



**ONE OF THE WORLD'S RICHEST
RARE EARTH DEPOSITS**

Rainbow Rare Earths Limited
Annual Report & Accounts
for the year ended 30 June 2017



Designed & produced by

wren◀

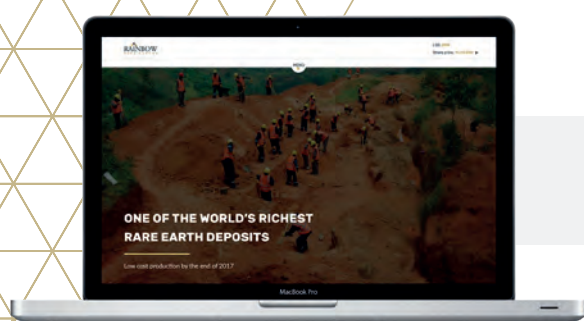
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For the latest news and investor information, visit the company’s website at www.rainbowrareearths.com

OVERVIEW

Rainbow Rare Earths (LSE:RBW) is focused on bringing the Gakara Project in Burundi, one of the highest grade rare earth projects globally, into production in Q4 2017.

Gakara boasts exceptionally high grade Rare Earth Elements ('REEs') with an in-situ grade of between 47-67% Total Rare Earth Oxides ('TREOs') (compared to the industry average of approximately 5% TREO), a JORC 'exploration target' of 20,000-80,000 tonnes of vein material with significant exploration upside, simple and low-cost mining and processing routes, together with a basket strongly weighted towards magnet rare earths. This positions Gakara as a strategically important and economically robust mining asset poised to commence production imminently. It also provides investors with a rare opportunity to gain quality exposure to an industry at a time of growing demand for new

sources of REEs, which are vital to some of the world's fastest growing markets including renewable energy, electric vehicles, telecommunications and defence.

With production and sales of concentrate targeted for Q4 2017 through its distribution and offtake partner thyssenkrupp Raw Materials, Rainbow will be entering the REE market with an exceptional product, with low capital intensity, considerable exploration upside and strategic significance as a non-Chinese supplier – providing investors with unique exposure to the high growth REE industry.

2016-17 HIGHLIGHTS



Listed on the London
Stock Exchange in
January 2017

Raised

US\$8 million

to fund the Gakara
Project in Burundi



Developing one of the world's
highest grade rare earth projects



47-67% TREO



**Fully permitted
project**

aiming for production and
sales within first year of IPO

Straightforward &

low cost mining



and processing routes selected

**Construction
underway**

On track for production
and sales in Q4 2017



GAKARA AT A GLANCE

Location

Mining Areas: 35km by road from Bujumbura, Burundi's capital city

Processing Plant: 13km South of Bujumbura by road

Interest

90% with a non-dilutable 10% owned by the Republic of Burundi

Mining Licence

Granted March 2015; valid for 25 years and renewable thereafter

Infrastructure

Good road links to Dar es Salaam, Tanzania and Mombasa, Kenya

Product

Rare Earth mineral concentrate

Production Rate

Targeting run rate of 5,000tpa by the end of 2018

Exploration Target (JORC)

20,000 – 80,000 tonnes of vein material with upside potential

Simple Operation

Veins (408 in situ identified to date) to be extracted by manual mining from host rock (free-digging - no explosives required)

First Production and Sales

Expected Q4 2017

GAKARA DEVELOPMENT SCHEDULE

Steady stream of positive news expected as near-term milestones are met



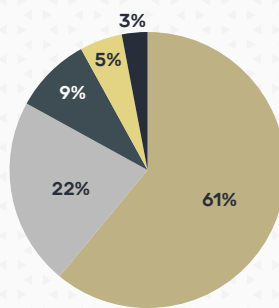


Gakara Basket

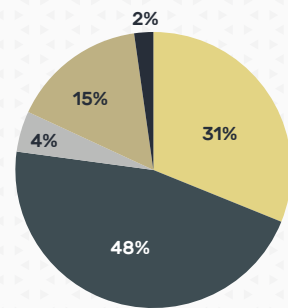
The Gakara basket is weighted heavily towards the magnet rare earths, including neodymium and praseodymium, which are driving demand and account for approximately 70% of annual global REE sales due to their use in vital components in motors, generators, wind turbines, and electric vehicles.

Based on average samples from Gakara, magnet REEs account for approximately 20% of the contained REOs within the Gakara ore, but represent an average of over 80% of the contained value of REOs at current market prices.

By Contained Value

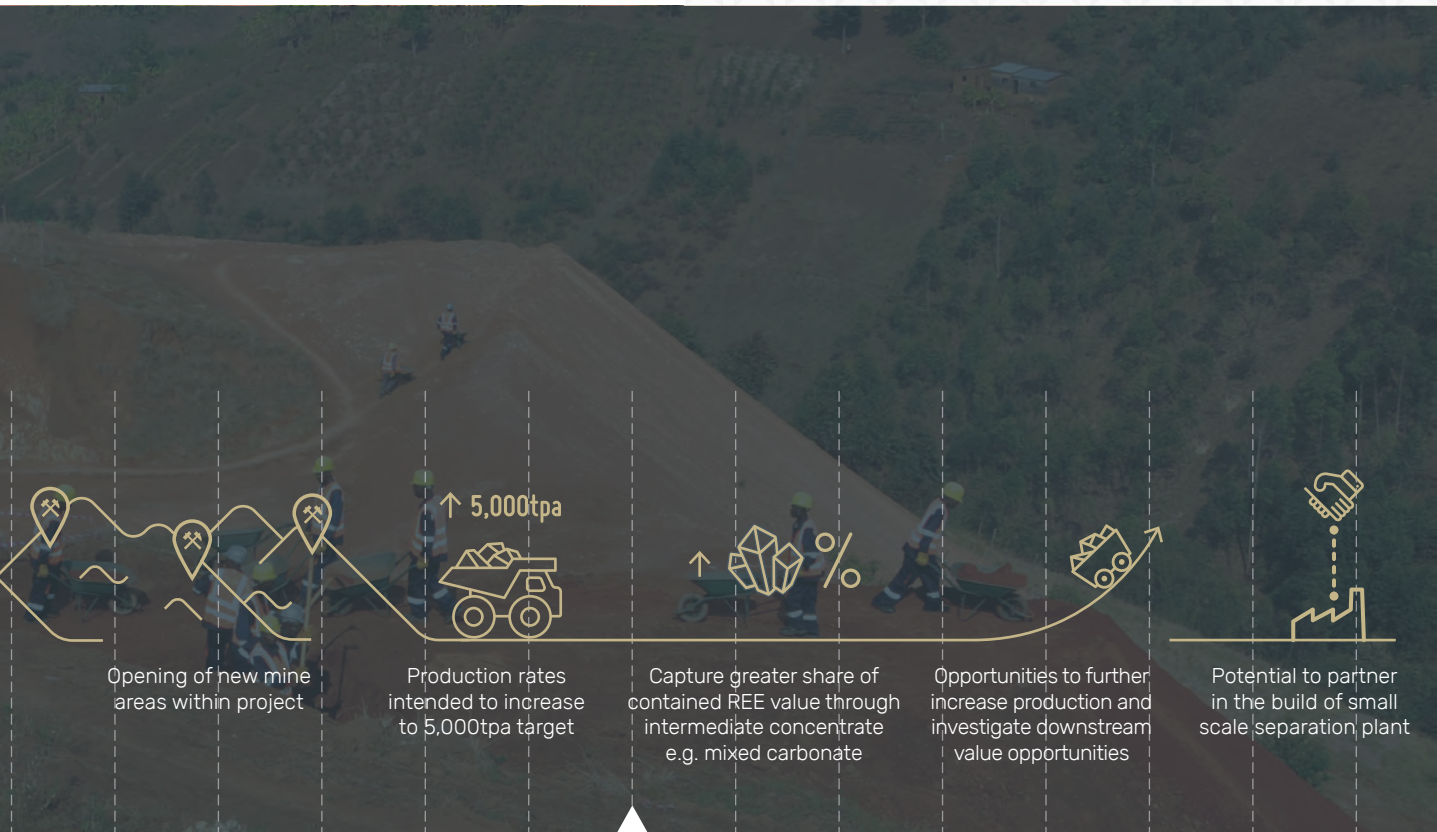


By REO Content



■ Lanthanum ■ Neodymium
■ Cerium ■ Others
■ Praseodymium

Based on average of REOs within Gakara in situ vein samples and market prices of purified REOs on China FOB basis as at 2 October 2017



Opening of new mine areas within project

↑ 5,000tpa
Production rates intended to increase to 5,000tpa target

↑ Capture greater share of contained REE value through intermediate concentrate e.g. mixed carbonate

↑ Opportunities to further increase production and investigate downstream value opportunities

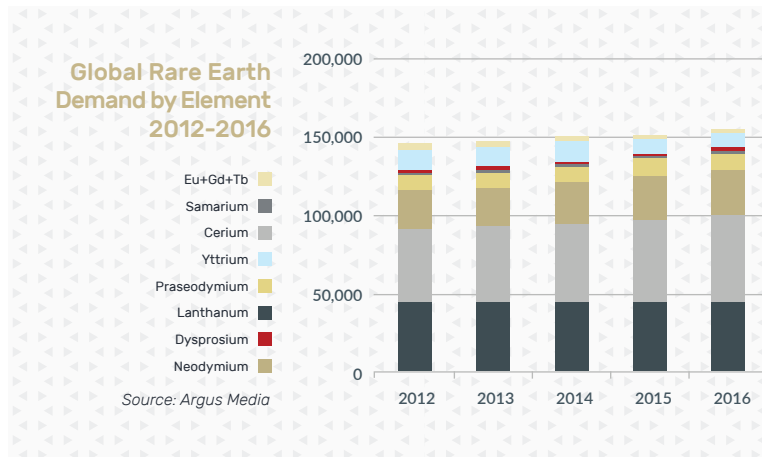
↑ Potential to partner in the build of small scale separation plant

FUTURE

RARE EARTHS – TECHNOLOGY METALS

Rare earth elements are a group of seventeen chemically similar elements that are crucial for the production and manufacturing of various hi-tech products.

Global demand for REEs has grown significantly in recent years, driven by the increased use of rare earth permanent magnets (the most powerful in the world), particularly neodymium and praseodymium, in key markets including electric vehicles ('EVs'), mobile phones and renewable/green technologies.



Electric vehicles

Forecast demand growth for NdPr is primarily driven by the anticipated uptake of EVs as well as growth in all electric motor usage



Smart phones

Neodymium gives your phone the power to vibrate



Wind turbines

NdFeB magnets have allowed wind turbines to reduce costs and increase efficiencies

Neodymium-containing magnets are used in virtually all electric motors. The demand for REEs is likely to increase on the back of the widely-reported revolution in electric vehicles, which has been pushed by commitments from Norway, France, Germany, the UK and various other countries (including strong indications from China) to prohibit sales and production of internal combustion engine cars in the future. It took 20 years to sell 1 million electric vehicles and yet it only took 18 months to sell the next 1 million electric vehicles. Several car manufacturers are increasing their output of

electric vehicles, and Volvo, amongst others, has announced that all new car models from 2019 onwards would be solely or partially battery-powered. The use of electric vehicles will increase rapidly in the coming years, with UBS forecasting a twenty-fold increase in global electric vehicle sales to 15 million units by 2025.

The same rapid growth is expected to apply to the renewable energy sector, where large wind turbines require up to two tonnes of rare earth magnets, which are enormously strong and make highly efficient generators.

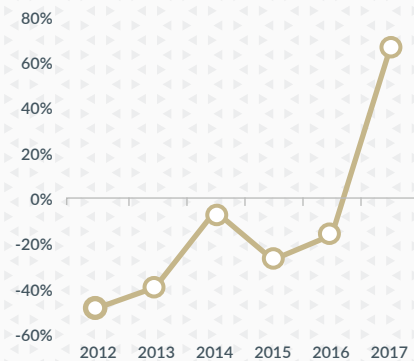
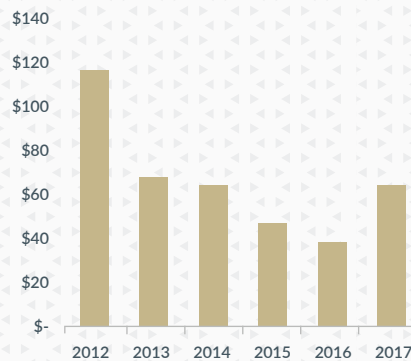
REEs are also commonly used in phosphors - important for televisions, smart phones and computer screens or any other visual devices that require cathode ray, liquid crystal display or plasma display panel technologies. REE phosphors are widely used in energy-efficient LEDs, which have the same light output as standard incandescent light bulbs, but use just a fraction of the power.











Rare earth concentrate

The price of NdPr oxide in China is up 50% year-to-date and 70% year-over-year

Source: Adamas Intelligence, August 2017



Application	Rare Earths	Demand drivers
 Magnets	Nd, Pr, Sm, Tb, Dy	Automotive, wind turbines, drives for computers, mobile phones, mp3 players, cameras, voice coil motors, hybrid and electric vehicles, cordless power tools, sensors, medical imaging (MRIs)
 LaNiH batteries	La, Ce, Pr, Nd	Hybrid vehicle batteries, hydrogen absorption alloys for rechargeable batteries
 Phosphors	Eu, Y, Tb, La, Dy, Ce, Pr, Gd	LCDs, PDPs, LEDs, energy efficient fluorescent lights/lamps
 Fluid cracking catalysts	La, Ce, Pr, Nd	Petroleum production - greater consumption by 'heavy' oils and tar sands
 Polishing powders	Ce, La, Nd	Mechano-chemical polishing powders for TVs, monitors, tablets, mirrors and (in nano-particulate form) silicon chips
 Auto catalysts	Ce, La, Nd	Tighter NO _x and SO ₂ standards - platinum is re-cycled, but for rare earths it is not economic
 Glass additive	Ce, La, Nd, Er	Ce cuts down transmission of UV light, La increases glass refractive index for digital camera lens
 Fibre optics	Er, Y, Tb, Eu	Signal amplification

Note: Scandium (Sc), Yttrium (Y), Lanthanum (La), Cerium (Ce), Praseodymium (Pr), Neodymium (Nd), Promethium (Pm), Samarium (Sm), Lutetium (Lu), Europium (Eu), Gadolinium (Gd), Terbium (Tb), Dysprosium (Dy), Holmium (Ho), Erbium (Er), Thulium (Tm), Ytterbium (Yb).

HEALTH AND SAFETY

Rainbow is committed to ensuring that all its staff, as well as contractors and other visitors to its sites, are kept healthy and safe from harm. The Company adopts a zero harm policy.

Throughout the organisation, individuals are held responsible for their own and everyone else's safety and wellbeing, while managers and supervisors are responsible for ensuring standards and policies are maintained at all times. The Health and Safety Committee, a sub-committee of the Board of Directors (chaired by Shawn McCormick), is ultimately responsible for making sure appropriate policies are in place, and that those policies are being enacted.

Reporting

Safety statistics are collected on a monthly basis and reported to senior management. These statistics include any Lost Time Injuries ('LTIs'), but also incidents requiring first aid, near misses, damage to property, or environmental damage.

There were no such incidents reported in the year to 30 June 2017, during which period a total of 46,000 man hours were worked by Rainbow staff, and 27,000 by contractors.

Policies

Prior to work commencing on the Gakara site in April 2017, an Operating Health and Safety ('OHS') policy was put in place. This policy covered a number of areas, including training, rules and regulations, protocols for various types of working activity (e.g. drilling, working at heights), as well as guidelines on how to remain healthy and free from illnesses endemic to the area such as malaria and HIV/AIDS.

Fully inducted, trained and equipped staff



Training

The bulk of the work at either the Gakara mine site or the Kabezi plant site was undertaken by local recruits, with little prior experience. All staff and contractors are required to undergo an induction programme before commencing activity. This induction serves to set out the rules with which all employees and visitors must comply on site, but also covers training in use of tools and equipment, as well as ensuring all staff are provided with the requisite personal protective equipment ('PPE').

As well as induction, workers are required to hold routine toolbox meetings to discuss safety issues, and are encouraged to consider risks of each activity for themselves. The principle of each individual taking responsibility for his/her own safety, as well as that of colleagues, is entrenched in the training process.

Health

A number of illnesses were identified as risks under the OHS policy, notably malaria, HIV/AIDS, and gastric infections. The OHS policy provides guidance on how to reduce the risks from these and other illnesses. Hygiene standards are enforced in particular around areas where food is prepared, and staff are encouraged to minimise exposure to malaria through the use of mosquito nets and repellents.

Potable water was also identified as a priority, in view of the absence of reliable sources at the mine site.

In the event of illnesses and accidents, employees are offered medical and accident insurance which substantially covers the cost of medical care.

In addition, supervisors were provided with first aid training from a reputable international organisation.

Other health and safety

All staff are made aware of the potential risks not only to themselves and colleagues, but also to local communities. Rainbow's operational sites are cordoned off and it is not permitted for any persons without the appropriate training or induction, and PPE, to enter.

On public roads, Rainbow staff and contractors are required to drive with care and attention, particularly on quieter rural roads frequently used by local communities. Safety signage is employed extensively to warn all of the relevant risks and to provide reminders as to each and everyone's obligations.

CORPORATE AND SOCIAL RESPONSIBILITY

Rainbow is committed to the highest standards of Corporate Social Responsibility ('CSR') and strives to ensure that the local community shares in the benefits of its Gakara Rare Earth Project in Burundi.

The local community is our partner in this endeavour, and our progress to date would not have been possible without their continued support. As a result, our present CSR and community outreach initiatives are reflective of the value we place on this partnership. To date, this has included a variety of activities:

- ▶ Since inception Rainbow has made specific financial donations of over US\$640k to local communities and national social programmes;
- ▶ As at 30 June 2017 Rainbow directly employed 114 Burundian staff and had 88 subcontractors working on site;
- ▶ Rainbow has also sought to provide local people with business opportunities such as catering for the workforce and purchasing local produce wherever possible;
- ▶ Rainbow is undertaking improvements to main access roads which benefits all of the local communities in which we operate;
- ▶ Rainbow awarded contracts to Burundian companies of over US\$400k in the year ended 30 June 2017 for both infrastructure and professional services, prior to the commencement of local supply contracts for major production consumables such as fuel;
- ▶ All Rainbow mining and production employees can be registered for mobile banking using 'Pesa Flash', should they so wish, allowing for cashless transfers of salaries and banking facilities to individuals in many cases for the first time;
- ▶ The state of Burundi has a non-dilutable 10% shareholding in the project and will benefit from any dividends generated, together with normal payroll taxes, corporation taxes and a royalty of 4% on all sales revenue;
- ▶ Rainbow has made donations to several projects in the town closest to its mining area, including the construction of a municipal building consisting of multi-purpose rooms, offices and the supply of certain equipment;
- ▶ Rainbow has sought to improve local sporting activities and recently organised a football tournament for the municipalities which cover the project area, and the supplied sporting equipment for the teams;
- ▶ Rainbow is in the process of constructing its processing plant at Kabezi, adjacent to the shore of Lake Tanganyika and has rerouted an existing lane from across the site to ensure unhindered access to the lake shore and fishing vessels, thus helping the community gain easy access to the lake;
- ▶ Rainbow is committed to ensuring the best practice in regard to the environmental impact of its operations. The Company submitted an approved Environmental and Social Impact Assessment ('EISA') as part of the mining licence application in 2015, which was fully updated during 2017 to incorporate the processing plant area at Kabezi. It is fully permitted for mining and there will be no blasting or use of hazardous chemicals. Population records have been approved along with a compensation formula for any landowners that must be moved or have had agricultural land appropriated. The majority of these have been settled by 3 October 2017, with only a small amount remaining in respect of those impacted by the mine site access road;
- ▶ Rainbow is committed to adhering to the strictest international health and safety practices. In line with this, we employ a fully qualified OHS Manager and have incorporated stringent health and safety measures into day to day practice as well as establishing a formal committee comprised of members of the Board;
- ▶ All employees are equipped with full PPE and rigorous safety assessments are undertaken prior to any activity;
- ▶ The Burundi mining industry is in its infancy, and thus far, there has been strong support shown for the Gakara Project at both a local authority and national governmental level. As the mining sector is in the early stages of growth, Rainbow can play a defining role in the development of the industry in Burundi and accordingly, is committed to continuing close liaison with workers and the local community to ensure the project is run for the benefit of all stakeholders, thus leaving the community and country in a net positive position.

Female workers' co-operative at Kabezi prior to site clearance



CORPORATE AND SOCIAL RESPONSIBILITY

Government Payments

Rainbow is committed to full payment of its tax and fiscal obligations wherever it operates, as this supports the social licence to operate, and ensures a fair contribution to local economies.

For the year ended 30 June 2016, and until commencement of operations at Gakara in earnest in April 2017, activity on the ground in Burundi was limited to that required to keep the permits in good order, which meant that taxation and other government payments were modest during this period.

The table below sets out the key payments to government, as direct taxes (such as land taxes, duties etc) as well as indirect taxes arising as a result of Rainbow's activity (such as payroll taxes, withholding tax, and net VAT paid in the period).

US\$'000	2017 (unaudited)			2016 (unaudited)		
	UK	Burundi	Total	UK	Burundi	Total
Royalties	-	-	-	-	-	-
Permit and land taxes	-	15	15	-	85	85
Corporation tax	-	-	-	-	-	-
Duties & other	-	10	10	-	-	-
Total tax borne	-	25	25	-	85	85
Payroll tax	199	15	214	59	5	64
Withholding tax	-	1	1	-	-	-
Net VAT	-	7	7	-	-	-
Total net payments to government	199	48	247	59	90	149



STRATEGIC REPORT



CHAIRMAN'S STATEMENT

“ When Rainbow first obtained its exploration permit for the Gakara rare earth deposit in 2011, we believed that the Company had something special and the potential to become one of the most important rare earth mines in the world. We had the desire to become Africa's first operational rare earth mine.

Since then, we have come a long way, and the journey has been a rewarding one thus far, but not without its particular trials and tribulations. The challenges that we have endured have included a dramatic downturn in the price of rare earths and civil unrest within Burundi in 2015, all in the context of one of the longest bear markets to have faced the mining sector in living memory.

In spite of all this, we have remained unshaken in our confidence in the Gakara project for two principal reasons: first of all, we believe that the demand for rare earths is likely to increase over the coming years, in direct response to growth in usage of electric vehicle technology as well as in many new green technologies; and secondly, we believe in the deposit itself - the grades at Gakara, which have been independently estimated to be between 47-67%, are among the highest anywhere in the world, which in turn allows for cleaner, lower-cost mining techniques.

In the 12 months to 30 June 2017, the Company has been able to take a number of major steps in order to realise the potential of the mine.

The successful IPO, which completed in January 2017, raised a total of US\$8 million, and transformed Rainbow into a public company with a Standard Segment listing on the main board of the London Stock Exchange. These funds are now being used to complete the construction of the mine and plant at Gakara, with the first shipment of concentrate still on track for Q4 2017 through our multinational distribution and offtake partner, thyssenkrupp Raw Materials.

We have also been able to put in place a team with the skills and experience, as well as the energy and drive, not only to complete the construction phase, but also to manage the project as it moves from construction into production. I would like to thank our CEO, Martin Eales, who has been instrumental in guiding the project through some of the toughest periods, for his endurance and leadership.



I would also like to thank my fellow Board members, all of whom are also shareholders, for their support in completing the fundraising, as well as for their guidance and advice in the ongoing running of the Company.

Without the support of our staff and communities in which we operate in Burundi, this project would go nowhere. I would like to thank them all for their enthusiasm and positive support of Rainbow. Ultimately we are guests in their country and we hope that we have a long and sustainable partnership with all the people of Burundi and that all of our work and effort yields a net positive result for all stakeholders.

At the time of writing, the construction phase nears completion, but the challenges are far from over, and we need to remain focussed on delivering the project on time and on budget. The fundamentals of both the Gakara project, and the rare earths market, if anything are even more exciting than when we first started this journey.

We look forward to delivering to you regular updates on our project as we achieve the various milestones we have set.

A handwritten signature in black ink, appearing to read 'Adonis Pouroulis'. The signature is stylized and fluid.

Adonis Pouroulis
Chairman

CHIEF EXECUTIVE OFFICER'S REVIEW

“ This is the first CEO Statement I have had the opportunity to write for Rainbow as we mark the end of our first financial year as a public company and I am pleased to be able to report on a transformational 12 months.

Corporate

The most significant event at the corporate level was of course the IPO and Admission of the Company's shares to trading on the Standard segment of the London Stock Exchange at the end of January 2017. The Company raised gross proceeds of US\$8 million by placing new shares with a variety of investors and I have enjoyed getting to know many of our shareholders better over the course of the year and keeping them up to date with the Company's progress.

Rainbow maintains a small corporate office in the UK, where I am based with Rainbow's CFO, Jim Wynn, thereby keeping overheads to a minimum, whilst the vast majority of the Company's administration and operating staff are based in Burundi.

Operations – Mining

During the 2016–17 financial year we were only able to commence work in earnest after completion of the IPO, which provided the funding for the development of the Gakara Project. The Company has selected the Gasagwe area to be its first area of mining operations, which is expected to provide ore from mining activities for at least the first two years of production, with other areas (such as Gashirwe) expected to come online thereafter.

A variety of preparatory tasks were required before mining activities could begin at Gasagwe: these included access road construction, updated environmental studies and approvals, negotiation with land holders and settlement of compensation, recruitment and training of workers, and import of machinery. By the end of June 2017 the mining team at Gasagwe had made excellent progress in stripping waste material in order to expose the rare earth bearing veins which will constitute the run of mine ore.

Just after the financial year end, in July 2017, Rainbow hosted an Inauguration Ceremony at Gasagwe where a formal ribbon-cutting was undertaken by the President of the Republic of Burundi, His Excellency Pierre Nkurunziza. The ceremony was well attended and we are delighted with the support we have received to date from the Burundi government and local community.



Operations – Processing

Rainbow's production plan involves all run of mine ore being processed into rare earth mineral concentrate by its processing plant located in the Kabezi region, some 20km from the mining areas and about 13km south of Burundi's capital city, Bujumbura. This site is advantageous to Rainbow, being relatively flat because of its location near Lake Tanganyika, and due to its proximity to a main asphalt road, which will provide good transportation links for export of concentrate.

Work has progressed very encouragingly on the Kabezi plant site over the past few months (although not without challenges), with all of the bulk earthworks completed before the end of the financial year followed by civil cement works, and construction of an office block, warehouse, and the processing plant itself all in progress since year end, managed by our EPCM contractors Obsideo from South Africa but utilising local labour at all times. At the time of writing, the completion of construction and commissioning of the plant is expected in the coming weeks, which should allow us to meet our target of shipping first concentrate in Q4 2017.

We have deliberately built in a relatively large amount of volume capacity within the processing plant design, which should enable Rainbow to comfortably increase annual production of concentrate in years to come, should the demand be there, without any significant capital expenditure when new mining areas come on stream.

CHIEF EXECUTIVE OFFICER'S REVIEW

Corporate Social Responsibility

Rainbow values the strong relationships it has formed in Burundi and we understand that our social licence to operate is only as strong as those relationships. We take great care to include local communities in all our activities, whether it be holding public consultations well in advance of undertaking work on the ground, ensuring that our workforce is sourced locally, or, wherever possible, using Burundian contracting companies for elements of construction and transportation.

In the 2016-17 financial year, Rainbow recruited and trained 108 new employees from the areas around the Gasagwe mine and the Kabezi processing plant with 27 following soon after the year end and also provided work for up to 88 sub-contractor employees at the end of June. Rainbow has also established a catering co-operative alongside its operations which allows local people to prepare food for all of the employees.

Wherever land is appropriated for Rainbow's activities we are diligent in ensuring that the correct compensation is paid to all families that have an interest in land or crops affected, based on a formula set out in Burundian law.

Rainbow is proud to maintain an objective for a zero-harm operation. For the period to 30 June 2017 the Company did not incur a single Lost Time Injury ('LTI'), nor indeed any incident requiring medical assistance. Our staff are encouraged to report all incidents and 'near misses' in order to improve the safety environment for anyone that may be affected by Rainbow's operations.

We were delighted to be able to support the 50th anniversary celebrations of the parish church in Mutambu, the town nearest to Gasagwe, in May 2017, and as part of the Inauguration Ceremony in July 2017 Rainbow organised a football tournament between the local districts.

CSR objectives for the coming year include promotion and sponsorship of academic prizes for all schools within the local area and a tree planting campaign.

The Rare Earths market

The world demand for rare earths is growing each year with production currently dominated by China. With a producing mine located outside of China, Rainbow will be important to Western buyers of rare earth materials concerned about security and provenance of supply and seeking a non-Chinese source. During the IPO process, our investors were keen to understand the dynamics of the rare earths market that we felt were crucial and there are two in particular that respectively have an impact on either supply or demand.

Firstly it has become very clear that the Chinese government has made strenuous efforts to clamp down on so called illegal production of rare earths in China, both to enforce environmental standards and to consolidate production within the hands of six state-approved groups. This, combined with falling inventory levels, has contributed to much tighter supply in recent months and consequently increasing prices.

Secondly, virtually every week we now receive news reports concerning the potential rapid increase in production of and demand for electric vehicles, whether mandated by national governments as part of environmental policies or by car manufacturers themselves, with some such as Volvo announcing that all new models after 2019 will be electric or hybrid vehicles. Whilst car manufacture is already a large consumer of rare earth materials, the basic fact is that each electric vehicle will use even more – principally due to the permanent magnets incorporated in the motor. When added to the considerable demand for rare earth magnets also created by the wind turbine industry, it is clear to see that the increasing movement towards green energy will stimulate further demand for rare earth materials.

Rainbow team

We have a small team of truly committed individuals, who have pulled together over the last 12 months to give Rainbow the best possible start to life as a public company. I would like to pay particular thanks to Rainbow's Executive Committee: Gilbert Midende (General Manager), Braam Jankowitz (Project Manager), Cesare Morelli (Technical Director) and Jim Wynn (Chief Financial Officer) who provide such support and wise counsel to me, however I am grateful to all our employees for the hard work and dedication they show every day and I feel proud to work with you all.

Outlook for 2017-18

The current financial year is likely to be even more momentous for Rainbow than the last and should see the first sales of our rare earth concentrate through thyssenkrupp Raw Materials in Q4 2017, with production and sales then ramping up on a steady basis through 2018. We have seen increases in prices of the various rare earth elements in the oxide and metal forms over the course of 2017, with our 'basket price' for Gasagwe concentrate increasing by around 70% in 2017 so far, which bodes very well for the future returns from the Gakara Project as we seek to develop one of the very few non-Chinese sources of rare earths. An exciting year lies ahead.



Martin Eales
Chief Executive Officer

OPERATIONS REVIEW

Preparation work for the IPO

Between July 2016 and January 2017, activity at the Gakara project was restricted to maintaining the Company's good standing in Burundi and providing information and support for the independent Competent Person's Report ('CPR') which was completed by MSA Group ('MSA') in October 2016. This document was first and foremost a requirement of the IPO and listing process, but also provides the Company and its investors with a detailed independent report of the project and its context.

Despite considerable historic mining activities, the Gakara Project was considered by MSA to be an Exploration Target¹, as defined in the JORC Code, rather than a Mineral Resource, which was estimated as consisting of between 20,000 and 80,000 tonnes of mineralised material grading 47-67% TREO. MSA also recommended that a period of Trial Mining be conducted at key locations (notably Gasagwe and Gashirwe West) in order to confirm procedures and methodologies to be applied in full-scale commercial mining of a project.

The CPR was published together with the IPO prospectus on 25 January 2017. By February 2017, US\$8 million in gross proceeds had been raised, and work began to bring the Gakara Project into production, with a target date of shipping first concentrate in Q4 2017.

Consistent with the recommendations in the CPR, the Directors decided that the amount of additional exploration work required to declare a Mineral Resource or a maiden Ore Reserve would be uneconomic at the stage of the Company's development.

In addition, the Directors believed that exploration information regarding the deposit at Gakara, together with historic project and production data, underlined the continuity of the mineralisation as well as the appropriateness of the mining and processing techniques, and that the commencement of operations was therefore commercially viable from the outset.

¹ An Exploration Target is defined as a statement of the exploration potential of a mineral deposit in a defined geological setting for which there has been insufficient exploration to estimate a Mineral Resource. MSA Group concluded "that the characteristics of the REE veins [within the Gakara Project] with respect to their width, spatial continuity and compositional variability cannot be easily quantified to the level of confidence required for the reporting of a Mineral Resource".



Rainbow Directors in the London Stock Exchange on the day of listing (30 January 2017). From left to right: Adonis Pouroulis, Shawn McCormick, Martin Eales, Alexander Lowrie

OPERATIONS REVIEW

Construction work at Gakara

Following the IPO, work began on the Gakara Project. Operations were divided into two main areas – mining activities, which initially focused at the Gasagwe deposit within the mining permit; and work on the processing plant site at Kabezi.

Gasagwe mine site

In Q2 2017, earth-moving equipment was selected and ordered (consisting of two Tractor Loader Backhoes 'TLBs', one tractor and a trailer), while work commenced on site preparation using locally-hired workers and contractors.

Initial activity included basic site preparation, such as obtaining suitable accommodation and facilities, developing access routes, and recruiting a local workforce. In addition, preliminary exposure of the vein at Gasagwe continued using manual techniques, in order to remove overburden and identify the scale of the deposit ahead of full scale waste removal activities.

Mine preparation activities at the site commenced in April 2017, and by the end of June 2017 a total workforce of 114 staff and 2 expatriate managers had been recruited.

Although the TLBs had cleared customs only just prior to the end of the period, considerable progress had been made on site, with some 4,595 tonnes of pre-stripping completed using

hand tools and wheelbarrows. The upper levels of the Gasagwe vein had been exposed, which indicated a strike length of the 'main vein' in excess of 80 metres, with a number of smaller side veins adding to the overall size of the deposit.

The fact that the 'main vein' appears to be significantly larger than initial estimates has been extremely encouraging, as has the testwork of its composition (which in August 2017 indicated that the upper portions had an average grade of 62% TREO, compared to MSA guidance of between 47-67%). However, progress of operations has been hampered by a number of practical challenges including the availability of fuel, reliability of contractor equipment, delays to importation of equipment, and the slow progress of receiving final formal approval for full scale mining operations.

In spite of this, the stripping of waste material has progressed well. The extraction of ore from this vein commenced in earnest once the ROM stockpile bunkers were completed at the Kabezi plant site in September 2017. This will allow management to meet its target of first production of mineral concentrate in Q4 2017.

Kabezi plant site

After considering various alternatives, a site for the plant location was chosen near Kabezi, approximately 13km south of Bujumbura next to the RN3 road. Although approximately 20km from the mine site areas, given the relatively low volumes of ROM ore to be transported to the



Gasagwe mine site
July 2017 (view to south)

plant from the mine (typically a single truck per day), the advantages of good road connectivity, sources of water, and flatter terrain outweighed the extra haul distances.

The site was acquired in April 2017, and clearance of vegetation began in May 2017. Bulk earthworks were undertaken by a local contractor and completed in June, and concrete works were substantially completed in September.

In March 2017, a fixed-price EPCM contract was signed with Obsideo Consulting for the design, procurement, construction and commissioning of its processing plant. Under the terms of the contract, Obsideo would be responsible for delivering and commissioning a plant designed to process the Gakara ROM ore into a mineral concentrate, for a price of approximately US\$1.8 million.

At the end of June 2017, work had progressed in line with expectations, with parts having been selected from individual suppliers and shipments due to be transported to the plant site between July and October 2017.

The first containers that arrived encountered minor delays while clearance documentation was finalised, however as more goods have arrived, the process has become smoother.

A local contractor was engaged to perform the civils and concrete works at site, the bulk of which was completed in August and September.

Practical challenges faced by the Company included the availability of building materials as well as trained workers, however this work is still expected to be completed in order to meet the target of producing first ore in Q4 2017.

As at 3 October 2017, the majority of civils work has been completed and most of the plant equipment has arrived on site. Construction and commissioning is therefore expected to be completed in time to meet the overall target for exporting the first shipment of mineral concentrate in Q4 2017.

Safety and Health

Since commencement of activities on the ground in Gasagwe and Kabezi, all employees, contractors and sub-contractors have been mandatorily inducted in safety procedures. By the end of June 2017, not only had no LTIs been reported, but no 'near misses' or incidents requiring medical treatment have occurred. A total of 74,000 LTI-free man hours had been worked during this period.

Details of the Company's safety and health practices and policies are set out on page 8.



Construction works at Kabezi plant site. September 2017

FINANCIAL REVIEW

Profit and loss

During the year ended 30 June 2017, activity within the Company focused on fundraising and documentation prior to the IPO in January 2017, followed by exploration, mine preparation and construction activity. There were no sales during the year, therefore no revenue has been reported, and expenditure has been split between those costs that have been expensed to the income statement (including corporate and support activities), and those that have been capitalised as part of the construction costs of the Gakara mine.

Administration expenses of US\$1.3 million (2016: US\$0.6 million) included corporate salaries of US\$0.3 million, US\$0.2 million relating to IPO costs, US\$0.5 million representing the accounting charges for share options issued in the year and US\$0.3 million of other administrative and corporate costs. The increase compared to the prior year reflects the increase in activity levels, particularly connected with and subsequent to the IPO.

Exploration support costs, which are not capitalised, totalled US\$0.1 million in the year (including travelling and salaries), slightly higher than the previous year.

Finance costs of US\$0.2 million relate mainly to the effective interest charges on the Pala Loan which was repaid in the year. Finance income refers to the gain on extinguishment of the Pala Loan of US\$0.2 million.

No taxation charges were recognised in either the year ended 30 June 2017 or 2016. The Group generated a loss after tax of US\$1.4m, an increase of some 17% compared with the year ending 30 June 2016. This increase reflects the costs expensed associated with IPO and the significant change in support activity levels following the raising of funding in January 2017.

Balance sheet

The Company's Non-current assets of US\$6.0 million relate to the capitalised exploration and mine development costs of the Gakara Project in Burundi. During the year, this increased by approximately US\$2.2 million, essentially as a result of capex in the year. The Gakara Project was reclassified from exploration and evaluation assets to mine development costs within property, plant and equipment in the year as the project was considered to have reached commercial and technical feasibility for development.

The Company had total liabilities of US\$0.4 million (2016: US\$2.4 million), of which US\$0.3 million related to amounts owed to staff, shareholders and in respect of payroll taxes due at year end.

During the year, the Company repaid in full the Pala Loan settling the liability in cash for US\$1.7 million.

Cashflow

Net cash in the 12 months to 30 June 2017 increased by US\$3.0 million.

Cash outflows included operating expenses and net movements in receivables and payables (net cashflow from operating activities) totalling US\$0.8 million, US\$2.1 million on exploration and mining capex, and the repayment of the Pala loan for US\$1.7 million.

Cash inflow related to the equity placement which raised US\$7.4 million net of costs and a US\$0.3 million loan drawn in the period and subsequently settled in equity at IPO.

Financing

The IPO listing resulted in the settlement of the Pala loan, which had been the Company's principal outstanding loan during the year.

Taxation

The corporation tax rate in Burundi is 30%, however no revenues were earned during the period, and therefore no taxable profits reported.

DIRECTORS' REPORT



DIRECTORS' REPORT

The Directors present their annual report and the financial statements of the Group for the year ended 30 June 2017.

General

Rainbow Rare Earths Limited, the parent company of the Group, was established in Guernsey on 5 August 2011. On 30 January 2017, its shares were listed on the Standard segment of the Main Market of the London Stock Exchange.

Principal Activity

The Company's principal activity is the exploration and mining of rare earth minerals at its Gakara Project in Burundi.

Business Model

The basis on which the Company seeks to preserve and generate value is through the investment of its funds in the development of exploration assets and mines, which in turn allow for the production of rare earth concentrates which are then sold at a profit. The net cash generated from these activities is used to service the Company's financing, re-invested in further exploration activity or in capex, or (where appropriate) repaid to investors in the form of dividends.

In the short term, this strategy is focused around the development of the Gakara Project in Burundi, which is expected to enter into production during Q4 2017. Longer term, the Company hopes to develop this mine further (benefiting from the considerable geological potential of the deposit held within the Gakara

mining permit), and to consider further mining assets for acquisition as appropriate.

Business Review

A review of the business during the year is included in the Chairman's statement, the CEO's statement, and in the Operating and Financial Reviews. The Group's business and operations and the results thereof are reflected in the attached financial statements.

Business Risks

A review of the key risks to the Company is set out on page 25.

Advisers

The Company's advisers are set out on page 59.

Financial Results

During the 12 months ended 30 June 2017, the Company reported a Net Loss of US\$1,402k (year to 30 June 2016: Net Loss of US\$1,200k).

No dividends have been declared in respect of the years ending 30 June 2017 or 2016.

Directors

A list of the Directors of the Company is set out on page 23.

No Director shall be requested to vacate his office at any time by reason of the fact that he has attained any specific age. The Board considers that there is a balance of skills within the Board and that each of the Directors contributes effectively.

Directors' Remuneration

	Salary (US\$'000)		Benefits (US\$'000)		Pension (US\$'000)		Other (US\$'000)		Total (US\$'000)	
	June 2016	June 2017	June 2016	June 2017	June 2016	June 2017	June 2016	June 2017	June 2016	June 2017
Non-Executive Chairman										
Adonis Pouroulis	-	22	-	-	-	-	-	-	-	22
Non-Executive Directors										
Alexander Lowrie	-	14	-	-	-	-	-	-	-	14
Robert Sinclair	-	14	-	-	-	-	-	-	-	14
Atul Bali	-	8	-	-	-	-	-	-	-	8
Shawn McCormick	-	14	-	-	-	-	-	-	-	14
Executive Director										
Martin Eales	199	209	-	3	-	8	-	130	199	350
Total	199	281	-	3	-	8	-	130	199	422

Notes:

Non-executive directors received no fees prior to the IPO in January 2017.

James Burgess resigned as a Director on 16 November 2016. He received no remuneration prior to this.

Alexander Lowrie was appointed to the Board on 16 November 2016.

Atul Bali was appointed to the Board on 29 March 2017.

Share option awards in the year are set out on in Note 18 to the Financial Statements (page 53).

Martin Eales's employment conditions were amended at the time of the Company's IPO on 30 January 2017. His gross salary was set at £175k per annum, and he became entitled to healthcare and employer pension contributions of 8% of his gross salary.

In addition, he agreed to a settlement of £100k (US\$122k), in return for waiving a clause in his previous employment contract that allowed for a potential profit share which had been entered into at the time of his appointment in 2014. The potential profit share was non-binding, and remained at the discretion of the Remuneration Committee. This amount, which will be subject to UK tax, had not been settled at the year end, and remains outstanding at 4 October 2017, as settlement is subject to Remuneration Committee approval based on the status of the Group's funding.

Directors' Responsibility Statement

The Companies (Guernsey) Law, 2008 requires the Directors to prepare financial statements for each financial period, which give a true and fair view of the state of affairs of the Group for that period and of the profit or loss of the Group for that period. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the EU and applicable law. In preparing those financial statements the Directors are required to:

- ▶ Select suitable accounting policies and then apply them consistently;
- ▶ Make judgments and estimates that are reasonable and prudent;
- ▶ State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- ▶ Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements have been properly prepared in accordance with the Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors consider the annual report and accounts, taken as a whole, to be fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

So far as each of the Directors are aware, there is no relevant audit information of which the Group's auditor is unaware; having taken all the steps the Directors ought to have taken to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Principal shareholders

A list of shareholders who beneficially hold more than 5% of the Company's shares at 3 October 2017 is as follows:

Name of Shareholder	Number of Ordinary Shares	% of Share Capital
Pella Group (beneficially owned by Adonis Pouroulis)	45,351,944	29.33
Malinova Holdings LLC (beneficially owned by Shawn McCormick)	8,705,470	5.63

The Pella Group includes Pella Ventures Limited, Agulhas Nominees Pty Limited, and Artemis Nominees Limited.

Interests of Directors and senior managers

The interests (all of which are beneficial and include related parties) of the Directors and Senior Managers in the Company's issued share capital are as follows:

Name of Shareholder	Position	Number of Ordinary Shares	% of Share Capital
Adonis Pouroulis	Non-exec chairman	45,351,944	29.33
Shawn McCormick	Non-exec director	8,705,470	5.63
Alexander Lowrie	Non-exec director	4,963,459	3.21
Robert Sinclair	Non-exec director	3,971,246	2.57
Atul Bali	Non-exec director	1,152,438	0.75
Martin Eales	Chief Exec Officer	2,003,299	1.30
Cesare Morelli	Senior manager	1,249,680	0.81
Gilbert Midende	Senior manager	1,127,342	0.73
Jim Wynn	Senior manager	35,910	0.02
Total		68,560,788	44.35

The Directors (with the exception of Atul Bali, who was appointed later in the year) entered into a lock-in agreement on 30 January 2017, the date of the admission of the Company's shares to the London Stock Exchange Main Market, pursuant to which they undertook not to dispose of any shares for a period of 365 days.

Adonis Pouroulis, as the largest shareholder, additionally entered into an agreement with the Company such that, provided his interest remains greater than 20 per cent, he will not undertake any activity that might prejudice the normal and independent operation of the Board and the Company.

DIRECTORS' REPORT

Website Publication

The Directors are responsible for ensuring that the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with applicable legislation in Guernsey governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Going Concern

The Directors have reviewed the Group's cash flow forecasts for at least 12 months following the reporting date, sensitivities and mitigating actions. After taking into account available cash and forecast cash flow from operations, together with financing facilities expected to be secured subsequent to the year end (including an overdraft facility with Finbank SA in Burundi) and the letter of support received from Pella Resources, the Company's largest shareholder, the Directors consider that the Group has adequate resources to continue its operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The basis for this assessment is set out in full in Note 2 to the Financial Statements, on page 39.

Auditor

BDO LLP has expressed its willingness to continue in office as auditors and a resolution to re-appoint BDO LLP will be proposed at the forthcoming annual general meeting.

Signed on behalf of the Board of Directors on

3 October 2017



Martin Eales

Chief Executive Officer



Adonis Pouroulis

Chairman

BOARD OF DIRECTORS

Adonis Pouroulis

Non-Executive Chairman

Adonis is an entrepreneur whose expertise lies in the discovery, exploration and development of natural resources across Africa. Having worked in the sector for over 25 years he has extensive experience and a wide network of industry relationships across the continent. Adonis is founder and chairman of Petra Diamonds (LSE:PDL), founder and director of Chariot Oil & Gas (AIM:CHAR) and founder and chairman of the Pella Resources Group. Adonis holds a Bachelor of Science Degree (Honours).

Alexander Lowrie

Non-Executive Director

Alex is the co-founder of Telemark Capital LLP, a partnership focusing on capital advisory and asset management. Through its consulting subsidiary, Gunnerside Advisors, Alex is also involved in providing governance services as an independent investment committee member to a variety of advisory panels. Prior to this Alex worked for 13 years in investment banking. He was a director at Deutsche Bank and then RBS from 2004 to 2012, having started his banking career in 1998 at ABN AMRO. Through these positions he has gained extensive market experience in primary and secondary equity offerings including bringing companies to market through IPOs (including structuring, marketing and distribution). Alex graduated from Durham University with a BA (hons) in Combined Social Sciences, and he is also in the process of completing an executive MBA from Henley Business School.

Atul Bali

Non-Executive Director

Atul is a corporate CEO with extensive experience in tech, government contracting and regulated industries operating on six continents. Over more than 20 years he has led more than 50 M&A and JV transactions in more than 25 countries and both managed and served on the boards of several highly regulated businesses. Currently he serves as a Non-executive Director of Gaming Realms Plc, a mobile games publisher, and as Chairman of Meridian Gaming, regulated and operating in more than 30 countries, with a large footprint in Africa, Central and South America and Central and Eastern Europe. He has previously held divisional CEO or President positions with IGT (NYSE), Aristocrat (ASX), and Real Networks (NASDAQ), as well as a venture capital firm. He previously trained as a Chartered Accountant with KPMG in the UK.

Shawn McCormick

Non-Executive Director

Shawn is an International Affairs specialist with more than 20 years' political and extractive industries sector experience having served in The White House as Director for African Affairs on the National Security Council (Washington), Political Affairs Director of BP (London) and Vice President of TNK-BP (Moscow). He is currently Managing Director of Connaught Strategies Ltd and an adviser to the Pella Resources Group.

Robert Sinclair

Non-Executive Director

Robert is Managing Director of the Guernsey based Artemis Trustees Limited, and a director of a number of investment fund management companies and investment funds associated with Artemis Trustees Limited. He has over 48 years' experience in finance and accountancy of which 38 years have been spent in the Guernsey financial services industry. Robert is a director of several London Stock Exchange listed companies. In the natural resources sector, he is a director and chairman of the Audit Committee of both Chariot Oil & Gas Limited and EF Realisation Company Limited. In the property sector, he is a director and chairman of the Audit Committee of Picton Property Income Limited. Robert is also Chairman of Schroder Oriental Income Fund Limited. He is a fellow of the Institute of Chartered Accountants in England & Wales and a Member of the Institute of Chartered Accountants of Scotland and the Society of Trust and Estate Practitioners. Robert is a resident of Guernsey.

Martin Eales

Chief Executive Officer

After qualifying as a Chartered Accountant in 1997 Martin embarked on a 15 year career in corporate finance, corporate broking and equity capital markets in the City, rising to the position of Managing Director at RBC Capital Markets in London. With long experience of natural resources companies and transactions Martin joined the Pella Resources Group as Business Development Director in early 2014 and was then appointed Managing Director (later CEO) of Rainbow later that year.

SENIOR MANAGEMENT

Gilbert Midende General Manager, Burundi

Gilbert has a doctorate in Geological Science, which he obtained in 1984 at the Université Libre de Bruxelles, Belgium. He was appointed Director General of Geology and Mines for Burundi in 1987 and was Minister of Mines between 1988 and 1993. He has been a consultant to the World Bank since 2007. From 1996 to 2001, he was Principal of the University of Burundi and Minister of Higher Education and is currently Professor in Economic Geology at the University of Burundi. Gilbert is responsible for all of the Group's administration and Government relations in Burundi.

Braam Jankowitz Project Manager

Braam has worked in the mining industry since 1979. He has a masters degree in geology, which he obtained in 1986 at the University of the Orange Freestate, Bloemfontein, South Africa. He has worked as a consultant in the minerals exploration industry in many countries. He was senior geologist on the Murray Basin Stage 2 Project in Western Australia in 2009 and 2010, before moving to Shanta Gold in 2011 to take up roles as Technical Services Manager, and later general manager, on the New Luika Gold Mine. He is a qualified professional natural scientist in South Africa, and is a member of the Geological Society of South Africa and the Geological Society of Namibia.

Cesare Morelli Technical Director

Cesare Morelli has over 29 years' experience in minerals exploration in Africa including 18 years in diamond exploration with De Beers managing projects in south, west and central Africa. Following his time with De Beers, he spent four years with BHP Billiton as Minerals Exploration Manager for Africa. At BHP Billiton he directed exploration projects in a variety of commodities, namely iron ore, aluminium bauxite, manganese, copper and base metals, nickel and potash. Cesare has been affiliated with Rainbow since its inception and has been responsible for project managing all of Rainbow's exploration work to date. He is a Director of Benu Minerals (Pty) Ltd, a consulting company based in South Africa. Cesare is a member of the South African Geological Society and the South African Council for Natural Scientific Professions.

Jim Wynn CFO

Jim is a Chartered Accountant and was previously employed by Anglo American plc where he held a number of roles within the finance, business development, and strategy departments of Anglo Industrial Minerals. Jim's most recent role was as Finance Director of Avocet Mining PLC where he developed extensive experience in francophone Africa as well as the London public company market.

The above names have been designated as Persons Discharging Managerial Responsibility ('PDMRs')

BUSINESS RISKS

The Directors regularly assess and discuss the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.

The key risks affecting the Company are set out below:

Risk	Comment	Business impact	Mitigation
Construction and commissioning risk	The Gakara processing plant is expected to be commissioned in Q4 2017. Construction of a processing plant involves inherent risks of delays and overruns. These include the risk of materials and workforce not being available, customs issues delaying parts being imported, and teething problems encountered during the ramp-up.	High	Management liaise closely with Obsideo, who are responsible for constructing and commissioning the plant (as well as its design). Any potential issues are anticipated and addressed before they impact timelines, wherever possible.
Production issues	The production of rare earth mineral concentrate involves a series of processes, from the mining of the ore at the mine site 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 (e.g. fuel), interruptions due to weather, among many others.	High	Management will monitor ongoing risks as far as possible to mitigate potential issues arising which might impact production. Exco convene weekly to discuss current concerns, and monthly reports are shared with the Board which highlight the key issues facing operations.
Civil unrest	Burundi has experienced civil unrest, including 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.	Medium	Although civil unrest is beyond the control of management, the Company maintains strict political neutrality in order to minimise the risk of association with any party. In the event of unrest, management would prioritise the safety of its staff, and if it were deemed safe to continue in operation, would work to ensure the security of its assets and supplies.
Rare earth prices	The Company produces rare earth mineral concentrate which is sold at a market price less a discount (negotiated with each 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 expected to be between 68-73%, however this may vary with new customers or as terms are renegotiated.	High	In the event of lower market prices, the Company would seek to defend its margins by reviewing its operating cost base, where possible, and cut back on discretionary expenditure. Under the terms of the agreement, thyssenkrupp Raw Materials are responsible for negotiating with end customers of the Company's concentrate, and are incentivised to obtain the best price.
Geological risk	The Company does not currently have a JORC-compliant Mineral Resource or Reserve, and therefore the scale of its mineral deposit cannot be stated with certainty. It is possible that the quantity of rare earths present in the licence area is less than management expectations.	Low	Rainbow's models are based on conservative assumptions of the quantity and size of rare earth veins within the Gakara licence area. Once in production, the Company will continue its exploration activities to improve its understanding of the orebody, to minimise this risk.
Financing risk	The Company currently forecasts limited financial headroom before entering into profitable, cash-generative production. If this period is prolonged, e.g. due to delays in commissioning, the headroom may not be sufficient and financing may be required in order to continue in operation.	Medium	Management is in advanced discussions with its bankers and key shareholders to put in place overrun facilities, which it expects to be concluded shortly after the issuance of this report, or as soon as required. It believes these facilities will provide funding even in the most conservative downside scenario.
Currency controls	The Company will receive proceeds in US dollars, which, under the Burundian Mining Code, must be repatriated into Burundi. 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 (e.g. corporate costs, and any debt payments in US dollars).	Medium	The Company has the right, under its Mining Convention with the Burundian Government, to have unfettered access to its foreign currencies. The Company will continue to monitor currency issues in country, and will negotiate flexible terms with the Government as far as possible.

CORPORATE GOVERNANCE

As a Guernsey-registered Company trading on the Standard List of the Main Market of the London Stock Exchange, the UK Corporate Governance Code published by the Financial Reporting Council does not apply to the Company. However, whilst the Company does not apply the UK Corporate Governance Code, the Directors recognise the importance of good corporate governance and have implemented corporate governance practices having consideration to the recommendations and principles of the UK Corporate Governance Code as far as is appropriate having regard to the size and nature of the Company.

The Board oversees the performance of the Group's activities. It comprises experienced Board members who have held senior positions in a number of public and private companies. The Board is responsible to shareholders for the proper management of the Group. The Non-Executive Directors have particular responsibility to ensure that the strategies proposed by the Executive Director are carefully considered.

The Board meets regularly throughout the year, and met seven times in the year to 30 June 2017. Prior to such meetings taking place, an agenda and Board papers are circulated to the Directors so that they are adequately prepared for the meetings.

To enable the Board to discharge its duties, all Directors have full and timely access to all relevant information.

There is no agreed formal procedure for the Board (or members thereof) to seek independent professional advice but, pursuant to their letters of appointment, the Non-Executive Directors may, where appropriate, take independent professional advice at the Group's expense.

The composition of the Board will be reviewed regularly to ensure that the Board has the appropriate mix of expertise and experience. The Articles provide that the number of Directors that may be appointed cannot be fewer than two. Two Directors present at a Board meeting will constitute a quorum.

The Board ensures it is aware of the views of major shareholders through regular meetings in person (where appropriate), as well as through discussions with the Company's joint brokers and market analysts. Where such information has been obtained by the CEO, this information is normally fed back to the rest of the Board in a timely manner.

Review of Internal Control and Risk Management systems

The Board has reviewed the Company's internal control and risk management systems.

Rainbow Rare Earths Limited has a relatively small team of management and financial staff, and is therefore able to retain a tight control over its financial reporting activities. The Board does not consider it appropriate to have a separate internal audit function, however a number of internal controls and review have been put in place to provide the Board (and the Audit Committee) with assurance that the risks inherent to operating a mining company in more than one jurisdiction are managed appropriately. These controls include the following:

- ▶ Budgets and forecast are prepared by finance staff in conjunction with operating teams, and are reviewed and approved by senior management (and in the case of the Budget, by the Board)
- ▶ Actual results are reported against Budget and forecast, and variances examined
- ▶ Banking transactions must be authorised by at least two staff members, one of whom is a senior manager (normally the CFO)
- ▶ Financial operations in Burundi are reviewed regularly by the CFO, who visits the operations at least every 2-3 months (more frequently as required)
- ▶ The Group uses a central financial reporting system (Xero) which records all transactions, capturing third party documents (e.g. invoices) which are reviewed by head office on a monthly basis
- ▶ Senior management regularly discuss material developments (normally weekly), and consider financial and reporting implications of any matters arising

In addition to formal Audit Committee meetings, the CFO has regular interaction with the Audit Committee Chairman to discuss control and reporting matters in more detail.

Board of Directors

The Company had one Executive Director and five Non-Executive Directors at 30 June 2017. All major decisions relating to the Group are made by the Board as a whole. Operations are conducted by the subsidiaries of the Company (principally Rainbow Mining Burundi SM) under the direction of the Chairman of each of the subsidiary companies. The Company is represented on the board of Rainbow Mining Burundi SM.

The Board reviews key business risks regularly, including the financial risks facing the Group in the operation of its business. These matters include, but are not limited to, the following:

- ▶ Determining the strategy for the Company
- ▶ Approving the annual Budget
- ▶ Discussing and approving financing, including new debt and equity
- ▶ Setting the dividend policy
- ▶ M&A activity and significant transactions
- ▶ Risk management
- ▶ Considering and, if appropriate, approving the recommendations of Board Committees

The following table lists the names, positions and ages of the Directors, the year they were appointed, and committee memberships:

Name	Age ¹	Position	Appointed	Audit	Remuneration	Nominations	HSE
Adonis Pouroulis	47	Chairman	5 Aug 2011	-	Member	Chair	-
Shawn McCormick	50	Non-exec	4 Feb 2016	-	Member	Member	Chair
Alexander Lowrie	42	Non-exec	16 Nov 2016	Member	-	Member	Member
Robert Sinclair	67	Non-exec	5 Aug 2011	Chair	Chair	-	-
Atul Bali	46	Non-exec	29 Mar 2017	Member	-	-	-
Martin Eales	45	CEO	8 Sep 2014	-	-	-	Member

¹Ages at 30 June 2017

The Company does not consider Adonis Pouroulis to be independent by virtue of being a significant shareholder. The other non-executive directors are considered to be independent, in terms of character and judgment, notwithstanding the following:

- ▶ All the non-executives are shareholders in the Company (see table on page 21 for details)
- ▶ Shawn McCormick, Adonis Pouroulis and Robert Sinclair held share options during the year (see Note 18 on page 53 for details);
- ▶ Alexander Lowrie and Atul Bali were awarded share options on 23 August 2017;
- ▶ Robert Sinclair has a beneficial interest in Artemis Trustees Limited, which provides corporate administration and secretarial services to the Group.

The table below shows the attendance at Board and committee meetings during the year to 30 June 2017:

Name	Board	Audit	Remuneration	Nominations	HSE
Adonis Pouroulis	6/7	n/a	2/2	0/0	n/a
Shawn McCormick	5/7	n/a	2/2	0/0	0/0
Alexander Lowrie	4/5	0/0	n/a	0/0	0/0
Robert Sinclair	4/7	0/0	2/2	n/a	n/a
Atul Bali	1/1	0/0	n/a	n/a	n/a
Martin Eales	7/7	n/a	n/a	n/a	0/0

The deliberations of the various committees referred to below, do not reduce the individual and collective responsibilities of Board members with regard to their fiduciary duties and responsibilities, and they must continue to exercise due care and judgment in accordance with their statutory obligations.

CORPORATE GOVERNANCE

These terms of reference are subject to the provisions of the Articles and any other applicable law or regulatory provision in force in Guernsey, and the Listings Rules.

In addition to the Audit, Remuneration, Nomination and Health, Safety and Environment Committees which have formally delegated duties and responsibilities within written terms of reference the Board may set up additional Committees as appropriate.

Audit Committee

The Board has established an Audit Committee with formally delegated duties and responsibilities. The Audit Committee is chaired by Robert Sinclair and its other members Alexander Lowrie and Atul Bali.

The Company considers Robert Sinclair to have recent and relevant financial experience, by virtue of his role as a financial adviser and his experience as Audit Committee Chairman with other public companies.

The Audit Committee should meet not less than two times a year and is responsible for ensuring the financial performance of the Company is properly reported on and monitored, including reviews of the annual and interim accounts, results announcements, internal control systems and procedures and accounting policies.

It is also responsible for keeping the categorisation, monitoring and overall effectiveness of the Company's risk assessment and internal control processes under review.

The Audit Committee was formally established in January 2017 and did not meet in 2016/17.

The Audit Committee did however meet on 27 July 2017 to approve the audit plan for the year ended 30 June 2017, and again on 2 October 2017 to consider the 2016/17 financial statements and year end audit.

The Audit Committee also considered the conduct of the external audit by BDO LLP, which was considered to be appropriate. The Committee therefore resolved to propose BDO LLP for reappointment at the next AGM for a period of 12 months. It was noted that BDO LLP had been auditors of the Company since October 2016.

The Audit Committee also considered the independence and objectivity of BDO LLP, including the provision of non-audit services. These were limited to advice on the establishment and operation of the Company's share option scheme and acting as Reporting Accountants for the Company's IPO. Having

considered the nature of these services, the non-recurring nature of the fees and the safeguards implemented to protect audit independence, such as the fact the services were led by personnel not involved with the audit, the provision of these non-audit services was not considered to compromise BDO LLP's audit independence.

Remuneration Committee

The Remuneration Committee is chaired by Robert Sinclair and its other members are Adonis Pouroulis and Shawn McCormick. It is expected to meet not less than two times a year. The Remuneration Committee has responsibility for determining, within agreed terms of reference, the Group's policy on the remuneration of senior executives and specific remuneration packages for executive Directors and the non-executive Chairman. The remuneration of non-executive Directors is a matter for the Board. No Director may be involved in any discussions as to their own remuneration. The Remuneration Committee was established following the IPO in January 2017 and met twice in the year.

Health, Safety and Environment ('HSE') Committee

The HSE Committee is responsible for developing and reviewing the Group's framework, policies and guidelines on safety, health and environmental management, monitoring key indicators on accidents and incidents within the Group's operations and considering developments in relevant safety, health and environmental practices and regulations.

The HSE Committee is chaired by Shawn McCormick. The other members of the committee are Martin Eales and Alexander Lowrie. It is intended that the committee will meet at least two times per year. The HSE was established following the IPO in January 2017 but did not meet formally before 30 June 2017.

Nominations Committee

The Nomination Committee is chaired by Adonis Pouroulis and its other members are Alexander Lowrie and Shawn McCormick. The Nomination Committee is expected to meet at least once per year. The Nomination Committee is responsible for reviewing, within the agreed terms of reference, the structure, size and composition of the Board, undertaking succession planning, leading the process for new Board appointments and making recommendations to the Board on all new

appointments and re-appointments of existing Directors. The Nomination Committee did not meet between its formation after the IPO in January 2017, and the end of the financial year on 30 June 2017, as changes to the directorate (notably the appointment of Atul Bali as Non-executive Director on 29 March 2017) were considered by the Board as a whole.

The Nomination Committee is responsible for setting the Board's policy on diversity. This policy had not been finalised by the end of the year, however it remains the objective of the Committee to address this at the earliest opportunity in 2017/18. No external consultancies were engaged in the search for any non-executive Director.

Share dealing policy

The Company has a share dealing policy requiring all Directors and senior executives to obtain prior written clearance from either the Chairman or the Chief Executive Officer to deal in linked shares. The Chairman requires prior written clearance from the Chairman of the Audit Committee. Close periods (as defined in the share dealing policy) are observed as required by MAR and other rules that apply to the Company by virtue of the market on which its shares are listed. During these periods, the Company's Directors, executives and inside employees are not permitted to deal in the Company's securities. Additional close periods are enforced when the Company or its applicable employees are in possession of inside information.

Anti-bribery policy

The Company has adopted an Anti-bribery policy and procedures, which applies to the Group and its officers and staff anywhere in the world. The policy and procedures have been developed following an assessment of the risks applicable to the Group's business and include a process for reporting suspicious conduct, financial limits on gifts and hospitality, procedures for financial record-keeping and for dealing with contracts with third parties, and a prohibition on charitable or political donations without Board approval.

Jim Wynn has been appointed as the Group's Anti-Bribery Officer and will oversee the day-to-day operation of the Anti-Bribery Policy and procedures. The Board will also regularly review the operation of the Anti-Bribery Policy and procedures and the Anti-Bribery Officer will report to the Board on any specific issues that may arise.

All personnel are required to receive guidance and training in relation to the Group's Anti-Bribery Policy and procedures. All senior staff have already received this training, and the roll-out to all junior staff is expected during 2017/2018.

The Anti-Bribery Officer also undertakes due diligence on third parties as appropriate that are to be engaged by the Group to do business on its behalf. The Group requires third parties to take account of the Anti-bribery policy and to act in accordance with its provisions.

Signed on behalf of the Board of Directors on

3 October 2017



Martin Eales

Chief Executive Officer

FINANCIAL STATEMENTS



INDEPENDENT AUDITORS' REPORT

Independent Auditor's report to members of Rainbow Rare Earths Limited

Opinion

We have audited the financial statements of Rainbow Rare Earths Limited ("the Group") for the year ended 30 June 2017 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation Group financial statements is applicable law and International Financial Reporting Standards (IFRS's) as adopted by the European Union.

In our opinion, the financial statements:

- ▶ give a true and fair view of the state of the Group's affairs as at 30 June 2017 and of its loss for the year;
- ▶ have been properly prepared in accordance with IFRS as adopted by the European Union; and
- ▶ have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- ▶ the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- ▶ the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters ('KAMs')

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KAM Identified

Carrying value and classification of the Gakara Project

The Group is developing the Gakara Project, a rare earth deposit in Burundi which was previously classified as an exploration and evaluation asset. Notwithstanding that the Gakara Project is classified as an 'Exploration Target' under JORC rules without a defined mineral reserve or resource that is commonly associated with a commercially feasible project, the Board determined that, given factors such as the nature of the deposit and internal assessments, that the commercial and technical viability of the rare earth deposit had been established by 30 June 2017. As a result, the Group reclassified the exploration and evaluation assets of US\$4.6 million to mining assets.

INDEPENDENT AUDITORS' REPORT

At 30 June 2017, the Group's mining assets totalled \$5.8 million and management performed an impairment indicator review in accordance with IAS 36 which concluded that there were no indicators of impairment. The impairment indicator review included an assessment as to whether the current life of mine plan indicated that the recoverable amount exceeded the carrying value of the cash generating unit.

The determination that the Gakara Project had achieved commercial and technical viability to support its reclassification to mining assets, together with the assessment of the costs to be transferred, represented a key judgment by management and a key focus for our audit. In respect of the impairment indicator review, the selection of inputs to the life of mine plan required significant estimation and judgment by management particularly given the absence of a JORC defined mineral resource and the development stage of the Gakara Project.

Therefore we considered the impairment indicator review and the appropriateness of the estimates in the life of mine plan to be a key focus for our audit, along with the classification of the assets as mining assets.

How we addressed the audit risk:

- ▶ We critically assessed the appropriateness of management's judgment that the Gakara Project met the criteria under IFRS for reclassification to mining assets, including consideration of the absence of a JORC defined reserve or resource. As part of this assessment we reviewed the mining permit, challenged the assessments by internal geologists and mine planners and reviewed the Group's strategy and business plans. Further, we reviewed the independent Competent Person's Report and discussed the findings with the Competent Person to consider its impact on the accounting judgment by the Group.
- ▶ We assessed whether management's judgment that the exploration and evaluation costs attributable to the Gakara mining permit area as a whole should be reclassified to mining assets, as opposed to certain areas of the permit, was appropriate. We verified the costs transferred to accounting records.
- ▶ We evaluated management's impairment indicator review. In doing so we considered factors such as the recent IPO valuation and year end market capitalisation against the carrying value of assets. We assessed the progress of the Gakara mine construction for indicators of impairment, supported by our mine site visit and review of internal project reports. We reviewed management's life of mine plan and the associated future discounted cash flows. We critically assessed the level of production and grade assumed in the forecasts compared to the range in the Competent Person's Report and challenged internal assessments of forecast production made by the Group's geologists. Our testing included a comparison of forecast rare earth prices to market data and trends, assessment of assumptions including future customer discounts against correspondence with thyssenkrupp, forecast costs and an assessment of the discount rate.

- ▶ We challenged management's sensitivity assessments and performed our own sensitivity calculations in respect of factors such as rare earth prices, customer discounts and discount rates.
- ▶ We evaluated the accounting policy and disclosures in note 3 based on our audit procedures.

Our findings:

We found the Group's assessment that the Gakara Project had reached commercial and technical feasibility to justify its reclassification to mining assets to be applicable based on the facts and circumstances. We found the costs transferred to be appropriate. We found the Group's assessment that there were no impairment indicators at the reporting date to be reasonable, with the key assumptions in the life of mine plan being considered and balanced. We found the disclosures in the financial statements to be relevant and informative.

Funding position

The Group raised US\$8 million through share placings as part of its IPO in January 2017 to fund the development of the Gakara Project with first production and revenue receipts forecasted in Q4 2017.

During our planning phase, whilst the Group's forecasts indicated that it maintained sufficient liquidity, the forecasts were sensitive to any delays associated with the date of first revenue receipts, as well as factors such as cost escalation, rare earth prices and customer discounts. To protect against an adverse scenario management are currently in the process of agreeing an overdraft facility with Finbank SA and have received support from the Group's largest shareholder that it will provide financial support should the need arise within the next 12 months.

The forecasts and the Board's assessment of the appropriateness of the going concern assumption involved significant judgment and estimation and was therefore considered to represent a key focus area for our audit.

How we addressed the audit risk:

- ▶ We critically assessed management's cash flow forecast and the underlying assumptions. Our testing included a comparison of forecast rare earth prices to market data and trends, assessment of assumptions including future customer discounts against correspondence with thyssenkrupp and assessment of the consistency of production and operating cost assumptions with the life of mine plan.
- ▶ We assessed the forecast capital expenditure still to be incurred against the original project plan and considered the quality of management estimates based on factors such as the performance to date against original budgets. We visited the Gakara Project, reviewed internal project reports and met with operational management to understand the progress of works. We challenged management regarding potential risks associated with the timing of first production and revenue receipts.

- ▶ We critically assessed management's sensitivity analysis and performed our own sensitivity analysis in respect of the key assumptions underpinning the forecasts. The sensitivities included the timing of first production and revenue receipts and demonstrated that whilst the Group forecast headroom being maintained from existing cash resources, additional working capital would be required in the event of reasonable downside sensitivities.
- ▶ We considered and challenged the Board's assessment that the Group would have access to sufficient funding to mitigate the reasonable downside sensitivity scenarios based on a proposed overdraft facility and commitments from the Group's largest shareholder regarding financial support if required, until such time as an appropriate overdraft facility is in place. We verified the existence of the term sheet in respect of the proposed overdraft facility and obtained written representations from the Board regarding their expectation that the facility would be obtained during October 2017 and considered the appropriateness of this judgment. We verified the written confirmation of financial support provided by the Group's largest shareholder and considered the ability of the counterparty to meet such a commitment.
- ▶ We evaluated the disclosures in note 2 based on our audit procedures.

Our findings:

We found the Group's judgment that the going concern basis of preparation is applicable to be appropriate based on its forecasts, noting that the Group's forecasts demonstrate that headroom will remain available and that the Board has a reasonable expectation of additional funding being available to mitigate a downside sensitivity scenario, if required. The judgment regarding the availability of additional funding was considered appropriate given the status of the proposed overdraft facility and the written commitments of financial support from the Group's largest shareholder. In forming that assessment, we found the Group's cash flow forecasts and consideration of risks and sensitivities to be balanced and appropriate. We found the disclosures included in the financial statements to be relevant and informative.

Our application of materiality

Group materiality for FY 2017: US\$140,000

Basis for materiality: 1.5% of total assets of US\$9.2 million

We consider total assets to be the financial metric of the most interest to shareholders and other users of the financial statements and therefore consider this to be an appropriate basis for materiality.

We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of \$7,000. We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds. There were no misstatements identified during the course of our audit that were individually, or in aggregate, considered to be material in terms of their absolute monetary value or on qualitative grounds.

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

An overview of the scope of our audit

Whilst Rainbow Rare Earths Limited is a company registered in Guernsey and listed on the Standard Segment of the London Stock Exchange in the UK, the Group's principal operations are located in Burundi. In approaching the audit we considered how the Group is organised and managed. We assessed the business as being principally a single project being the operation of the Gakara Mine in Burundi.

Our Group audit scope focused on the Group's significant components which comprised two Burundian operating subsidiaries, one BVI subsidiary and a corporate head office function. Whilst materiality for the financial statements as a whole was US\$140,000, each component of the Group was audited or subject to review procedures to a lower level of materiality. The significant components accounted for 100% of total assets and were subject to audits conducted by BDO LLP using a team with experience of auditing in the mining industry, in Africa and with publically listed entities. The one non-significant component was principally subject to analytical review procedures.

We set out above the risks that had the greatest impact on our audit strategy and scope. As part of our audit strategy the Responsible Individual (audit engagement partner) visited the principal location in Burundi to observe the operations of the mine.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our Auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- ▶ proper accounting records have not been kept by the Company; or
- ▶ the financial statements are not in agreement with the accounting records; or
- ▶ we have failed to obtain all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's report.

Ryan Ferguson

For and on behalf of BDO LLP, Chartered Accountants and Recognised Auditor

London, United Kingdom
3 October 2017

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2017

	Notes	Year ended 30 June 2017 US\$'000	Year ended 30 June 2016 US\$'000
Operating expenses:			
Administration expenses		(1,336)	(623)
Exploration expenditure		(95)	(51)
TOTAL OPERATING EXPENSES		(1,431)	(674)
Loss from operating activities	4	(1,431)	(674)
Finance Income	5	185	-
Finance costs	5	(156)	(526)
Loss before tax		(1,402)	(1,200)
Income tax expense	8	-	-
Total loss after tax and comprehensive expense for the year		(1,402)	(1,200)
Total loss after tax and comprehensive expense for the year is attributable to:			
Non-controlling interest	19	(13)	(6)
Owners of parent		(1,389)	(1,194)
		(1,402)	(1,200)
The results of each year are derived from continuing operations:			
Loss per share			
Basic	9	(0.01)	(0.01)*
Diluted	9	(0.01)	(0.01)*

*Adjusted for share consolidation in 2017

Notes on pages 39 to 58 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	Year ended 30 June 2017 US\$'000	Year ended 30 June 2016 US\$'000
Non-current assets			
Exploration and evaluation assets	10	-	3,827
Plant, property and equipment	11	5,791	1
Prepayments	12	182	-
Total non-current assets		5,973	3,828
Current assets			
Prepayments	12	22	-
Cash and cash equivalents	13	3,198	70
Total current assets		3,220	70
Total assets		9,193	3,898
Current liabilities			
Borrowings	14	(20)	(1,653)
Trade and other payables	15	(429)	(765)
Total current liabilities		(449)	(2,418)
Total liabilities		(449)	(2,418)
Net Assets		8,744	1,480
Equity and liabilities			
Share capital	16	13,186	5,042
Share based payment reserve	18	494	-
Other reserves		40	40
Retained loss		(4,982)	(3,621)
Equity attributable to the parent		8,738	1,461
Non-controlling interest	19	6	19
Total Equity		8,744	1,480

These financial statements were approved and authorised for issue by the Board of Directors on 3 October 2017 and signed on its behalf by:



Martin Eales

Chief Executive Officer

Notes on pages 39 to 58 form part of these financial statements..

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2017

	Share capital US\$'000	Share Based Payments US\$'000	Equity reserve US\$'000	Other reserves US\$'000	Accumulated losses US\$'000	Attributable to the parent US\$'000	Non- controlling interest US\$'000	Total US\$'000
Balance at 01 July 2015	4,942	-	-	-	(2,497)	2,445	25	2,470
Total comprehensive expense								
Loss and total comprehensive loss for year	-	-	-	-	(1,194)	(1,194)	(6)	(1,200)
Transactions with owners								
Issue of convertible loan note	-	-	70	-	-	70	-	70
Extinguishment of convertible loan note	-	-	(70)	-	70	-	-	-
Issue of warrants (note 18)	-	-	-	40	-	40	-	40
Issue of shares during the year (net of costs)	100	-	-	-	-	100	-	100
Balance at 30 June 2016	5,042	-	-	40	(3,621)	1,461	19	1,480
Total comprehensive expense								
Loss and total comprehensive loss for year	-	-	-	-	(1,389)	(1,389)	(13)	(1,402)
Transactions with owners								
Extinguishment of convertible loan (notes 5 and 16c)	-	-	-	-	28	28	-	28
IPO Transaction costs (note 16e)	(778)	-	-	-	-	(778)	-	(778)
Share Based payment reserve (note 18)	-	494	-	-	-	494	-	494
Issue of shares during the year (note 16)	8,922	-	-	-	-	8,922	-	8,922
Balance at 30 June 2017	13,186	494	-	40	(4,982)	8,738	6	8,744

Notes on pages 39 to 58 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2017

	Notes	For year ended 30 June 2017 US\$'000	For year ended 30 June 2016 US\$'000
Cash flow from operating activities			
Loss after tax for the year		(1,402)	(1,200)
Adjustments for:			
Share based payment charge	18	494	-
Finance costs	5	156	526
Finance income	5	(185)	-
Net (increase)/decrease in prepayments		(16)	19
Net increase/(decrease) in trade and other payables		109	(35)
Net cash used in operating activities		(844)	(690)
Cash flow from investing activities			
Purchase of exploration and evaluation assets	10, 26	(769)	(583)
Purchase of property, plant and equipment	11, 26	(1,363)	-
Net cash used in investing activities		(2,132)	(583)
Cash flow from financing activities			
Proceeds of new borrowings	16c	250	1,264
Repayment of borrowings	14	(1,700)	-
Proceeds from the issuance of ordinary shares	16d	7,854	71
Transaction costs of issuing new equity		(444)	-
Net cash generated by financing activities		5,960	1,335
Net increase in cash and cash equivalents		2,984	62
Cash and cash equivalents at the beginning of the year		70	8
Foreign exchange gains on cash and cash equivalents		144	-
Cash and cash equivalents at the end of the year		3,198	70

Notes on pages 39 to 58 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General Information

Reporting entity

Rainbow Rare Earths Limited ('the Company' or 'Rainbow') is a company domiciled in Guernsey and incorporated on 5 August 2011, with company registration number 53831, and is a company limited by shares. The address of the Company's registered office is Trafalgar Court, Admiral Park, St Peter Port, Guernsey. The consolidated financial statements of the Company for the years ended 30 June 2017 and 30 June 2016 comprise the Company and its subsidiaries together referred to as the 'Group'.

2. Accounting Policies

Basis of preparation

The Financial Statements of the Company and its subsidiaries ("the Group") are prepared in accordance with International Financial Reporting Standards ("IFRS") (IFRS and IFRIC Interpretations) issued by the International Accounting Standards Board ("IASB"), as adopted by the European Union.

Going Concern

In January 2017, the Company raised US\$8 million, to be used to finance the construction of the Gakara mine, which is expected to enter into production and generate first sale proceeds during Q4 2017.

The Board have considered detailed cash flow forecasts and sensitivity analysis for a period to 31 December 2018. The forecasts demonstrate that provided revenues from the first shipment are received towards the earlier part of Q4 2017, the Group will maintain positive cash headroom throughout the next 12 months. If sales revenues are delayed, for example due to issues in the commissioning and ramp-up at the plant, or difficulties in exporting the first shipments of mineral concentrate, it is likely that existing cash balances will be insufficient. Accordingly, the Board have considered reasonable and stress case sensitivity scenarios to assess the potential funding required under such eventualities, notwithstanding that the Board continues to anticipate production and sale proceeds being received in the earlier part of Q4 2017.

To protect against such an eventuality, during September 2017, the Company agreed in principle an overdraft facility with Finbank SA, a Burundian bank, for up to US\$1.5m, which would provide adequate headroom throughout the period in the event of such a scenario materialising. In addition, the Company has received a letter of support from Pella Resources, the Company's largest shareholder confirming that it will make available funding to the Company should the need arise, for a period up until 31 December 2018.

For this reason, the Board considers the Going Concern basis to be appropriate for the preparation of the accounts for the year ended 30 June 2017.

Standards in issue but not effective

The standards which were issued and effective for periods starting on or after 1 July 2016 have been adopted in the year and have not had a material impact to the Group financial statements.

The Group has elected not to early adopt the following revised and amended standards, which are not yet mandatory in the EU.

Standard	Description	Effective date
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16*	Leases	1 January 2019
IFRIC 22	Foreign Currency Translations and Advance Consideration	1 January 2018
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018

* not yet adopted by the European Union

The Group is currently assessing the impact of these standards on the financial statements for future periods including the impact on the measurement and presentation of its financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

IFRS 15 Revenue from contracts with customers

The new standard was issued in May 2014. IFRS 15 is intended to introduce a single framework for revenue recognition and clarify principles of revenue recognition. This standard modifies the determination of when to recognise revenue and how much revenue to recognise. The new standard becomes mandatory for financial years beginning on or after 1 January 2018. The effect of applying IFRS 15 will be assessed and disclosure will be made once the Group has commenced sales of concentrate.

IFRS 9 Financial instruments

The complete standard was issued in July 2014 including the requirements previously issued and additional amendments. The new standard replaces IAS 39 and includes a new expected loss impairment model, changes to the classification and measurement requirements of financial assets as well as to hedge accounting. The new standard becomes effective for financial years beginning on or after 1 January 2018. The Group is currently assessing the impact of this standard however based on current operations do not expect this standard to have a material impact on the financial statements.

IFRS 16 Leases

The new standard was issued in January 2016 replacing the previous leases standard, IAS 17 Leases, and related Interpretations. IFRS 16 establishes the principles for the recognition, measurement, presentation and disclosure of leases for the customer ('lessee') and the supplier ('lessor'). IFRS 16 eliminates the classification of leases as either operating or finance as is required by IAS 17 and, instead, introduces a single lessee accounting model requiring a lessee to recognise assets and liabilities for all leases unless the underlying asset has a low value or the lease term is twelve months or less. This new standard applies to annual reporting periods beginning on or after 1 January 2019 subject to EU endorsement. This new standard, based on the Group's current operations, is not expected to have a material impact on the financial statements.

Basis of consolidation

Where the Company has control over an investee, it is classified as a subsidiary. The Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The consolidated financial statements present the results of the Company and its subsidiaries as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

The results of undertakings acquired or disposed of are consolidated from or to the date when control passes to or from the Group. The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Comprehensive Income from the date that control commences until the date that control ceases.

Where necessary, adjustments are made to the results of subsidiaries to bring the accounting policies they use into line with those used by the Group.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity. Non-controlling interests consist of the non-controlling shareholder's share of changes in equity. The non-controlling interests' share of losses, where applicable, are attributed to the non-controlling interests irrespective of whether the non-controlling shareholders have a binding obligation and are able to make an additional investment to cover the losses. On acquisition of a non-controlling interest the relevant non-controlling interest share of equity is extinguished and the difference between the fair value of consideration paid and the relevant carrying value of the non-controlling interest is recorded in retained earnings.

Foreign currency

The consolidated financial statements are presented in US dollars, which is also the functional currency of the Company and its subsidiaries. The Group's strategy is focused on developing a rare earth project in the Republic of Burundi which will generate revenues in United States Dollars and is funded by shareholder equity and other financial liabilities which are principally denominated in United States Dollars.

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 differences on all transactions are recognised in the consolidated statement of comprehensive income in the year in which they arise.

Rare earth exploration and evaluation assets

All exploration and appraisal costs incurred are accumulated in respect of each identifiable project area. The costs historically accumulated related to one identifiable project area, the Gakara Project. These costs, which are classified as intangible fixed assets are only carried forward to the extent that they are expected to be recovered through the successful development of

the area or where activities in the area have not yet reached a stage which permits reasonable assessment as to whether the deposit is commercially viable and technically feasible for extraction.

Pre-licence/project costs are written off immediately. Other costs are also written off unless the Board has determined that the project is commercially viable and technically feasible for extraction, or the determination process has not been completed. Accumulated cost in relation to an abandoned area are written off in full to the statement of comprehensive income in the year in which the decision to abandon the area is made.

Exploration and evaluation assets associated with an identifiable project area are transferred from intangible fixed assets to tangible fixed assets as 'mine development costs' when the commercial viability and technical feasibility of extracting the deposit has been established. This includes consideration of a variety of factors such as whether the mining permit has been awarded, whether funding required for development is sufficiently certain of being secured, whether an appropriate mining method and mine development plan is established and the results of exploration data including internal and external assessments.

Property, plant and equipment

Property, plant and equipment consists of mine development costs, process plant, mining equipment and vehicles, computer equipment, motor vehicles, and office furniture and fittings.

Property, plant and equipment is initially recognised at cost and subsequently stated at cost less accumulated depreciation and any impairment. The cost of acquisition is the purchase price and any directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary for the asset to be capable of operating in the manner intended by management.

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 within mining and other equipment:	Useful life:
Mine development costs	Life of mine
Process plant	Life of mine
Mining equipment and vehicles	5 years
Computer equipment	3 years
Office furniture and fittings	7 years

Deferred stripping costs

Stripping costs incurred during the development phase of the mine as part of initial removal of overburden are capitalised as mine development costs within property, plant and equipment and depreciated on a units of production basis.

Stripping costs incurred during the production stage of the mine are included within the cost of inventory produced (i.e. the ROM stockpile) however may be accounted for as a non-current deferred stripping asset, depending on the expectation of when the benefit of the stripping activity is realised through the processing of ore.

To the extent that the benefit from the stripping activity is realised in the form of inventory produced in the current period, the directly attributable costs of that mining activity is treated as part of the ore stockpile inventory.

To the extent that the benefit from the stripping activity is the improved access to ore that will be mined in future periods and the cost is material, the directly attributable costs are treated as a non-current 'stripping activity asset' and depreciated over the relevant section of the ore body.

Impairment of exploration and evaluation assets

Exploration and evaluation assets are reviewed regularly for indicators of impairment following the guidance in IFRS 6 'Exploration for and Evaluation of Mineral Resources' and tested for impairment where such indicators exist. In addition, these assets are tested for impairment prior to transfers to mine development costs.

In accordance with IFRS 6 the Group considers the following facts and circumstances in their assessment of whether the Group's exploration and evaluation assets may be impaired:

- ▶ whether the period for which the Group has the right to explore in a specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

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- ▶ whether substantive expenditure on further exploration for and evaluation of mineral resources in a specific area is neither budgeted nor planned;
- ▶ whether exploration for and evaluation of reserves in a specific area have not led to the discovery of commercially viable quantities of mineable material and the Group has decided to discontinue such activities in the specific area; and
- ▶ whether sufficient data exists to indicate that although a development in a specific area is likely to proceed, the carrying amount of the exploration and evaluation assets is unlikely to be recovered in full from successful development or by sale.

If any such facts or circumstances are noted, the Group, as a next step, perform an impairment test in accordance with the provisions of IAS 36. In such circumstances the aggregate carrying value of the exploration and evaluation asset is compared against the expected recoverable amount of the cash generating unit. The recoverable amount is the higher of value in use and the fair value less costs to sell.

Any impairment arising is recognised in the Income Statement for the year.

Impairment of property, plant and equipment

A review is carried out at each balance sheet date to determine whether there is any indication that tangible fixed assets should be impaired. Assets are assessed for indicators of impairment (and subsequently tested for impairment if an indicator exists) at the level of a Cash Generating Unit ('CGU'). A CGU is the smallest group of assets that generates cash inflows from continuing use. If an indication of impairment exists, the recoverable amount of the asset or CGU is determined. The recoverable amount is the higher of value in use and the fair value less cost to sell. In assessing the value in use the expected future cash flows from the assets are determined based on estimates of the life of mine production plans together with estimates of future rare earth prices, capital expenditure necessary to extract the deposit included in the life of mine plan, cash costs and applying a discount rate to the anticipated risk adjusted future cash flows.

An impairment is recognised immediately as an expense to the extent that the carrying amount exceeds the assets' recoverable amount. Where there is a reversal of the conditions leading to an impairment, the impairment is reversed through the income statement.

Environmental rehabilitation costs

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the development or ongoing production of a mining property. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present values, are provided for in full as soon as the obligation to incur such costs arises and can be quantified. On recognition of a full provision, an addition is made to property, plant and equipment of the same amount; this addition is then charged against profits on a unit of production basis over the life of the mine. Closure provisions are updated annually for changes in cost estimates as well as for changes to life of mine, with the resulting adjustments made to both the provision balance and the net book value of the associated non-current asset.

Taxation

Current tax is based on the estimated taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding tax bases used in the computation of taxable profit. It is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Convertible loan notes

Upon issue of a new convertible loan, where the convertible option involves the receipt of a fixed amount of proceeds for a fixed number of shares to be issued on any conversion, the net proceeds received from the issue of convertible loan notes are split between a liability element and an equity component at the date of issue. The fair value of the liability component is estimated by discounting the contractual future cash flows at the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in equity and is not re-measured.

Subsequent to the initial recognition the liability component is measured at amortised cost using the effective interest method.

On conversion, the liability is reclassified to equity and no gain or loss is recognised in the profit or loss. The finance costs recognised in respect of the convertible borrowings includes the accretion of the liability.

Where there are amendments to the contractual loan note terms that are considered to represent a significant modification to the loan note, without representing an inducement to convert, the Group treats the transaction as an extinguishment of the existing convertible loan note and replaces the instrument with a new convertible loan note. An income statement charge is recorded based on the fair value of the new instrument attributable to extinguishing the original liability component. An adjustment to equity is recorded based on the fair value of the new instrument attributable to extinguishing the original equity component and the previous equity reserve is reclassified to accumulated loss.

When the terms of a new convertible loan arrangement are such that the option will not be settled by the Company in exchange for a fixed number of its own equity instruments for a fixed amount of cash, the convertible loan (the host contract) is accounted for as a hybrid financial instrument and the option to convert is an embedded derivative.

The embedded derivative is separated from the host contract as its risks and characteristics are not closely related to those of the host contract. At each reporting date, the embedded derivative is measured at fair value with changes in fair value recognised in the income statement as they arise. The host contract carrying value on initial recognition is based on the net proceeds of issuance of the convertible loan reduced by the fair value of the embedded derivative and is subsequently carried at each reporting date at amortised cost. The embedded derivative and host contract are presented under separate headings in the statement of financial position.

Prior to conversion the embedded derivative is revalued at fair value. Upon conversion of the loan, the liability, including the derivative liability, is derecognised in the statement of financial position. At the same time, an amount equal to the redemption value is recognised within share capital. Any resulting difference is recognised in retained earnings.

Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with a maturity of three months or less.

Trade and other receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest method. A provision is established when there is objective evidence that the Group will not be able to collect all amounts due. The amount of any provision is recognised in the income statement.

Financial liabilities

Loans, borrowings and trade and other payables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method. They are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the statements of financial position date.

Convertible loan notes are assessed to determine whether the conversion element meets the fixed-for-fixed criterion. Where this is met, the instrument is accounted for as a compound financial instrument with appropriate presentation of the liability and equity components, see accounting policy detailed above.

Equity instruments issued to a creditor to extinguish all or part of a financial liability are initially recognised at their fair value. If their fair value cannot be determined, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability extinguished and the consideration paid is recognised in profit or loss.

Share capital

Ordinary shares are classified as equity and are recorded at the proceeds received, net of any direct issue costs.

Segmental reporting

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

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Share options

Equity-settled share based payments to employees and Directors are measured at the fair value of the equity instrument. The fair value of the equity-settled transactions with employees and Directors is recognised as an expense over the vesting period. The fair value of the equity instruments are determined at the date of grant, taking into account market based vesting conditions.

The fair values of share options are measured using the Black Scholes model. The expected life used in the models is adjusted, based on management's best estimate of the effects of non-transferability, exercise restrictions and behavioural considerations.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees (or other beneficiaries) become fully entitled to the award ('the vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Warrants

Warrants issued are recognised at fair value at the date of grant. The charge is expensed on a straight-line basis over the vesting period. The fair value is measured using the Black-Scholes model. Where warrants are considered to represent a transaction cost attributable to a debt issue, the fair value is recorded in the warrant reserve and deducted from the debt liability and subsequently amortised through the effective interest rate.

3. Accounting Judgments and Estimations

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects both current and future periods. Key sources of estimation uncertainty and judgment are:

Exploration and evaluation asset recognition (note 10)

Qualifying exploration and evaluation costs are initially classified and held as intangible fixed assets rather than being expensed. In recording costs as exploration and evaluation assets, judgment is required as to the extent to which the costs are attributable to the discovery of specific mineral resources and include both internal and external costs.

The carrying values of intangible exploration and evaluation assets were assessed for indicators of impairment prior to transfer to plant, property and equipment and at 30 June 2016 based on an estimation of the recoverability of the cost pool from expected future development and production of the related rare earth potential reserves and resources. In forming this assessment, the Group considered the external Competent Person's Report into the project, the status of its permits and internal economic models and financing which supported the carrying value of the project. No triggers of impairment were identified at the point of transfer to plant, property and equipment or at 30 June 2016.

Transfer to plant, property and equipment (note 11)

On 30 June 2017 the Group transferred the Gakara Project exploration and evaluation asset to mine development costs. The determination that the project had reached a stage of being commercially viable and technically feasible for extraction notwithstanding its classification as an Exploration Target under JORC rules represented a key judgment. In forming this judgment, the Board considered factors including: a) the mine permit had been awarded; b) the Project had secured funding for development and construction of the plant; c) the production phase due to commence in Q4 2017 is anticipated to be profitable and cash generative; d) the mine development plan had been established; and e) the results of exploration data including internal and external assessments.

Carrying value of plant, property and equipment (note 11)

The group assessed at 30 June 2017 whether there was any indication that these assets may be impaired. If such indication exists, the group estimates the recoverable amount of the asset. The recoverable amount is assessed by reference to the higher of 'value in use' (being the net present value of expected future cash flows of the relevant cash generating unit) and 'fair value less cost to sell'.

At 30 June 2017, the carrying value of the Company's fixed assets was US\$6.0 million, considerably lower than its net asset value according to management forecasts. The impairment indicator review initially assessed the market capitalisation of the Company which was in excess of the carrying value of net assets. In addition by 3 October 2017, the basket price for the Company's rare earth concentrate had risen over 70% since 1 January 2017, construction work is proceeding largely on schedule, and geological discoveries have been consistently better than initial expectations.

In addition, as part of the impairment indicator assessment, Management have assessed the life of mine plan and its associated future discounted cash flows which involves a number estimates and assumptions. This model supports the carrying value but required estimates of rare earth reserves and resources with reference to the Competent Person's Report and internal geological data, future production, estimates of market prices realisable by the mine, operating and capital costs associated with the project and discount rates. The model assessed for the purposes of identifying potential impairment indicators was prepared using a minimum production target significantly below the upper end range of 80,000 tonnes of material grading identified in the Competent Person's Report and for which management and the Competent Person's Report forecast further upside as the geology of the ore body is further explored. It is noted that the project is currently categorised at an Exploration Target by the Competent Person's Report and therefore does not qualify as a measured resource. However, given the nature of the deposit, internal studies and historical data the Board consider the minimum production target to be conservative.

Management therefore concluded that these facts did not indicate that a trigger for impairment existed and no impairments were recognised.

Share based payments (note 18)

Share based payments relate primarily to share options issued by the Company, in relation to employee share benefit schemes. The grant date fair value of such options are calculated using a Black-Scholes model whose input assumptions are derived from market and other internal estimates. The key estimates include volatility rates and the expected life of the options, together with the likelihood of non-market performance conditions being achieved.

IPO related costs

Costs associated with the IPO included both costs that were directly attributable to the share placing which has been recorded as a deduction against equity, costs directly attributable to the IPO process excluding the share placing, which have been expensed and costs which supported both the listing of existing shares and the new equity placing. These latter costs have been allocated between the two categories based on the ratio of new share issues versus the enlarged shares in issue post IPO. The ratio applied and the allocation of such costs required judgment. In total US\$0.3 million of costs were expensed and US\$0.8 million of costs were deducted from equity.

Decommissioning, site rehabilitation and environmental costs

The Group's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. The Group recognises management's best estimate of the rehabilitation costs in the period in which they are incurred. Actual costs incurred in future periods could differ materially from the estimates. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision. The Board assessed the extent of rehabilitation and decommissioning required as at 30 June 2017 and concluded that the effect was immaterial given the nature of the works that had been performed at that date and the requirements under legislation, the mining permit and Environmental Management Plan.

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4. Loss From Operating Activities

Operating loss includes:

	Year Ended 30 June 2017 US\$'000	Year Ended 30 June 2016 US\$'000
Professional fees in relation to the IPO	(284)	-
Share based payment	(494)	-
Audit of the Group and Company financial statements	(42)	-
Non-audit related service fees	(87)	(8)
Foreign exchange gain	229	52

5. Finance Costs and Income

Finance costs

	Year Ended 30 June 2017 US\$'000	Year Ended 30 June 2016 US\$'000
Effective interest charge on borrowings	128	191
Loss on extinguishment of convertible loan notes (note 14)	-	335
Fair value movement in derivative and interest charge on convertible loan notes (note 16c)	28	-
Total	156	526

Finance income

	Year Ended 30 June 2017 US\$'000	Year Ended 30 June 2016 US\$'000
Gain on extinguishment of convertible loan notes (note 14)	185	-
Total finance income	185	-

The interest charge related primarily to the Pala loan facility, which was repaid during the year (see note 14). The credit of US\$185k recognised on repayment of that loan related to interest and fees which had been accrued for but which were released following the negotiation of a final settlement figure of US\$1.7 million.

6. Remuneration Of Key Management Personnel

Key management personnel are defined as being Executive and Non-executive Directors and Persons Discharging Managerial Responsibility ('PDMRs'), who are in effect the members of the Executive Committee and are set out on pages 23 and 24.

Their remuneration for the 12 months ended 30 June 2016 and 30 June 2017 is summarised as follows:

	Year Ended 30 June 2017 US\$'000	Year Ended 30 June 2016 US\$'000
Wages and salaries	693	249
Benefits	15	-
Share-based payments	483	-
Total remuneration of key management personnel	1,191	249

Benefits paid to employees include healthcare and pension contributions.

7. Total Employee Remuneration (Including Key Management Personnel)

	Year Ended 30 June 2017 US\$'000	Year Ended 30 June 2016 US\$'000
Wages and salaries	877	415
Benefits	20	-
Share-based payments	494	-
Total employee remuneration	1,391	415

The average number of employees during the period were made up as follows:

	Year Ended 30 June 2017	Year Ended 30 June 2016
Directors	5	4
Management and administration	7	4
Mining, processing and exploration staff	16	-
Total employees	28	8

Following the IPO in January 2017, the Company began the recruitment of management and operating staff. By 30 June 2017, the Company had 123 employees, including 6 Directors, 9 management and administration staff, and 108 mining, processing and exploration staff.

8. Income Tax Expense

	Year Ended 30 June 2017 US\$'000	Year Ended 30 June 2016 US\$'000
Current tax expense	-	-
Deferred tax expense	-	-
Total tax expense for the year	-	-

The difference between the total tax expense shown above and the amount calculated by applying the standard rate of corporation tax to the loss before tax is as follows:

	Year Ended 30 June 2017 US\$'000	Year Ended 30 June 2016 US\$'000
Loss of the year	(1,402)	(1,200)
Income tax using the Guernsey rate of 0% :	-	-
Effects of:		
Differences in tax rates	(163)	(120)
Tax losses carried forward	163	120
	-	-

Rainbow Rare Earths Limited and Rainbow International Resources Limited are subject to 0% income tax in Guernsey and the British Virgin Islands respectively. Rainbow Rare Earths UK Limited, which was established on 1 April 2017, is subject to an income tax rate in United Kingdom of 19%. In Burundi, Rainbow Burundi SPRL and Rainbow Mining Burundi SM are subject to corporation tax at 30%.

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No deferred tax asset has been recognised in respect of the tax losses carried forward as the recoverability of this benefit is dependent on the future profitability of the Company, the timing of which is considered insufficiently certain. The total unrecognised potential deferred tax assets in respect of losses carried forward in Rainbow Rare Earths UK Ltd are US\$1k (30 June 2016: US\$nil), Rainbow Burundi SPRL US\$103k (30 June 2016: US\$97k), and in respect of Rainbow Mining Burundi SM they are US\$60k (30 June 2016: US\$23k).

9. Loss Per Share

The earnings per share calculations for 30 June 2017 reflect the changes to the number of ordinary shares during the period. On 9 January 2017, each ordinary share was subdivided into 66 new shares, which increased the number of shares by 80,640,516. On 30 January 2017, the Company underwent an Initial Public Offering, which included the allotment of 65,036,958 new shares to subscribers, and 5,126,507 shares to settle outstanding creditors, while on 1 February 2017, 2,600,665 shares were issued in respect of commissions and underwriting discounts. Earnings per share have been calculated using the weighted average of ordinary shares, adjusted for the effect of the share subdivision, in order for the calculations of basic and diluted earnings per share for all periods presented to be comparable. 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.

	Weighted number of ordinary shares			
At 30 June 2016	81,834,808			
At 30 June 2017	112,135,616			
	Basic 2017	Basic 2016	Diluted 2017	Diluted 2016
Loss for the year (US\$'000)	(1,402)	(1,200)	(1,402)	(1,200)
Weighted average number of ordinary shares in issue during the year	112,135,616	81,834,808	112,135,616	81,834,808
Loss per share (cents)	0.01	0.01	0.01	0.01

The weighted average number of shares for 2016 has been adjusted for the effect of the share sub-division during 2017. The previously presented weighted average number of ordinary shares in 2016 was 1,218,105, equivalent to 81,834,808 if the share consolidation had taken place at the start of 2016. At 30 June 2017, there were 10,120,324 (2016: 427,924) potentially dilutive shares in issue through warrants and options.

10. Exploration and Evaluation Assets

	Total US\$'000
At 1 July 2015	3,275
Additions	552
At 30 June 2016	3,827
At 1 July 2016	3,827
Additions in year	776
Transfer to plant, property and equipment (note 11)	(4,603)
At 30 June 2017	-

The Group has a 100% interest, held through its wholly owned subsidiary, Rainbow International Resources Limited, in the 135km² Gakara rare earths exploration licence in Burundi which was granted by Presidential decree in May 2011 for an initial licence period of 3 years and was renewed in June 2014 for a period of 2 years and was further renewed in September 2016 for 2 years.

The Group, through its 90% owned Burundian subsidiary, Rainbow Mining Burundi SM, was granted a 25 year mining licence in April 2015 for a 39km² portion of the Gakara project area.

At 30 June 2017, the total value of exploration costs previously capitalised as intangible assets in respect of the Gakara project were transferred to plant, property and equipment, in accordance with the Company's accounting policies (see Note 2).

11. Plant, Property and Equipment

Year ended 30 June 2017	Mine development costs US\$'000	Plant and machinery US\$'000	Vehicles US\$'000	Office equipment US\$'000	Total US\$'000
Cost					
At 1 July 2016	-	-	-	1	1
Transfer from exploration and evaluation assets	4,603	-	-	-	4,603
Additions	-	1,016	169	2	1,187
At 30 June 2017	4,603	1,016	169	3	5,791
Depreciation					
At 1 July 2016	-	-	-	-	-
Charge for year	-	-	-	-	-
At 30 June 2017	-	-	-	-	-
Net Book Value at 30 June 2017	4,603	1,016	169	3	5,791
Net Book Value at 30 June 2016	-	-	-	1	1
Net Book Value at 30 June 2015	-	-	-	1	1

During the year, capitalised costs of US\$4.6 million, which had previously been classified under intangible assets, were transferred to tangible fixed assets (see note 10 above).

No depreciation charge was applied during the year, as the Gakara project had not yet entered into production. Assets will be depreciated over their useful economic lives, in accordance with the Company's accounting policies, once production commences (expected to be during Q4 2017).

12. Prepayments

	Year Ended 30 June 2017 US\$'000	Year Ended 30 June 2016 US US\$'000
Non-current prepayments	182	-
Current prepayments	22	-
Total prepayments	204	-

Non-current prepayments relate to advance payments on equipment for the Gakara project.

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13. Cash and Cash Equivalents

	Year Ended 30 June 2017	Year Ended 30 June 2016
	US\$'000	US US\$'000
Cash at bank and in hand	3,198	70
	3,198	70

No cash amounts were restricted at 30 June 2017 (30 June 2016: nil).

14. Borrowings

		Year Ended 30 June 2017	Year Ended 30 June 2016
		US\$'000	US US\$'000
Current			
Arc Securities	(A)	20	20
Pala Investments Limited	(B)	-	1,633
		20	1,653

(A) Terms of Loan – Arc Securities

The US\$20k loan from Arc Securities is unsecured, bears no interest and is repayable on demand, and was drawn in March 2014. Arc Securities is a related party (see Note 21)

(B) Terms of Convertible Loan – Pala Investments Limited

On 31 October 2015 the Group entered into a US\$6m loan facility agreement with Pala Investments Limited. Upon entering into the agreement the Group issued US\$1.5m of convertible loan notes, which were convertible at any time prior to maturity at the discretion of the holder, into Ordinary Shares with the number of shares equivalent to the principal divided by US\$14.407 per share.

On 5 April 2016 the Group agreed with Pala Investments Limited to vary the terms of the agreement. The maturity date was amended to 31 January 2017 and the loan notes could only be converted if the Group defaulted on the loan on this date. The conversion rate remained unchanged. The convertible loan notes were extinguished and replaced with an amended convertible loan. The fair value of the equity component of the revised convertible loan note was considered to be immaterial. The fair value of the liability component of the new convertible loan was US\$1.6m discounted at a market rate of 13%. The variation of terms gave rise to a loss on extinguishment of the liability of US\$335k which substantially related to unamortised original transaction costs. The interest charge accreted over the loan period with US\$191k (old and new instrument) having been charged for the period to 30 June 2016.

Pursuant to an amendment agreement dated 19 December 2016, this loan was repaid in the amount of US\$1.7m on 31 January 2017. The carrying value of the loan at date of repayment was US\$1.76m with a total of \$1.89m due to Pala (including fees of US\$132k and accrued effective interest of US\$263k). The fees were waived and upon final settlement a gain of \$185k recognised in finance income. The interest charged for the period to 31 January 2017 was US\$128k recognised in finance costs.

15. Trade and Other Payables

	Year Ended 30 June 2017	Year Ended 30 June 2016
	US\$'000	US\$'000
Trade payable	61	127
Accrued expenses	64	96
Payroll taxes	17	18
Amounts due to staff and management	135	338
Pension contributions	10	-
Amounts owed to shareholders	126	170
Other payables	16	16
Total trade and other payables	429	765

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

The Directors consider that the carrying value of trade and other payables approximate to their fair value.

16. SHARE CAPITAL

	Year Ended 30 June 2017	Year Ended 30 June 2016
	US\$'000	US\$'000
Share Capital	13,186	5,042
Total trade and other payables	13,186	5,042

The shares issued have no par value.

The table below shows a reconciliation of share capital movement in the year:

	Note	Number of shares	Value (US\$'000)
At 30 June 2015		1,211,826	4,942
July 2015 – rights issue	a	10,000	100
At 30 June 2016		1,221,826	5,042
January 2017 – 1:67 share subdivision	b	80,640,516	-
January 2017 – share allotments to settle debt and other creditors	c	5,126,507	602
January 2017 – share allotment as part of IPO	d	65,036,958	8,000
January 2017 – IPO costs relating to new shares	e	-	(778)
February 2017 – share allotments	f	2,600,665	320
At 30 June 2017		154,626,472	13,186

Shares issued during the year

- a. On 17 June 2015 the Company undertook a rights issue to existing shareholders of 8.25 shares for every 1,000 shares held. The rights issue subscription was opened on 17 June 2015 and closed on 16 July 2015. Share subscriptions totalling US\$100k were received for the issue of 10,000 shares at US\$10 per share.
- b. On 9 January 2017, the Company subdivided each of its existing ordinary shares (1,221,826) into 67 ordinary shares (81,862,342).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- c. On 30 January 2017, the Company issued 2,868,151 ordinary shares at 10p (12.3 cents) per share to various creditors and key management personnel shown below to settle amounts owing. On the same day, it also issued 2,258,356 ordinary shares to Alpha Future Investments at a discounted price of 9p (11.1 cents) per share on the conversion of its loan as explained below.

	No of shares	US\$'000
Cesare Morelli*	612,559	75
Gilbert Midende*	746,647	91
Martin Eales*	786,579	96
Alpha Future Investments	2,258,356	250
Other creditors	722,366	90
	5,126,507	602

On 17 October 2016 the Group entered into a loan agreement with Alpha Future Investments to fund working capital and expenditure requirements. Upon entering into the agreement the Group issued US\$0.25m of convertible loan notes, which were convertible upon IPO at a 10% discount to the IPO price. If the IPO had not completed before 31 January 2017 Alpha could elect to convert the loan at a 20% discount to the IPO price or continue to extend the loan on an unsecured basis on which interest would accrue at 13% per annum from 1 February 2017. The principal and accrued interest would be due for repayment on 31 January 2019.

The terms of the agreement were such that a variable number of shares could be issued. The option to convert to a variable number of shares represented an immaterial embedded derivative. The IPO on 30 January triggered conversion of the loan notes. Prior to conversion the embedded derivative was fair valued. The loan liability was converted into 2,258,356 new ordinary shares at the placing price of \$0.11 (£0.09) in accordance with the agreed terms noted above. The loan note and embedded derivative were derecognised and included in equity. At the date of conversion no loan interest had accrued in line with the agreement.

- d. On 30 January 2017, the Company successfully listed on the London Stock Exchange (RBW: LSE) and issued 65,036,958 ordinary shares at admission price of 10p (12.3 cents) per share raising US\$8m share capital (the Group incurred \$0.15m in foreign exchange following the settlement of the funds).
- e. Costs in relation to the allotment of new shares as part of the IPO amounted to US\$778k. This amount has been set off against share capital.
- f. On 2 February 2017, the Company issued 2,600,665 ordinary shares for commissions and early subscription discounts in relation to the issuance of the 65 million shares, as follows:

	No of shares	US\$'000
Early subscription discounts		
Alexander Lowrie (including related parties)*	333,333	41
Other members of Lowrie family	627,776	77
	961,109	118
Commissions		
Alexander Lowrie*	380,126	47
Atul Bali*	339,430	42
Other commissions	920,000	113
	1,639,556	202
	2,600,665	320

* are transactions with related parties (see note 21).

17. Reserves

Reserve	Purpose
Share capital	Value of shares issued less costs of issuance
Share-based payment reserve	Fair value of share options issued
Equity reserve	Fair value of proceeds on the issue of convertible debt attributable to the equity conversion component i.e. the option to convert the debt into share capital, less amounts removed from the reserve on extinguishment of the convertible loan note
Other reserves	Includes fair value of warrants issued
Accumulated losses	Cumulative net losses recognised in the Statement of Comprehensive Income
Non-controlling interest	Amounts attributable to the 10% interest the State of Burundi has in Rainbow Mining Burundi SM and 3% interest Gilbert Midende has in Rainbow Burundi SPRL at 30 June 2017. Refer to note 19 for further details and non-controlling interests for earlier periods

Details in the movements of these reserves are set out in the Statement of Changes in Equity on page 37.

18. Share Options and Warrants

Employee share options

The Company issued a total of 9,692,400 share options in the year in two tranches: 6,692,400 on 30 January 2017 at a grant price of 10 pence, and 3,000,000 share options on 27 June 2017 at a grant price of 12.75 pence.

	Options held at 30 June 2016	Exercised/ cancelled during the period	Granted during the period	Options held at 30 June 2017	Exercise price (pence)	Date of grant	Date from which exercisable ¹
A Pouroulis	-	-	402,000	402,000	10.00	30-Jan-17	30-Jan-17
C Morelli	-	-	944,700	944,700	10.00	30-Jan-17	30-Jan-17
G Midende	-	-	944,700	944,700	10.00	30-Jan-17	30-Jan-17
M Eales ²	-	-	3,500,000	3,500,000	10.00	30-Jan-17	30-Jan-17
R Sinclair	-	-	350,000	350,000	10.00	30-Jan-17	30-Jan-17
S McCormick	-	-	350,000	350,000	10.00	30-Jan-17	30-Jan-17
J Wynn ²	-	-	1,500,000	1,500,000	12.75	27-Jun-17	27-Jun-17
B Jankowitz ²	-	-	1,500,000	1,500,000	12.75	27-Jun-17	27-Jun-17
Others	-	-	201,000	201,000	10.00	30-Jan-17	30-Jan-17
	-	-	9,692,400	9,692,400	10.85		

¹ All awards made in the year vest and are exercisable in three equal tranches: the first on the date of award, and the second and third 12 and 24 months later respectively.

² 4,333,333 share options awarded to M Eales, J Wynn and B Jankowitz are subject to performance conditions (on tranche 2 and 3 above) related to safety, and operational and strategic targets, which are required to be met if exercise of vested options are to be permitted by the Remuneration Committee. These performance conditions are forecast to vest based on management's best estimate.

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At 30 June 2017, the following share options are exercisable and outstanding:

	Number	Average weighted exercise price	Fair value (US\$'000)
Outstanding at 1 July 2016	-	-	-
Granted during the year	9,692,400	10.85 pence	1,033
Exercised in the year	-	-	-
Cancelled or expired in the year	-	-	-
Outstanding at 30 June 2017, of which:	9,692,400	10.85 pence	1,033
- Exercisable	3,230,800	10.85 pence	344
- Not exercisable	6,461,600	10.85 pence	689

Warrants

On 9 November 2015 Rainbow Rare Earths issued 6,293 warrants for services with an exercise price of US\$14.30 per warrant and a contractual life of 5 years. The separable warrants were issued as consideration for arranging the Pala funding. Following the share sub-division, the total warrants and exercise price have been adjusted on a pro rata basis in accordance with the existing agreement.

At 30 June 2017, the following share warrants were outstanding:

	Number	Exercise price	Fair value (US\$'000)
Outstanding at 1 July 2016	6,293	US\$14.30	40
January 2017 - 1:67 share subdivision	421,631	-	-
Exercisable at 30 June 2017	427,924	US\$0.21	40

The Fair Value of share options and warrants awarded in the current and prior year was estimated using a Black-Scholes model. The inputs into the Black Scholes were:

	Share Options awarded 30 January 2017	Share Options awarded 27 June 2017	Warrants
Share price (GBP)	0.10	0.1275	10.83
Exercise price (GBP)	0.10	0.1275	10.83
Expected volatility	90%	90%	50%
Risk-free rate	1.8%	1.8%	1.8%
Rate of Exchange	1.23	1.30273	1.32
Contractual life (years)	7	7	5

Expected volatility was determined by the volatility of a basket of similar listed companies. The expected life used in the model has been on management's best estimate for the effects of exercise restrictions and behaviour.

19. Non-Controlling Interest

The non-controlling interests of the Group's partners in its operations are presented in the table below:

Name of subsidiary:	Rainbow Burundi SPRL	Rainbow Mining Burundi SM
Country:	Burundi	Burundi
	US\$'000	US\$'000
Effective non-controlling interest 2016	3%	10%
As at 1 July 2015	3	(28)
Loss for year	2	4
At 30 June 2016	5	(24)
Effective non-controlling interest 2016/17	3%	10%
As at 1 July 2016	5	(24)
Loss for year	1	12
At 30 June 2017	6	(12)
Assets at year-end:		
30 June 2016	1,179	180
30 June 2017	1,229	2,358
Liabilities at year-end:		
30 June 2016	1,469	(64)
30 June 2017	1,539	2,237
Loss for the year to:		
30 June 2016	53	43
30 June 2017	20	123

20. Capital Commitments

On 10 March 2017, the Company entered into an agreement with Obsideo Consulting Pty Ltd for the design, supply, and installation of a rare earths concentrator plant, for a total of ZAR 23.3 million (US\$1.8 million). As at 30 June 2017, a total of US\$1.0 million had been incurred under this contract, therefore US\$0.8 million should be considered a capital commitment at the year end.

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21. Related Party Transactions

	Charged in the year 2017 US\$'000	Balance as at 30 June 2017 US\$'000	Charged in the year 2016 US\$'000	Balance as at 30 June 2016 US\$'000	Related party	Description
Artemis Trustees Limited	56	76	32	120	R Sinclair	Company secretarial services to the Group
Alexander Lowrie	88	-	-	-	A Lowrie	Shares allotted as underwriting discount (see Note 16)
Arc Securities	-	20	-	20	B Smit	Advance to the Company (see Note 14)
Atul Bali	42	-	-	-	A Bali	Shares allotted for equity raised (see below and Note 16)
Gilbert Midende	34	2	-	104	G Midende	Rental of accommodation for staff, plus acquisition of land for plant site
Martin Eales	-	122	-	125	M Eales	Balance of settlement for waiver of profit-share agreement (see page 21)
Pella Resources Limited	20	43	22	37	A Pouroulis	London office rental
Sutton Consulting	-	-	-	1	B Smit	Consulting disbursements owed
Uvumbuzi Resources Limited	54	8	46	70	C Morelli	Exploration activity (ground magnetic survey in Burundi)
Benzu Minerals	12	-	18	24	C Morelli	Exploration activity
	306	271	118	501		

- ▶ During the year, shares were issued in order to settle commissions due to Atul Bali for bringing investors into the IPO, and to Alexander Lowrie as a discount for committing early to the fundraising (see note 16 for details).
- ▶ The US\$122k due to Martin Eales at year end relates to the unsettled amount in respect of his waived entitlement to a profit-share agreement under his previous contract (see page 21).
- ▶ Remuneration with key management personnel has been disclosed in note 6.

22. Investment in Subsidiaries

The shareholdings in the Group's subsidiaries for each year are set out below:

Name of Company	Principal Activity	Country of Incorporation	% Share Capital Held 2017	% Share Capital Held 2016
Rainbow International Resources Ltd	Rare earth exploration	British Virgin Islands	100%	100%
Rainbow Rare Earths UK Ltd	Service Company	United Kingdom	100%	-
Rainbow Burundi SPRL	Rare earth exploration	Republic of Burundi	97%	97%
Rainbow Mining Burundi SM	Rare earth exploration and mining	Republic of Burundi	90%	90%

- a. Rainbow International Resources Limited is 100% owned by Rainbow Rare Earths Limited.
- b. Rainbow Rare Earths UK Ltd is 100% owned by Rainbow Rare Earths Limited.
- c. 97% of shares in Rainbow Burundi SPRL and 90% of shares in Rainbow Mining Burundi SM are held by Rainbow International Resources Limited.
- d. The government of Burundi has a 10% interest in Rainbow Mining Burundi SM granted in accordance with the Mining Code of Burundi.
- e. Gilbert Midende holds a 3% interest in Rainbow Burundi SPRL.

23. Contingent Liabilities

There were no contingent liabilities at 30 June 2017 (30 June 2016: nil).

24. Post Balance Sheet Events

There were no post balance sheet events.

25. Financial Risk Management

The Group's financial liabilities at each period end consist of convertible loan notes, related party loans and trade and other payables. All liabilities are measured at amortised cost. These are detailed in notes 14 and 15.

The Group has various financial assets, being other receivables and cash, which arise directly from its operations. All are classified as loans and receivables. These are detailed in notes 12 and 13.

The fair values of the Group's cash, other receivables, borrowings, and trade and other payables are considered to approximate book value.

The risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk (including interest risk and currency risk). The risk management policies employed by the Group to manage these risks are discussed below:

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group does not have any significant credit risk exposure.

The Group makes allowances for impairment of receivables where there is an identified event.

The credit risk on liquid funds (cash) is considered to be limited because the counterparties are financial institutions with high and good credit ratings assigned by international credit rating agencies in the UK and Burundi.

The carrying amount of financial assets, other receivables and cash held with financial institutions recorded in the financial statements represents the maximum exposure to credit risk for the Group. There are no material past due unimpaired assets.

Market risk

Currency risk

Currency risk refers to the risk that fluctuations in foreign currencies cause losses to the Group.

The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to Sterling and the Burundian Franc. However, management monitors the exchange rate fluctuations on a continuous basis and acts accordingly. The financial assets and liabilities that include significant foreign currency denominated balances are shown below.

	Year Ended 30 June 2017 US\$'000	Year Ended 30 June 2016 US\$'000
Cash and cash equivalents		
US dollars	1,250	56
GB pounds	1,937	9
Burundi Francs	11	5
	3,198	70
Trade and other payables		
South African Rand	5	3
GB pounds	320	287
Burundi Francs	42	12
	367	302

Interest rate risk

Interest rate risk refers to the risk that fluctuations in interest rates cause losses to the Company

The Group and Company have no exposure to interest rate risk except on cash and cash equivalent which carry variable interest rates. The Group has no material sensitivity to reasonable changes in variable interest rates. The group monitor the variable interest risk accordingly.

The Group's borrowings bear fixed rates of interest.

Liquidity risk

Liquidity risk refers to the risk that the Group has insufficient cash resources to meet working capital requirements. The Group manages its liquidity requirements by using both short and long-term cash flow projections. Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group closely monitors and manages its liquidity risk. For further details on the Group's liquidity position, please refer to the going concern paragraph in Note 1 of these accounts.

Capital management

In managing the capital, the Group's primary objective is to maintain a sufficient funding base, through debt and equity, to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims the Group consider not only its short term position but also its long term operational and strategic objectives.

The Group's primary capital management measure is net debt (borrowings less cash) to total equity, measured as follows:

	30 June 2017 US\$'000	30 June 2016 US\$'000
Net debt/(net cash) to equity		
Total borrowings (note 14)	20	1,655
Less: Cash and cash equivalents (note 13)	(3,198)	(70)
Net debt/(net cash)	(3,178)	1,585
Total equity	8,744	1,480
Ratio	-36%	107%

26. Non Cash Transactions

Material non cash transactions were as follows:

Year end 30 June 2016

- ▶ The difference between cash additions to exploration and evaluation costs and note 10, representing movements in capital accruals
- ▶ Finance costs as detailed in note 5 including the loss on extinguishment of the convertible loan note

Year end 30 June 2017

- ▶ The difference between cash additions to exploration and evaluation costs and note 10, representing movements in capital accruals
- ▶ The difference between cash additions to property, plant and equipment and note 11, representing movements in capital accruals
- ▶ Finance costs and the finance income as detailed in note 5
- ▶ Share based payments, which have been recognised in income statement
- ▶ Shares issued in settlement of liabilities, shares issued for commissions and early settlement discounts per note 16.

27. Ultimate Controlling Party

The Company does not have a single controlling party.

DIRECTORS AND ADVISERS

Executive director

Martin Eales - *Chief Executive Officer*

Non-executive directors

Adonis Pouroulis - *Chairman*

Alex Lowrie

Shawn McCormick

Atul Bali

Robert Sinclair

Company Secretary

Artemis Secretaries Limited

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Bristol BS99 7NH

Bankers

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Finbank Burundi

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Arden Partners Plc

Independent Auditors

BDO LLP

Solicitors

Memery Crystal LLP (UK)

Legal Solutions Chambers (Burundi)



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