

RARE ELEMENT RESOURCES LTD
Form 10-Q
May 11, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2015

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

(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

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 issuer's common shares outstanding as of May 8, 2015: 52,937,986

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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 predecessor or consolidated subsidiaries, or any one or more of them, as the context requires.

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 completion of a feasibility study (FS), our development plans for the Bear Lodge Rare Earth Element Project (Bear Lodge REE Project or the Project), our projected timing for Project commissioning, future expenditures to comply with environmental laws and regulations, the impact of changes in foreign currency exchange rates on our financial statements, our future capital and financing needs and our ability to meet these needs. 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 anticipates, plans, estimates or intends (including negative or grammatical variations thereof), or stating that certain actions, events or results may, could, would, might or will be taken, occur or be achieved) are forward-looking statements of historical fact 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 Annual Report on Form 10-K for the period ended December 31, 2014, including, without limitation, risks associated with:

·
our history of losses and need for additional financing;

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

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

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

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

·
increased costs affecting our financial condition;

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

·
establishment of adequate distribution channels to place our entire future product suite;

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

·
technological advancements and the establishment of substitutes for rare earth products;

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

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

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mineral reserve and mineral resource estimation;

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

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

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

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a shortage of equipment and supplies;

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

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

control;

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title to our properties or mining claims;

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

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

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negative impacts to our business or operations from market factors;

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our land reclamation and remediation requirements;

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information technology system disruptions, damage or failures;

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

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foreign currency fluctuations;

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

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costs associated with any unforeseen litigation;

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enforcement of civil liabilities in the United States and elsewhere;

our common shares continuing not to pay cash dividends;

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

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

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

other factors, many of which are beyond our control.

This list is not exhaustive of the factors that may affect our forward-looking statements. Although we have attempted to identify important factors that could cause actual results to differ materially from those described in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary, possibly materially, from those anticipated, believed, estimated or expected. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. Except as required by law, we disclaim any obligation to revise 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 of 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 Annual 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.
CONSOLIDATED BALANCE SHEETS**

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

| | March 31, 2015 (unaudited) | December 31, 2014 (audited) |
|---|-------------------------------|--------------------------------|
| ASSETS: | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 7,505 | \$ 10,139 |
| Interest receivable | 14 | 6 |
| Accounts receivable | 25 | 21 |
| Prepaid expenses | 182 | 315 |
| Total Current Assets | 7,726 | 10,481 |
| Equipment, net | 299 | 344 |
| Land | 980 | 980 |
| Mineral properties | 27 | 27 |
| Total Assets | \$ 9,032 | \$ 11,832 |
| LIABILITIES: | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 700 | \$ 1,098 |
| Asset retirement obligation, current portion | 164 | 164 |
| Total Current Liabilities | 864 | 1,262 |
| Asset retirement obligation, non-current portion | 202 | 202 |
| Total Liabilities | 1,066 | 1,464 |
| Commitments and Contingencies | | |
| SHAREHOLDERS' EQUITY: | | |
| Common shares, no par value - unlimited shares authorized; shares outstanding March 31, 2015 - 47,707,216, December 31, 2014 - 47,707,216 | 100,652 | 100,652 |
| Additional paid in capital | 23,259 | 23,186 |
| Accumulated deficit | (115,945) | (113,470) |
| Total Shareholders' Equity | 7,966 | 10,368 |
| | \$ 9,032 | \$ 11,832 |

**Total Liabilities and Shareholders'
Equity**

See accompanying notes to consolidated interim financial statements

RARE ELEMENT RESOURCES LTD.
CONSOLIDATED UNAUDITED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

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

| | For the three months ended March 31, | |
|---|--------------------------------------|-------------------|
| | 2015 | 2014 |
| Operating income (expenses): | | |
| Exploration and evaluation | \$ (1,118) | \$ (2,821) |
| Corporate administration | (1,010) | (1,348) |
| Depreciation | (45) | (52) |
| Total operating expenses | (2,173) | (4,221) |
| Non-operating income (expenses): | | |
| Interest income | 9 | 29 |
| Gain/(loss) on currency translation | (311) | (346) |
| Gain/(loss) on derivatives | - | 107 |
| Total non-operating income (expense) | (302) | (210) |
| Net loss | \$ (2,475) | \$ (4,431) |
| Other comprehensive loss | | |
| Realized loss on available-for-sale securities | \$ - | \$ - |
| Unrealized (gain)/loss on available-for-sale securities | - | - |
| COMPREHENSIVE LOSS | \$ (2,475) | \$ (4,431) |
| LOSS PER SHARE - BASIC AND DILUTED | \$ (0.05) | \$ (0.09) |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | 47,707,216 | 47,704,550 |

See accompanying notes to consolidated interim financial statements

RARE ELEMENT RESOURCES LTD.
CONSOLIDATED UNAUDITED STATEMENTS OF CASH FLOWS
 (Expressed in thousands of U.S. dollars)

| | For the three months ended March 31, | |
|--|--------------------------------------|------------|
| | 2015 | 2014 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss for the period | \$ (2,475) | \$ (4,431) |
| Adjustments to reconcile net loss for the period to net cash and cash equivalents used in operating activities: | | |
| Depreciation | 45 | 52 |
| Realized gain on derivatives | - | (5) |
| Unrealized (gain)/loss on derivatives | - | (103) |
| Stock-based compensation | 73 | 188 |
| | (2,236) | (4,299) |
| Changes in non-cash working capital | | |