

RARE ELEMENT RESOURCES LTD
Form 10-Q
May 07, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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**QUARTERLY REPORT PURSUANT TO SECTION 13 OR
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2013

OR

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**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 (as defined in Rule 12b-2 of the Exchange Act)

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 May 7, 2013: 44,949,869

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Reporting Currency, Financial and Other Information

All amounts in this report are expressed in 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 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 United States 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, 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 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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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 activity;

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operating in the resource industry, which is highly speculative;

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resource estimates;

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our lack of insurance for our operations;

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

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the permitting, licensing and approval processes for our operations;

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the 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 being engaged in other businesses;

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title in 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.

The reports and documents filed by us with the SEC are available at 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)

	March 31, 2013 (unaudited)	December 31, 2012 (audited)
ASSETS:		
CURRENT ASSETS		
Cash and cash equivalents	\$ 23,930	\$ 24,985
Short-term investments	9,854	15,118
Interest receivable	1	303
Prepaid expenses	179	185
Marketable securities	-	32
Accounts receivable	58	17
Total Current Assets	34,022	40,640
Equipment, net	558	517
Mineral properties	27	27
Total assets	\$ 34,607	\$ 41,184
LIABILITIES:		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 610	\$ 3,448
Asset retirement obligation	177	151
Total Current Liabilities	787	3,599
Asset retirement obligation	250	238
Total liabilities	1,037	3,837
Commitments and contingencies		
SHAREHOLDERS' EQUITY:		
Common shares, no par value - unlimited shares authorized; shares outstanding March 31, 2013 - 44,949,869, December 31, 2012 - 44,949,869	93,256	93,256
Additional paid in capital	21,904	21,329
Accumulated other comprehensive loss	-	(43)
Accumulated deficit during exploration stage	(81,590)	(77,195)
Total shareholders' equity	33,570	37,347

Total liabilities and shareholders' equity	\$	34,607	\$	41,184
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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)

	For the three month periods ended March 31,		Cumulative during exploration stage
	2013	2012	
Operating income and (expenses):			
Exploration and evaluation	\$ (1,939)	\$ (2,599)	\$ (43,018)
Corporate administration	(1,694)	(4,104)	(37,280)
Depreciation	(49)	(22)	(311)
Write-down of mineral property	-	-	(2,924)
Total operating expenses	(3,682)	(6,725)	(83,533)
Non-operating income and (expenses):			
Interest income	97	151	2,073
Gain/(loss) on currency translation	(821)	1,452	809
Other income (expense)	-	(32)	20
Loss on sale of marketable securities	(39)	(2)	(57)
Gain/(loss) on derivatives	50	(161)	(902)
Total non-operating income (expense)	(713)	1,408	1,943
Net loss	\$ (4,395)	\$ (5,317)	\$ (81,590)
Other comprehensive loss			
Realized loss on available-for-sale securities	\$ 39	\$ 2	\$ 57
Unrealized loss on available-for-sale securities	4	2	(57)
COMPREHENSIVE LOSS	\$ (4,352)	\$ (5,313)	\$ (81,590)
LOSS PER SHARE - BASIC AND DILUTED	\$ (0.10)	\$ (0.12)	
	44,949,869	44,222,366	

**WEIGHTED AVERAGE
NUMBER OF
SHARES OUTSTANDING**

See accompanying notes to consolidated interim financial statements

RARE ELEMENT RESOURCES LTD.
(an exploration stage company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of U.S. dollars)

	For the three month periods ended March 31,		Cumulative during exploration stage
	2013	2012	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss for the period	\$ (4,395)	\$ (5,317)	\$ (81,590)
Adjustments to reconcile loss for the period to net cash and cash equivalents used in operations:			
Depreciation	49	23	311
Asset retirement obligation	38	-	427
Fair value of warrants received pursuant to the sale of mineral properties	-	-	(15)
Unrealized (gain)/loss on derivatives	(50)	161	902
Write-down of mineral property	-	-	1,891
Loss on currency translation	-	(48)	(17)
Loss on disposal of marketable securities	39	2	57
Loss on disposal of equipment	-	-	(3)
Stock-based compensation	575	2,827	22,124
Changes in non-cash working capital			
Accounts receivable	(41)	(229)	(199)
Interest receivable	302	397	(9)
Prepaid expenses	6	239	(191)
Accounts payable and accrued liabilities	(2,788)	(1,590)	436
Due to related party	-	(28)	(28)
Net cash and cash equivalents used in operating activities	(6,265)	(3,563)	(55,904)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of marketable securities	-	-	(207)
Purchases of short-term investments	(9,823)	(20,054)	(24,941)
Additions to mineral properties, net of cost recoveries	-	-	(29)
Additions to restricted cash	-	-	(422)
Release of restricted cash	-	-	422
Purchases of equipment	(90)	(82)	(870)
Proceeds from sale of marketable securities	36	40	186

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Proceeds from sale of short-term investments	15,087	-	15,087
Payments received for sale/option of mineral properties	-	-	279
Net cash and cash equivalents provided by (used in) investing activities	5,210	(20,096)	(10,495)

CASH FLOWS FROM FINANCING ACTIVITIES:

Advance of promissory note	-	-	111
Repayment of promissory note	-	-	(129)
Cash received for common shares, net of share issuance costs	-	160	94,916
Shares subscribed	-	-	(4,788)
Net cash and cash equivalents provided by financing activities	-	160	90,110