ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis of the consolidated financial results and condition of Rare Element Resources Ltd. (collectively, "we," "us," "our," "RER" or the "Company") for the three and six months ended June 30, 2025, has been prepared based on information available to us as of August 6, 2025. This discussion should be read in conjunction with the unaudited Condensed Consolidated Financial Statements and notes thereto included herewith and the audited Consolidated Financial Statements of RER for the year ended December 31, 2024, and the related notes thereto filed with our Annual Report on Form 10-K, which have been prepared in accordance with U.S. GAAP. This discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Our actual results, performance, or achievements may differ materially from those anticipated in these forward-looking statements as a result of many factors, including, but not limited to, those set forth elsewhere in this report. See "Cautionary Note Regarding Forward-Looking Statements."

All currency amounts are expressed in thousands of U.S. dollars, unless otherwise noted.

Overview and Outlook

Our primary focus has been and continues to be the engineering, permitting, licensing, construction, and operation of the Demonstration Plant. If successful, the Demonstration Plant will show that our proprietary extraction technology is able to process and separate certain REEs from sample materials extracted from our Bear Lodge REE Project in a more efficient and economical manner than traditional REE processing methods and will serve as a precursor to inform the design and estimated cost for a future full-scale production facility.

In September 2024, the DoE issued its final Project Continuation Notice, confirming the Demonstration Plant's readiness for operations. This notice, along with the NRC's approval of operations received in October 2024, cleared the path for operations of the Demonstration Plant to formally commence, with operations to process and separate the REE from the already stockpiled high-grade sample materials from the Bear Lodge REE Project to follow the completion of construction and pre-operation activities. During the first half of 2025, the Company, along with the other consortium members, continued their work on the Demonstration Plant project, and this work is expected to continue until the completion of the project's operations.

During the first half of 2025, several design and equipment issues were identified during the Demonstration Plant's equipment testing phase, which followed the completion of construction activities. As a result of these issues, an as-built design review was commenced in April 2025. The Company now expects plant commissioning to start in late 2025 and commencement of plant operations to begin in the first quarter of 2026. During the production phase, the Demonstration Plant is expected to produce up to 10 tons of NdPr oxide.

In June 2023, the Company entered into the WEA Funding Agreement for its previously announced award of a $4,400 grant from the WEA to be used toward the advancement of the Demonstration Plant. This award, along with funds contributed by the Company and the DoE, is being used to fund the Demonstration Plant's construction and operating costs. As of December 31, 2023, the Company had met the conditions allowing for the invoicing of $2,000 of the $4,400 WEA grant total. This $2,000 was subsequently received on January 31, 2024. By September 30, 2024, the Company had met the conditions allowing for the invoicing of an additional $2,000, which was subsequently received in November 2024. The remaining $400 of the $4,400 grant total, which is conditioned on the achievement of other, future milestones, will be invoiced to the WEA once those final milestones have been achieved, which are currently expected to occur in early 2026.

Since inception, the General Atomics-led consortium has seen increases in the Demonstration Plant project costs, including final equipment costs, due to, among other factors, inflation. As a result of these cost pressures, General Atomics, on behalf of the consortium, submitted to the DoE an updated Demonstration Plant construction and operations budget of approximately $53,600, which is approximately 22% higher than the original budget of approximately $43,800. In response, the DoE pledged an additional commitment of $2,400 to help fund a portion of this budget increase, with the balance to be funded by the Company, including any amounts in excess of the $53,600 revised DoE approved budget total, now estimated to be in excess of $66,000.

To fund the Company's share of these cost increases, in March 2024, the Company completed a rights offering (the "2024 Rights Offering") for gross proceeds of approximately $35,800, in which each holder of the Company's common shares as of the record date of December 15, 2023, was eligible to participate. The proceeds from the 2024 Rights Offering are being used to progress the Company's business strategy, which includes the rework of the Demonstration Plant and its operation for a period of time sufficient to provide the information to support a commercialization decision, as well as for other general corporate purposes.

Even with these funds and the expected receipt of the remaining WEA grant monies and DoE funds, the Company will still require substantial additional funds for the permitting, development, and build-out of the Bear Lodge REE Project. As a result, the Company commenced discussions with the Export-Import Bank of the United States (“EXIM Bank”) as a potential source of funds for the Bear Lodge REE Project’s development. In March 2025, the Company received a non-binding Letter of Interest from the EXIM Bank to provide debt financing of up to $553,000 for the Bear Lodge REE Project’s development. If pursued further by the Company through a loan application, and that application is approved, these funds could support the permitting, engineering, design, and construction of the Bear Lodge REE Project. However, there can be no assurance these funds will be pursued or, if pursued, approved by the EXIM Bank.

Ultimately, in the event the Company cannot secure additional financial resources, or complete a strategic transaction in the longer term, the Company may need to curtail or suspend its operational plans regarding the Bear Lodge REE Project or other initiatives, or potentially liquidate its business interests, and investors may lose all or part of their investment.

Current External Factors Impacting our Business

During the first half of 2025, we continued to monitor the general U.S. political climate and actions taken by the U.S. government to secure a domestic rare earth supply chain. Due to the dominance of China over the REE supply chain, the U.S. federal government has issued several Presidential Executive Orders, under both the Biden Administration and the first and second Trump Administrations, to encourage and support the establishment of a domestic REE supply chain and to strengthen the defense industrial base with respect to critical minerals, including REEs.

On January 20, 2025, President Trump issued the “Unleashing American Energy” Executive Order, which included: (1) several urgent critical mineral and rare earth directives, including the immediate review of all agency actions that potentially burden the development of domestic energy resources with particular attention to critical minerals; (2) directing the Secretary of Energy to ensure that critical mineral projects, including the processing of critical minerals, receive consideration for federal support; (3) directing the Secretary of Defense to consider the needs of the U.S. in supplying and maintaining the national defense stockpile to provide a robust supply of critical minerals; and (4) establishing the U.S. position as the leading producer and processor of rare earth minerals, which will create jobs and prosperity at home, strengthen supply chains for the U.S. and its allies, and reduce the global influence of malign and adversarial states.

In March 2025, President Trump issued the “Immediate Measures to Increase American Mineral Production” Executive Order. In this Executive Order, President Trump directed the federal agencies, including the EXIM Bank, to unlock the permitting, funding and issuance of off-take agreements for critical minerals, including rare earths. The Executive Order includes near-term actions to be determined and implemented by the federal agencies to fast-track permits, mobilize capital for mineral producers and create off-take agreements for the strategic stockpiling of minerals critical to the United States’ defense, technology and energy.

Additionally, in early 2025, the Trump Administration announced several potential new and/or increased tariffs and other trade restrictions on imports to the United States. The impact of these tariffs and trade restrictions is currently unknown and could have an impact on the REE supply chain and/or our business operations. In response to the tariffs and trade restrictions imposed by the Trump and previous Administrations, China, in December 2023, announced it had banned the export of technology to make rare earth magnets, adding to its previous export ban of critical material extraction and separation technology. In December 2024, China further banned the export of certain critical minerals, including gallium, germanium, and antimony, which have widespread military applications. In February 2025, China expanded its export licensing requirements to include five additional minerals: tungsten, indium, bismuth, tellurium, and molybdenum. In April 2025, China imposed additional export restrictions on REEs, including both raw materials and processed products such as permanent magnets. As U.S.-China trade negotiations continued, the April 2025 restrictions were lifted in part, however, a Chinese rare earth licensing system remains in place, which controls the export of rare earths and technology relating to rare earths.

In addition, the impacts of the COVID-19 pandemic and other external influences (such as the Russia/Ukraine war, conflicts in the Middle East, and tariffs on certain critical mineral exports from China) have further focused the U.S. government on the importance of implementing secure domestic supply chains, including for REEs.

Results of Operations

Summary

For the three and six months ended June 30, 2025, we experienced net losses of $1,180 ($0.00 per share) and $3,575 ($0.01 per share), respectively, compared with net losses of $6,179 ($0.01 per share) and $9,805 ($0.02 per share) for the three and six months ended June 30, 2024, respectively. See our discussion below for the primary drivers of these changes. As an exploration stage company, we had no properties in production and generated no revenues during either period.

Exploration and Evaluation

Our exploration and evaluation costs decreased by $5,003 over the comparative three-month period, decreasing from $5,821 for the three months ended June 30, 2024 to $818 for the three months ended June 30, 2025, and by $6,029 over the comparative six-month period, decreasing from $8,724 for the six months ended June 30, 2024 to $2,695 for the six months ended June 30, 2025. These decreases were largely attributable to the activities associated with our Demonstration Plant as activities shifted from equipment acquisitions and installation during 2024 to final testing and shakedown activities in 2025. See Note 4 to the Consolidated Financial Statements for a discussion of the Cost Share Agreement.

Corporate Administration

Our corporate administrative costs remained relatively constant at $568 and $623 for the three months ended June 30, 2025 and 2024, respectively, and $1,318 and $1,322 for the six months ended June 30, 2025 and 2024, respectively. The majority of these expenses relate to costs associated with our public company compliance and reporting obligations.

Interest Income

Our interest income decreased by $110 over the comparative three-month periods, decreasing from $371 for the three months ended June 30, 2024 to $261 for the three months ended June 30, 2025 while increasing by $93 over the comparative six-month periods, increasing from $452 for the six months ended June 30, 2024 to $545 for the six months ended June 30, 2025. These changes were largely attributable to our 2024 Rights Offering, which closed in March 2024, and its impact on our excess cash balances available for investment pre- and post-closing.

Accretion Expense

For the three and six months ended June 30, 2025, we recorded accretion expense of nil (in each period) compared to $71 and $142 for the three and six months ended June 30, 2024, respectively, with the accretion expense recorded during 2024 being related to the Company's option to repurchase approximately 640 acres (257 hectares) of real property in Wyoming. With the Company's repurchase of this land in October 2024, the Company discontinued its recording of accretion expense and will not incur further accretion expense in future periods related to this repurchase option.

Financial Position, Liquidity and Capital Resources

Operating Activities

Net cash used in operating activities was $3,537 for the six months ended June 30, 2025, compared with $8,287 for the same period in 2024. This reduction of $4,750, partially offset by the collection in 2024 of $2,000 in WEA grant funds, was largely attributable to the decrease in our exploration and evaluation expenditures as activities shifted from Demonstration Plant equipment acquisitions and installation during 2024 to final testing and shakedown activities in 2025. Absent the $2,000 in WEA grant offset funds, net cash used in operating activities for the six months ended June 30, 2024 would have been $10,287.

Investing Activities

Net cash used in investing activities of $142 and $52 for the six months ended June 30, 2025 and 2024, respectively, were for the purchase of equipment. The 2024 total was partially offset by $12 in proceeds from the sale of equipment.

Financing Activities

Net cash provided by financing activities of $35,286 for the six months ended June 30, 2024 stemmed from the receipt of the net proceeds from the 2024 Rights Offering. There were no similar transactions during the six months ended June 30, 2025.

Financial Position, Liquidity and Capital Resources

At June 30, 2025, we had a working capital balance of $21,142 which was a decrease of $3,679 from our December 31, 2024 working capital balance of $24,821. This decrease was largely the result of the reduction in our cash and cash equivalents balance, which decreased by $3,682 from $26,732 at December 31, 2024 to $23,050 at June 30, 2025.

In June 2023, the Company entered into the WEA Funding Agreement for its previously announced award of a $4,400 grant from the WEA to be used toward the advancement of the Demonstration Plant. Following the achievement of the first milestone under the WEA Funding Agreement, the Company received in January 2024 the first $2,000 of the $4,400 grant. In September 2024, a second funding request of $2,000 was submitted to the WEA with the achievement of the second milestone under the WEA Funding Agreement. The collection of this second $2,000 tranche was received in November 2024, with the remainder, or the $400 retainer, forecasted for collection in early 2026.

Due to inflationary cost pressures on labor, equipment, and consumables, as well as cost increases associated with certain optimized plant engineering and design parameters, General Atomics, on behalf of the consortium, submitted to the DoE an updated Demonstration Plant project budget of approximately $53,600, which is approximately 22% higher than the original budget of approximately $43,800. In response, the DoE pledged an additional commitment of $2,400 (increasing its total commitment to approximately $24,200) in September 2024 to help fund a portion of this budget increase, with the balance to be funded by the Company, including any amounts in excess of the $53,600 revised budget total, now estimated to be in excess of $66,000. Through June 30, 2025, the DoE has paid a total of approximately $20,500 towards its commitment of approximately $24,200, leaving a balance of approximately $3,700 to be invoiced and collected from the DoE under the current cost share award.

During the first half of 2025, several design and equipment issues were identified during the Demonstration Plant's equipment testing phase, which followed the completion of construction activities. As a result of these issues, an as-built design review was commenced in April 2025. The Company now expects plant commissioning to start in late 2025 and commencement of plant operations to begin in the first quarter of 2026. As of June 30, 2025, the scope of rework activities was still under review.

The funds raised by the Company in the 2024 Rights Offering are expected to support the operations of the Demonstration Plant for a sufficient period of time to gather the information necessary for a commercialization decision. However, even with these funds and the expected receipt of the remaining WEA grant monies and DoE funds, the Company will still require substantial additional funds to complete the permitting and licensing, and ultimate construction and operation of a commercial mine and plant for the Bear Lodge REE Project. Ultimately, in the event the Company cannot secure additional financial resources, or complete a strategic transaction in the longer term, the Company may need to curtail or suspend its operational plans regarding the Bear Lodge REE Project or other initiatives, or potentially liquidate its business interests, and investors may lose all or part of their investment.

Contractual Obligations

There were no material changes to the contractual obligations disclosed in Item 7 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2024.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.