASH FLOWS FROM OPERATING  
ACTIVITIES:**

Net loss for the period	\$ (16,507)	\$ (19,790)	\$ (93,702)
<b>Adjustments to reconcile loss for the period to net cash and cash equivalents used in operations:</b>			
Depreciation	146	127	408
Asset retirement obligation	13	334	402
Fair value of warrants received pursuant to			
the sale of mineral properties	-	-	(15)
Unrealized (gain)/loss on derivatives	(96)	138	856
Write-down of mineral property	-	943	1,891
Loss on currency translation	-	(38)	(17)
Loss on disposal of marketable securities	39	10	57