12 March 2019

Rainbow Rare Earths Ltd ('Rainbow' or 'the Company') (LSE: RBW)
Interim Results for the six months ended 31 December 2018

Rainbow, the high grade rare earth (‘RE’) concentrate producer, announces its unaudited results for the six months ended 31 December 2018.

Highlights

- Maiden JORC resource announced in December identified two highly prospective areas within the deposit: 12,491 tonnes of high-grade veins averaging 55% total rare earth oxides (‘TREO’), and a much larger, lower-grade area of 1.2 million tonnes averaging 2.2% TREO
- Funds successfully raised – US$2.0 million from an equity placing in August 2018, and an equity drawdown/convertible facility signed shortly after period end for up to US$7.75 million with a fund managed by Lind Partners LLC (‘Lind’)
- Production ramp-up slower than expected, however concentrate exports increased slightly to 550 tonnes in the period (six months to 30 June 2018: 525 tonnes)
- Customer demand very strong and all exported production was sold by period end
- Second mining area, Murambi, entered production in December 2018 and two further mining areas planned to open during 2019
- Loss for the six months ended 31 December 2018 of US$3.2 million (31 December 2017: US$1.1m) – commercial production declared from 1 July 2018, all production costs now expensed

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CEO Statement

As one of only two listed RE companies that is producing commercially outside China, and as the only RE producer in Africa, the fundamentals of our potential world-class, high-grade asset remain strong. Given that demand for REs (particularly those used in the manufacture of rare earth magnets) is expected to rise in response to the increase in production of electric vehicles ('EVs'), we are excited about the future. From a production perspective, the six months ended 31 December 2018 were challenging, particularly from the operation's first pit, Gasagwe, which has provided almost all the ore mined from the Gakara project to date. However, looking ahead, we have begun to address the teething issues and are now focused on increasing production from new mining areas, targeting near-term positive EBITDA and becoming a key strategic supplier to the market.

Production and sales

Having successfully completed the construction and commissioning of the Kabezi processing plant earlier in calendar 2018 and demonstrated that our high grade rare earth mineral concentrate product could be successfully sold, we had targeted the first half of the financial year 2018-19 as a period when production of concentrate would increase to our target run rate of approximately 400 tonnes per month by the end of December 2018.

However, the deposit at Gasagwe proved more complex and unpredictable than initially modelled, and the ramp-up progressed more slowly than we had planned. Quarterly production and exports during the first half of financial year 2018-19 remained broadly consistent with the preceding six months.

In response, we modified our near-term production strategy to target the operation of four mining areas in parallel. The second mining area, Murambi, began production in the second half of December, and the next two areas (Kiyenzi and Gomvyi) are undergoing preparatory exploration and development work with a view to commencing operations in the second half of calendar 2019.

Demand from customers sourced by our partners, thyssenkrupp Materials Trading ('TK'), for the Company's high-grade concentrate product was and remains very strong. All of the tonnes exported from Burundi during the period had been sold prior to the end of December 2018. This strong level of demand gives us confidence in seeking to rapidly increase the scale of our operations.

The mineralisation at Gasagwe, as well as Murambi and Gomvyi, takes the form of a stockwork of veins. These veins have exceptionally high grades, typically 50-60% TREO, but their shape, thickness and direction can be difficult to predict. By operating multiple pits and vein faces within them, we aim to moderate the unpredictability in the supply of ore, as well as to increase the overall levels of production to hit breakeven levels of approximately 250 tonnes of concentrate per month, at current rare earth prices, during the second half of calendar 2019.

Exploration

In December 2018, the Company announced its maiden JORC resource. This study included just four prospect areas within the Company's Mining Licence, out of a total target list of 28, and identified the existence of two different types of mineralisation.

For those areas where mineralisation takes the form of a stockwork of high-grade veins (ie Gasagwe, Murambi and Gomvyi), a total of 12,491 tonnes of resource averaging 55% was identified. This represents sufficient ore supplies for at least the next two years. It should also be emphasised that JORC rules limit the extent to which identified veins can be assumed to continue along strike or at depth; in this case, we could not assume a continuation of more than 40 metres below surface, although we strongly believe this to be conservative given our experience so far of vein depths at Gasagwe.

In addition, at Kiyenzi, a much larger, lower-grade deposit was discovered. Based on a limited number of drill results, a deposit was measured of some 1.2 million tonnes of ore grading at 2.2% TREO, including areas of higher grade 'breccia' material which the Company plans to commence mining in 2019. This exciting larger scale discovery had been unexpected and further investigation is planned to determine the scale of the deposit, as well as potential ways to process the lower grade material.

Safety, health and community

By 31 December 2018, the Gakara project had passed the milestone of 1.5 million LTI-free (lost time injury) man hours, an achievement of which management is rightly proud. However, the recent tragedies reported at mine sites around the world serve to remind us all that safety must be an ongoing, daily priority, and to underline the dangers of complacency.

In particular, we have identified road traffic incidents, whether on public highways or on local access roads, and land slippages as high priority/high risk areas. We have revisited all of our standard operating procedures in these areas, and reinforced messages have been disseminated throughout the organisation and, where relevant, to local communities.

Rainbow understands its responsibilities towards the communities local to its operations and has continued to provide support across a broad range of areas, including providing potable water at Kabezi, clearing and repairing public roads and storm water culverts with its earth-moving equipment and technical crews, and the training and development of local recruits.

Corporate

In August 2018, the Company completed an equity placing which raised US$2.0 million before costs. In January 2019, the Company announced that it had signed an equity drawdown/convertible loan facility with a fund managed by Lind for up to US$7.75 million. Both of these financings were principally for working capital purposes, during the ramp up period before reaching break-even production of approximately 250 tonnes per month of concentrate, as well as to provide additional mining fleet and to finance the opening of new mining areas (land compensation, construction of access roads, pre-mining development etc).

Equity markets are going through a difficult period at the present time, and along with many other junior mining companies, Rainbow's share price has suffered. Additionally, slower than anticipated production led to the need for the additional funding described above.

In August 2018, we were pleased to announce the signing of a co-operation agreement with TechMet Limited ('TechMet'), which will accelerate our work towards developing the capability of further processing our concentrate, in order to capture more of the downstream value. Under the terms of this agreement, TechMet will lead the work to complete a Definitive Feasibility Study ('DFS') for a separation process, which is intended to be owned as a Joint Venture between the two companies. The DFS will be funded exclusively by TechMet on a reimbursable carry basis.

Rare earths market

The fundamentals of the RE market, particularly for the magnet metals, Neodymium and Praseodymium, remain strong. Rare earth magnets are a key component of the drive motors within electric vehicles and are also used in a number of other growth applications including wind turbines, smartphones and headphones. At the same time, new sources of supply are limited – many new RE projects require significant financing in order to begin construction and often need significantly higher RE prices in order to be economically viable. By already being in production, Rainbow is well placed to benefit quickly from increasing prices.

Nevertheless, RE prices stagnated during the six months to 31 December 2018 with Rainbow's indicative basket price falling 12% from US$12.87/kg to US$11.33/kg during the period, although this has strengthened slightly in 2019. RE market commentators appear to be consistent in their view that RE prices will increase from present levels, and the only questions are how quickly and how far.

Outlook

Rainbow's near-term priorities during calendar 2019 are to bring four mining areas into production, thereby reaching cashflow breakeven levels of production of approximately 250 tonnes of concentrate per month (at current prices) in the second half of the year. Thereafter, production increases will be targeted from the development and exploitation of the numerous additional areas across the Mining Licence.

However, the Company's longer term value creating opportunities remain firmly in place.

Through ongoing exploration work, much of which may be undertaken at minimal cost, the Company seeks to expand its understanding of the extent of the numerous RE deposits within its Mining Licence. The discovery of a large area of low-grade mineralisation at Kiyenzi offers an exciting prospect and warrants additional research into its scale and metallurgical properties.

At the same time, the co-operation agreement with TechMet continues to make progress into developing the capability to process Rainbow's concentrate further, thereby increasing not only the value of the product sold but also opening up the universe of possible customers more widely.

Financial Review

Overview

The six months to 31 December 2018 represented a continuation of the ramp-up of production at the Gakara project, which had commenced from the time the Kabezi plant had been constructed and fully commissioned in the second half of the previous financial year to 30 June 2018. The slow rate of production increase, driven mainly by operating challenges at the Gasagwe pit, meant that operations continued to operate at a loss during the period, with break-even production now targeted for later in calendar 2019, specifically when production reaches approximately 250 tonnes of concentrate per month.

Income statement

On 1 July 2018, the Directors determined that commercial production had been reached at the Gakara project, and that henceforth revenues and production costs from operations would be reported through the income statement. Previously, any sales revenues and production costs were capitalised as a part of the mine development asset.

650 tonnes of concentrate were sold in the six months to 31 December 2018, at an average net price (after accounting for marketing fees and handling costs deducted at source) of US$1,892 per tonne. Revenue was therefore US$1.2 million in the period, compared with US$1.0 million for the six months to 30 June 2018 (six months to 31 December 2017: nil).

Royalty and transport costs of US$0.2 million (six months to 31 December 2017: nil) included the cost of transporting the concentrate from the mine site to the port of Mombasa, as well as the government royalty recorded at 4%.

Production costs totalled US$1.6 million (six months to 31 December 2017: nil), including the cost of running the processing plant (US$0.4 million), mining costs (US$0.7 million), and local administrative and support costs in Burundi (US$0.5 million).

Production costs of US$1.0 million reported in the year to 30 June 2018 occurred prior to the point at which the Company determined that commercial production had been reached, and were restricted to the amount required to eliminate the margin on revenues from the sale of 475 tonnes of concentrate.

The gross margin on production was a loss of US$0.5 million in the period.

Stockpile movement of US$0.2 million represents the net decrease in the value of the ore and concentrate stocks held during the period, as this amount is shown separately from cash production costs.

Administration costs totalled US$0.7 million, in line with the six months to 31 December 2017, and compared favourably with the full year to 30 June 2018 (US$2.0 million), as discretionary expenditure was minimised.

EBITDA in the period was a loss of US$1.4 million, compared with a loss of US$0.8 million for the six months to 31 December 2017 and a loss of US$2.0 million for the year to 30 June 2018.

Share based payments, which reflect the cost of employee share options awarded in previous periods and are recorded over the vesting period, totalled US$0.1 million in the period, compared with US$0.5 million in the six months to 31 December 2017 and US$0.7 million for the full year to 30 June 2018, as a result of no new awards having been made since August 2017.

Depreciation was charged for the first time in the period at US$1.7 million in accordance with the Company's policies.

Finance income, primarily FX gains on currency movements, was US$0.1 million, while finance costs (including the interest on the Finbank overdraft) amounted to US$0.1 million.

Pre-tax losses were therefore reported of US$3.1 million, compared with losses of US$1.1 million in six months to 31 December 2017 and US$2.5 million for the year to 30 June 2018.

Income tax expenses primarily related to withholding taxes, and were less than US$0.1 million.

Total loss after tax was US$3.2 million, compared with losses of US$1.1 million in six months to 31 December 2017 and US$2.6 million for the year to 30 June 2018.

Balance sheet

The Company's fixed assets increased to US$10.7 million by 31 December 2018 (30 June 2018: US$11.2 million). This reflected the net impact of new capex, including mine development work at the new Murambi pit, offset by US$1.7 million of depreciation.

Current assets at 31 December 2018 totalled US$0.6 million, down from US$1.3 million at 30 June 2018, as a result of reductions in inventory levels and trade receivables, largely due to timing of exports and sales receipts over the period end.

Total borrowings, including trade creditors, accruals and the Finbank overdraft, amounted to US$2.1 million, in line with the level at 30 June 2018 of US$2.2 million.

Cash flow statement

The Company's cash balance at 31 December 2018 was US$56k (30 June 2018: US$354k), although this does not take into account the Finbank overdraft facility of US$0.9 million.

After adjusting for non-cash items and working capital movements, US$1.3 million of cash was used in operating activities, compared with US$1.1 million in the six months to 31 December 2017 and US$1.8 million for the year to 30 June 2018.

Capex for the period was US$1.1 million, including the establishment of the Murambi mine site, compensation payments for new areas at Gasagwe, Kiyenzi and Murambi, and the cost of the geological work necessary for the maiden JORC resource, which is included under the Gakara mine development costs.

Funding for operating losses and the Group's capex largely came from the equity placing in August 2018, which raised US$1.8 million net of costs.

Going concern

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Condensed Consolidated and Company Financial Statements. For further detail refer to the detailed discussion of the assumptions outlined in note 2(a) to the Condensed Consolidated Financial Statements.

Cautionary Statement:

The business review and certain other sections of this Half Yearly Report contain forward looking statements that have been made by the Directors in good faith based on the information available to them up to the time of their approval of this report. However they should be treated with caution due to inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information and no statement should be construed as a profit forecast.

Risks and uncertainties

There are a number of potential risks and uncertainties inherent in the mining sector which could have a material impact on the long-term performance of the Company and which could cause the actual results to differ materially from expected and historical results. The Company has taken reasonable steps to mitigate these where possible. Full details are disclosed on page 26 of the Annual Report for the year ended 30 June 2018. There have been no significant changes to the risk profile during the first half of the year. The risks and uncertainties are summarised below:

- Production issues
  - The production of rare earth mineral concentrate involves a series of processes, from the mining of the ore at the mine sites near Mutambu, to the processing of material at the Kabezi plant.
  - Mining operations are subject to a number of risks, including mechanical outages, supply issues (eg fuel), interruptions due to weather and soil conditions, among many others.
- Geological risk
  - The Company does not currently have a code-compliant Mineral Reserve, and its JORC Resource (published in December 2018) covers a limited area – just 4 of 28 exploration targets, and even those were limited in scope. The scale of its mineral deposit therefore cannot be stated with certainty.
  - It is possible that the quantity of rare earths present in the licence area is less than management expectations with resulting impacts on production in the short and longer term.
- Rare earth prices
  - The Company produces rare earth mineral concentrate which is sold to TK on market price less a deductions and a discount (negotiated by TK with each end customer).
  - Rare earth prices have been volatile in the past. If the underlying rare earth basket price falls, this reduces revenue and will impact the profitability of the mine.
  - The current discount rate is approximately 70%, however may vary depending on the arrangements TK negotiates with any new customers or as terms are renegotiated.
- Soil instability in mining areas and/or access routes
  - Heavy rains during the rainy season (Oct-May) can lead to land slippages, which could lead to production interruption in the event that these impacted the mining areas or access routes
- Civil unrest
  - Burundi has experienced civil unrest, most recently in 2015. Any subsequent instances of civil unrest could impact the operation of the mine, including its ability to obtain supplies or export its material, or even access its bank accounts in country.
- Financing risk
  - The Company currently forecasts that it will have adequate headroom to continue in operations. However, in the event that one or more negative scenarios come to pass (such as commodity prices, or production problems), then additional financing may be necessary.
- Currency controls

- The Company receives proceeds in US dollars, which, are repatriated to an account in the Burundi Central Bank.
- Burundi has experienced shortages of foreign currency reserves in the past, and it is therefore possible that access to US dollars held in country might be difficult. This would affect the Company's ability to meet ongoing foreign currency obligations (eg corporate costs, and any debt payments in US dollars).

Directors' Responsibility Statement

We confirm that to the best of our knowledge:

a) the Condensed set of Interim Financial Statements has been prepared in accordance with IAS 34 '*Interim Financial Reporting'*;
b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year);
c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein); and
d) the condensed set of interim financial statements, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required by DTR 4.2.4R.

This Half Yearly Report has been approved by the Board and signed on its behalf by:

Martin Eales
Chief Executive Officer

12 March 2019

Condensed Consolidated Statement of Comprehensive Income

Six months ended 31 December 2018

	Notes	**6 months to 31 December 2018 US$'000** Unaudited	**6 months to 31 December 2017 US$'000** Unaudited	**12 months to 30 June 2018 US$'000** Audited
Revenue	2b	1,230	-	992
Royalty and transport costs	2b	(208)	-	-
Production costs	2b	(1,557)	-	(992)
Gross margin		**(535)**	**-**	**-**
Stockpile movement	5	(188)	-	-
Administration expenses		(651)	(752)	(2,044)
EBITDA[1]		**(1,374)**	**(752)**	**(2,044)**
Share based payments		(128)	(461)	(709)
Depreciation	4	(1,688)	-	-
Loss from operating activities		**(3,190)**	**(1,213)**	**(2,753)**
Finance income		131	160	317
Finance costs		(79)	(18)	(79)
Loss before tax		**(3,138)**	**(1,071)**	**(2,515)**
Income tax expense		(58)	-	(96)
Total loss after tax and comprehensive expense for the period		**(3,196)**	**(1,071)**	**(2,611)**
Total loss after tax and comprehensive expense for the period is attributable to:				
Non-controlling interest		(217)	(28)	(45)
Owners of parent		(2,979)	(1,043)	(2,566)
		(3,196)	**(1,071)**	**(2,611)**

The results of each period are derived from continuing operations.

Loss per share (cents)				
Basic	3	(1.61)	(0.67)	(1.55)
Diluted	3	(1.61)	(0.67)	(1.55)

[1] EBITDA represents earnings before finance items, depreciation, amortisation, taxation, share based payments and any exceptional items.

Condensed Consolidated Statement of Financial Position

	Notes	31 December 2018 US$'000 Unaudited	31 December 2017 US$'000 Unaudited	30 June 2018 US$'000 Audited
Non-current assets				
Property, plant and equipment	4	10,715	8,603	11,249
Prepayments	6	-	145	-
Total non-current assets		**10,715**	**8,748**	**11,249**
Current assets				
Inventory	5	92	369	280
Prepayments	6	294	139	209
Trade and other receivables		159	329	461
Cash and cash equivalents		56	2,724	354
Total current assets		**601**	**3,561**	**1,304**
Total assets		**11,316**	**12,309**	**12,553**
Current liabilities				
Trade and other payables	7	(1,178)	(365)	(1,415)
Borrowings	8	(945)	(298)	(760)
Total current liabilities		**(2,123)**	**(663)**	**(2,175)**
Total Liabilities		**(2,123)**	**(663)**	**(2,175)**
NET ASSETS		**9,193**	**11,646**	**10,378**
Equity				
Share capital	9	18,598	16,703	16,722
Share based payment reserve		1,201	955	1,203
Other reserves		47	35	40
Retained loss		(10,397)	(6,025)	(7,548)
Equity attributable to the parent		**9,449**	**11,668**	**10,417**
Non-controlling interest		(256)	(22)	(39)
TOTAL EQUITY		**9,193**	**11,646**	**10,378**

Condensed Consolidated Cash Flow Statement

Six months ended 31 December 2018

	Notes	**6 months to 31 December 2018 US$'000** Unaudited	**6 months to 31 December 2017 US$'000** Unaudited	**12 months to 30 June 2018 US$'000** Audited
Cash flow from operating activities				
Loss after tax for the period		(3,196)	(1,071)	(2,611)
Depreciation	4	1,688	-	-
Share based payment charge		128	461	709
Finance income		(131)	(160)	(317)
Finance costs		79	18	79
Tax expense		58	-	96
Operating loss before working capital changes		**(1,374)**	**(752)**	**(2,044)**
Net decrease/(increase) in inventory	5	188	(369)	(280)
Net decrease/(increase) in other receivables		217	65	(648)
Net (decrease)/increase in other payables		(328)	(221)	938
Cash used by operations		**(1,297)**	**(1,277)**	**(2,034)**
Realised foreign exchange gains		121	159	294
Finance income		1	1	3
Finance costs		(13)	(9)	(19)
Taxes paid		(55)	-	(81)
Net cash used in operating activities		**(1,243)**	**(1,126)**	**(1,837)**
Cash flow from investing activities				
Purchase of property, plant and equipment	4	(1,060)	(2,812)	(5,231)
Net cash used in investing activities		**(1,060)**	**(2,812)**	**(5,231)**
Cash flow from financing activities				
Proceeds of new borrowings		185	268	740
Interest charge on borrowings		(63)	-	(52)
Payment of finance lease liabilities		(9)	-	(19)
Proceeds from the issuance of ordinary shares	9	2,049	3,421	3,770
Costs of issuing new shares	9	(173)	(222)	(234)
Net cash generated by financing activities		**1,989**	**3,467**	**4,205**
Net decrease in cash and cash equivalents		**(314)**	**(471)**	**(2,863)**
Cash & cash equivalents at the beginning of the period		**354**	**3,198**	**3,198**
Foreign exchange gain/(loss) on cash & cash equivalents		16	(3)	19
Cash & cash equivalents at the end of the period		**56**	**2,724**	**354**

Condensed Consolidated Statement of Changes in Equity

Six months ended 31 December 2018

US$'000	Share capital	Share based payment reserve	Other reserves	Retained Earnings	Attributable to the parent	Non-controlling interest	Total
Balance at 1 July 2017	**13,186**	**494**	**40**	**(4,982)**	**8,738**	**6**	**8,744**
Total comprehensive expense							
Total comprehensive loss	-	-	-	(1,043)	(1,043)	(28)	(1,071)
Transactions with owners							
Issue of shares during the period	3,750	-	-	-	3,750	-	3,750
Share placing transaction costs	(233)	-	-	-	(233)	-	(233)
Share based payment reserve	-	461	-	-	461	-	461
FX on translation	-	-	(5)	-	(5)	-	(5)
Balance at 31 December 2017 (unaudited)	**16,703**	**955**	**35**	**(6,025)**	**11,668**	**(22)**	**11,646**
Total comprehensive expense							
Total comprehensive loss	-	-	-	(1,523)	(1,523)	(17)	(1,540)
Transactions with owners							
Issue of shares during the period	19	-	-	-	19	-	19
Share placing transaction costs	-	-	-	-	-	-	-
Share based payment reserve		248	-	-	248	-	248
FX on translation	-	-	5	-	5	-	5
Balance at 30 June 2018 (audited)	**16,722**	**1,203**	**40**	**(7,548)**	**10,417**	**(39)**	**10,378**
Total comprehensive expense							
Total comprehensive loss	-	-	-	(2,979)	(2,979)	(217)	(3,196)
Transactions with owners							
Issue of shares during the period	2,049	-	-	-	2,049	-	2,049
Share placing transaction costs	(173)	-	-	-	(173)	-	(173)
Share based payment reserve	-	(2)	-	130	128	-	128
FX on translation	-	-	7	-	7	-	7
Balance at 31 December 2018 (unaudited)	**18,598**	**1,201**	**47**	**(10,397)**	**9,449**	**(256)**	**9,193**

Notes to the Condensed Financial Statements

Six months ended 31 December 2018

1. General information

Rainbow Rare Earths Limited (the 'Company', together with its subsidiaries the 'Group'), is incorporated in Guernsey as a non-cellular company limited by shares. The address of the registered office is c/o Trafalgar Court, Admiral Park, St Peter Port, Guernsey GY1 3EL. The nature of the Group's operations and its principal activities are set out in the CEO Statement and the Financial Review.

The financial information for the year ended 30 June 2018 does not constitute the audited statutory accounts, but has been extracted from those accounts. The report did not include reference to matters to which the auditors drew attention by way of emphasis.

This Half Yearly Report has not been audited or reviewed.

A copy of this Half Yearly Report has been published and may be found on the Company's website at www.rainbowrareearths.com

2. Basis of preparation

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and as adopted by the European Union ('EU'). These Condensed Financial Statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The same accounting policies and methods of computation are followed in the condensed interim financial statements as were followed in the most recent annual financial statements of the Group, which were published on 10 October 2018.

The Group has reviewed newly effective IFRS Standards and notes that:

- IFRS 9 Financial Instruments has been implemented but has no material effect on the financial statements
- IFRS 15 Revenue Recognition was early adopted for the audited financial statements for the year ended 30 June 2018
- IFRS 16 Leases has been adopted, however as the Company has no material leases other than short-term, the impact of this standard is immaterial.

(a) Going concern

The Directors have continued to use the going concern basis in preparing these condensed financial statements. The Group's business activities, together with the factors likely to affect future development, performance and position are set out in the Operations Review. The financial position of the Group, its cash flow and liquidity position are described in the Financial Review.

The Group's cash balance at 31 December 2018 was US$56k (30 June 2018: US$354k).

The Directors believe that when production reaches approximately 250 tonnes of concentrate per month at prevailing commodity prices, the Gakara project will generate sufficient cashflows to fund all of the Group's ongoing operating activities.

During the six months to 31 December 2018, production fell well below this level, largely as a result of the lower quantity of ore mined from the Gasagwe pit. In order to address this issue, management has accelerated plans to bring additional pits into production, including the Murambi pit (which commenced in late December 2018), as well as two further pits expected to commence production in the second half of calendar 2019.

In January 2019, the Company announced that it had entered into an agreement with a subsidiary of Lind Partners LLC ('Lind'), which would provide funding for up to US$7.75 million over a 24-month period (of which US$850k before costs was drawn during January 2019). In addition, the Company is actively engaged in discussions with asset financiers and existing lenders to fund the augmentation of the mine fleet and to cover the compensation costs of bringing new areas into production.

The Directors believe that the existing facilities with Lind, as well as its local Burundian bankers Finbank, will provide adequate funding for at least the 12 months following publication of these interim accounts. In the event of unforeseen adverse scenarios (eg lower than expected production, or a fall in Rare Earth prices), the Board believes that it has established a pattern of additional equity financing from a supportive shareholder and investor base on which it would draw, if required.

After considering the scenarios described above, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for a period not less than 12 months from the date of this report and consider the going concern basis of accounting to be appropriate and, thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

(b) Commercial production at Gakara

In July 2018, the Board reviewed the operation of the Gakara mine and determined that commercial production had been reached at the project.

In reaching this conclusion, management considered factors including the completion of construction and commissioning of the treatment plant (as well as the passing of performance tests), the rate of ore extraction from the Gasagwe pit in the month (which was in line with targets at that time), and the fact that a number of export and sales cycles had been successfully completed.

As a result, all production and sales costs with effect from the start of the period were expensed as incurred, and all revenues reported through the income statement in accordance with Group policies.

(c) Depreciation

Property, plant and equipment is depreciated over the shorter of the estimated useful life of the asset using the straight-line method, or the life of mine using the unit of production method and life of mine tonnes. Residual values and useful lives are reviewed on an annual basis and changes are accounted for over the remaining lives.

The applicable depreciation rates are as follows:

Description	Useful life
Mine development and restoration costs	Infrastructure depreciated on a life of mine unit of production basis. Mining costs depreciated on a unit of production based on the tonnes mined and estimates of tonnes contained in a specific mining area.
Plant and machinery	Life of mine unit of production basis
Vehicles	5 years
Computer equipment	3 years
Office furniture and fittings	7 years

(d) Foreign currencies

The consolidated financial statements are presented in US dollars, which is also the functional currency of the company and its subsidiaries, with the exception of Rainbow Rare Earths UK Limited, whose functional currency is GBP.

Transactions in foreign currencies are translated to the functional currency of the Group entity at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated to the functional currency at the rates prevailing on the reporting date. Exchange gains and losses on short-term borrowings and deposits are included within finance costs. Exchange differences on all other transactions are recognised within the operating loss.

(e) Dividend

The Directors do not recommend the payment of a dividend for the period (31 December 2017: US$nil; 30 June 2018: US$nil).

(f) Segment Reporting

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Chief Executive Officer ('CEO'). It is considered that there is only one segment of the Group being the exploration and production of rare earths.

3. Loss per ordinary share

Loss per ordinary share is calculated by dividing the net loss for the period attributable to Ordinary equity holders of the parent by the weighted average number of Ordinary shares outstanding during the period.

Earnings per share have been calculated using the weighted average of ordinary shares, adjusted for the effect of the share subdivision at the time of the IPO.

At 31 December 2018, there were 12,480,038 (30 June 2018: 12,614,038) potentially dilutive shares in issue through warrants and options. However, the Company was loss making for all periods presented, therefore the dilutive effect of share options has not been taken account of in the calculation of diluted earnings per share, since this would decrease the loss per share for each of the period reported.

The calculation of the basic loss per share is based on the following data:

	Six months to 31 December 2018	Six months to 31 December 2017	12 months to 30 June 2018
	Unaudited	**Unaudited**	**Audited**
Loss attributable to the owners of the Company	**US$'000**	**US$'000**	**US$'000**
The loss for the period attributable to ordinary equity holders of the parent company	(2,979)	(1,043)	(2,566)
	Number	**Number**	**Number**
Number of Shares	**'000**	**'000**	**'000**
Weighted average number of Ordinary shares for the purposes of basic and diluted loss per share	184,603	155,938	165,258
Loss per Ordinary share	**Cents**	**Cents**	**Cents**
Basic	(1.61)	(0.67)	(1.55)
Diluted	(1.61)	(0.67)	(1.55)

4. Property, plant, and equipment

US$'000	**Mine development costs**	**Plant & machinery**	**Vehicles**	**Office equipment**	**Mine restoration**	**Total**
Cost						
At 1 July 2018	7,791	2,665	709	24	60	11,249
Additions	1,136	2	-	17	-	1,155
At 30 December 2018	**8,927**	**2,667**	**709**	**41**	**60**	**12,404**
Depreciation						
At 1 July 2018	-	-	-	-	-	-
Charge for period	(1,329)	(279)	(71)	(3)	(7)	(1,689)
At 30 December 2018	**(1,329)**	**(279)**	**(71)**	**(3)**	**(7)**	**(1,689)**
Net Book Value at 31 December 2018	**7,598**	**2,388**	**638**	**38**	**53**	**10,715**
Net Book Value at 30 June 2018	7,791	2,665	709	24	60	11,249

US$'000	Mine development costs	Plant & machinery	Vehicles	Office equipment	Mine restoration	Total
Cost						
At 1 July 2017	4,603	1,016	169	3	-	5,791
Additions	1,285	1,204	305	18	-	2,812
At 30 December 2017	**5,888**	**2,220**	**474**	**21**	**-**	**8,603**
Depreciation						
At 1 July 2017	-	-	-	-	-	-
Charge for period	-	-	-	-	-	-
At 30 December 2017	**-**	**-**	**-**	**-**	**-**	**-**
Net Book Value at 31 December 2017	**5,888**	**2,220**	**474**	**21**	**-**	**8,603**
Net Book Value at 30 June 2017	4,603	1,016	169	3	-	5,791

5. Inventory

US$'000	Balance at 31 December 2018 Unaudited	Balance at 31 December 2017 Unaudited	Balance at 30 June 2018 Audited
WIP	60	175	71
Finished goods	-	194	177
Consumables	32	-	32
Total inventory	**92**	**369**	**280**

WIP (Work in Progress) represents approximately 46 tonnes of ore undergoing treatment at the Kabezi processing plant at 31 December 2018.

Finished Goods in prior periods related to concentrate that had been produced but not yet sold at period end. In accordance with accounting policies, both WIP and Finished Goods are valued at the lower of cost of production and net realisable value.

Consumables mainly relates to fuel stocks at 31 December 2018 and 30 June 2018.

6. Prepayments

US$'000	Balance at 31 December 2018 Unaudited	Balance at 31 December 2017 Unaudited	Balance at 30 June 2018 Audited
Non-current prepayments	-	145	-
Current prepayments	294	139	209
Total prepayments	**294**	**284**	**209**

Current prepayments relate to prepaid operating expenses and include US$219k in respect of government royalty payments of 4% which have been paid based on the total basket price of exports, rather than on the discounted price received from the Company's customer TK. These amounts have been recorded as prepayments on the basis that Rainbow believes that they will be offset against future royalty payments, pending the conclusion of a report commissioned by the World Bank into the reasonableness of the discount received by Rainbow.

Non-current prepayments in prior periods related to advance payments on equipment for the Gakara project.

7. Trade and other payables

US$'000	Balance at 31 December 2018 Unaudited	Balance at 31 December 2017 Unaudited	Balance at 30 June 2018 Audited
Trade payable	495	285	535
Accrued expenses	240	68	355
Payroll and other taxes	34	7	31
Amounts due to staff and management	294	4	368
Pension contributions	-	-	3
Rehabilitation provision	60	-	60
Other payables	55	1	63
Total trade and other payables	**1,178**	**365**	**1,415**

The average terms for trade and other payables are 30 days.

8. Short-term borrowings

Short-term borrowings of US$0.9 million (30 June 2018: US$0.8 million, and 31 December 2017: US$0.3 million) was predominantly made up of a US$0.9 million (1.5 billion BIF) overdraft with Finbank Ltd, the Company's bankers in Burundi. This short-term facility is denominated in Burundian Francs (BIF), and is secured over the mining and plant assets of the Gakara project. Interest on this facility is charged at 14%.

9. Share capital

On 8 August 2018, the Company allotted 13.1 million new ordinary shares at a price of 12 pence per share, raising gross proceeds of approximately US$2.0 million (before costs of US$0.2 million).

On 16 April 2018, 134k shares were allotted to satisfy the exercise of employee share options.

On 19 December 2017, the Company issued 20.0 million ordinary shares as part of an equity placing at 14 pence per share. Net proceeds for this equity raise amounted to US$3.5 million, after accounting for US$0.2 million of transaction costs.

10. Related party transactions

US$'000	6 months to 31 December 2018 Charged in period	Paid in period	Balance at 31 Dec	6 months to 31 December 2017 Charged in period	Paid in period	Balance at 31 Dec	12 months to 30 June 2018 Charged in year	Balance at 30 Jun	Related party	Description
Artemis Trustees Limited	**16**	**(8)**	**8**	**13**	**(89)**	**-**	**31**	**-**	R Sinclair	Company secretarial services to the Group
Gilbert Midende	**21**	**(14)**	**9**	**24**	**(22)**	**4**	**44**	**2**	G Midende	Rental of accommodation for staff plus acquisition of land for the Kabezi plant site
Martin Eales	**-**	**-**	**-**	**-**	**(122)**	**-**	**-**	**-**	M Eales	Settlement for waiver of profit-share agreement
Pella Resources Limited	**-**	**-**	**-**	**-**	**(43)**	**-**	**-**	**-**	A Pouroulis	London office rental
Uvumbuzi Resources Limited	**38**	**(38)**	**-**	**52**	**(60)**	**-**	**110**	**-**	C Morelli	Exploration activity at Gakara
Benzu Minerals	**45**	**(30)**	**15**	**-**	**-**	**-**	**18**	**-**	C Morelli	Exploration activity
	120	**(90)**	**32**	**89**	**(336)**	**24**	**203**	**2**		

The above table does not include remuneration of Directors and senior management

Artemis Trustees Limited, in which R Sinclair holds an interest, provided company secretarial services, which were settled in cash, together with balances due in respect of historic invoices, during the period.

G Midende provided accommodation for staff as well as land at Kabezi for the plant site.

Uvumbuzi Resources Limited and Benzu Minerals, in which C Morelli holds an interest, provided exploration services to the Company during the period of US$83k.

All of the balances due to related parties at the period end are intended to be settled in cash. All amounts due to related parties are unsecured.

11. Post balance sheet events

On 28 January 2019, the Company announced that it had entered into a financing agreement for up to US$7.75 million over a 24-month period with an entity managed by the Lind Partners LLC.

This facility consists of an unsecured convertible loan note of US$750k, an equity drawdown facility whereby the Company has the right to draw between US$100k and US$300k per month over a 24-month period in return for new ordinary shares issued at a 10% discount to the prevailing market price.

In January 2019, US$775k in funds were advanced, consisting of the US$750k unsecured convertible loan and US$100k as the first equity drawdown, before deducting US$75k of transaction costs.

Under the terms of the agreement, the Company has issued 7.5 million ordinary shares to Lind as collateral, which may be used to satisfy the Company's share obligations during the course of the facility (either the conversion of the loan note, or the allotment of new equity under the drawdown), as well as 16,718,987 share options at an exercise price of 5.28 pence, with a vesting term of 48 months.

12. Capital commitments

The Company has no capital commitments

13. Contingent liabilities

There were no contingent liabilities at 31 December 2018 (30 June 2018: nil, and 31 December 2017: nil).