



**THE WORLD'S HIGHEST GRADE
RARE EARTHS PRODUCER**

Rainbow Rare Earths Limited
Annual Report & Accounts
for the year ended 30 June 2018

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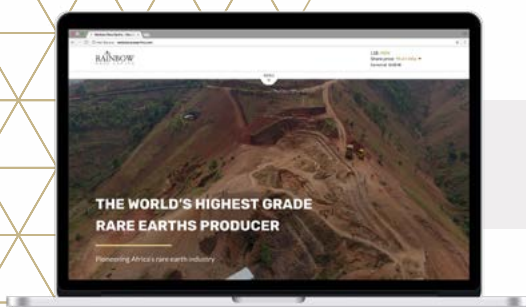
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OVERVIEW

STRATEGIC REPORT

DIRECTORS’ REPORT

FINANCIAL STATEMENTS



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OVERVIEW

Rainbow Rare Earths Ltd ('Rainbow' or 'the Company') is a rare earths mining and exploration company listed on the London Stock Exchange.

Rainbow's focus is on the Gakara Project in Burundi, one of the highest-grade (47%-67% Total Rare Earth Oxide or 'TREO') rare earths projects globally and the only African producer.

The Company began production of rare earth concentrates in Q4 2017 and is currently ramping up to a targeted run rate of 5,000tpa of concentrate by the end of calendar 2018, and 6,000tpa by the end of 2019. Rainbow has a ten-year distribution and offtake agreement with multinational thyssenkrupp Materials Trading GmbH, secured for the sale of at least 5,000tpa of concentrate produced.

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

2017-18 HIGHLIGHTS

Gakara mine brought into **PRODUCTION**

First production & export of rare earth concentrate in December 2017

575 tonnes 
of rare earth concentrate
at an average TREO of 58% exported
by 30 June 2018

 **475 tonnes**
of rare earth concentrate
sold at a gross average realised sales price of
US\$2,263 per tonne by 30 June 2018
via multinational offtake partner
thyssenkrupp Materials Trading GmbH

Exploration underway

at Kiyenzi area with code-compliant
resource targeted for Q4 2018

Successful financing

US\$3.75 million raised in December
2017, and US\$2.0 million in August 2018

Cooperation agreement

to fund Definitive Feasibility Study for
downstream rare earth separation signed
with TechMet Limited in August 2018

1 million
LTI-free hours 
surpassed in June 2018

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

High grade rare earth mineral concentrate (47-67% TREO)



Production Rate

Targeting run rate of 5,000tpa of concentrate by the end of 2018 and 6,000tpa of concentrate by the end of 2019



Processing

Simple efficient gravity separation processing facility - 5tph throughput



Sales

475t concentrate sold in six months to 30 June 2018



Offtake Partner

10-year offtake agreement signed with thyssenkrupp Materials Trading GmbH for 5ktpa of concentrate, and right of first refusal for additional 5ktpa



Exploration Upside

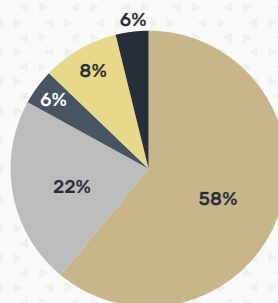
Kiyenzi area is focus for Phase 2 drilling and potential code-compliant resource by end 2018

Gakara Basket

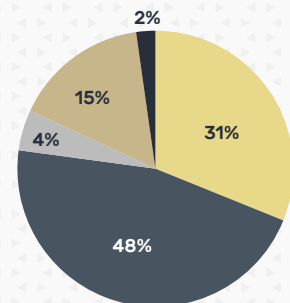
The Gakara basket is weighted heavily towards the magnet rare earths, including neodymium and praseodymium, which are driving demand and account for approximately 70% of annual global REE sales due to their use in vital components in motors, generators, wind turbines, and electric vehicles.

Based on average samples from Gakara, magnet REEs account for approximately 19% of the contained Rare Earth Oxides ('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



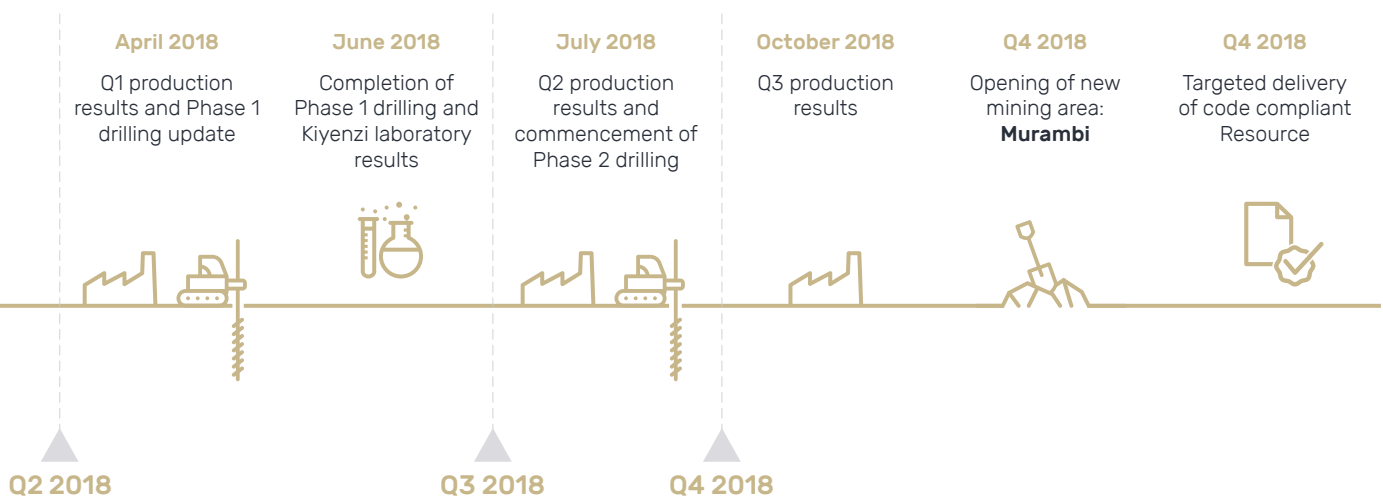
Lanthanum
 Praseodymium
 Cerium
 Others
 Neodymium

Based on average of REOs within Gakara in situ vein samples and market prices of purified REOs on China FOB basis as at September 2018



GAKARA PLANNED DEVELOPMENT

Production ramp up and newsflow from exploration



RARE EARTHS – THE TECHNOLOGY METALS

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

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 such as wind turbines.

Periodic table with the 17 rare earth element highlighted

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), Lutetium (Lu)

H																	He	
Li	Be											B	C	N	O	F	Ne	
Na	Mg											Al	Si	P	S	Cl	Ar	
K	Ca	Sc	Ti	V	Cr	Mn	Fe	Co	Ni	Cu	Zn	Ga	Ge	As	Se	Br	Kr	
Rb	Sr	Y	Zr	Nb	Mo	Tc	Ru	Rh	Pd	Ag	Cd	In	Sn	Sb	Te	I	Xe	
Cs	Ba	La-Lu	Hf	Ta	W	Re	Os	Ir	Pt	Au	Hg	Tl	Pb	Bi	Po	At	Rn	
Fr	Ra	Ac-Lr	Rf	Db	Sg	Bh	Hs	Mt										
Lanthanides ▶		La	Ce	Pr	Nd	Pm	Sm	Eu	Gd	Tb	Dy	Ho	Er	Tm	Yb	Lu		
Actinides ▶		Ac	Th	Pa	U	Np	Pu	Am	Cm	Bk	Cf	Es	Fm	Md	No	Lr		

Separation of the individual rare earths into component oxides or metals is undertaken by the end users of Rainbow's mixed mineral concentrate, but this processing is complex and technical and Rainbow does not yet possess the facilities to treat its own material beyond the mixed mineral concentrate stage, although this is part of the Company's future strategy.

There are very few countries around the World with mines producing rare earths, with global production currently dominated by China and

Australia. Rainbow's Gakara Project is the only producing rare earths mine in Africa. Many of the uses of rare earths are strategic, including in military applications, and 2018 has seen the imposition of new tariffs by both the USA and China on imports of rare earth materials and the USA recently announced legislation designed to prevent the Department of Defense purchasing any rare earth magnets manufactured in China.



Rare earth concentrate in production at Kabezi

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 re-chargeable 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 that the relevant policies are adhered to at all times.

The Safety, Health and Environment Committee ('SHEC'), 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 LTIs reported from the commencement of operations on 1 March 2017 to 30 June 2018, during which time a total of just over one million man hours were worked by Rainbow employees and contractors.

Minor incidents are recorded, investigated and reported to senior management. A total of 34 such incidents were recorded over the period to 30 June 2018, including property damage, near misses, and incidents requiring minor first aid treatment.

Policies and procedures

The Company has implemented an Operating Health and Safety ('OHS') system that includes policies and standard operating procedures in a number of key areas including the following:

- ▶ Environmental management
- ▶ Hazard identification and risk assessment
- ▶ Personal Protective Equipment ('PPE') Policy
- ▶ Malaria policy
- ▶ HIV/AIDS policy
- ▶ Incident management
- ▶ Substance abuse policy
- ▶ Vehicle and machinery maintenance

Management procedures are available to all staff in French, English and Kirundi where appropriate.

The Company also has an Anti-Bribery policy which is communicated to employees.

Training

The training of workers is a requirement of Burundi legislation, and is a key priority of the Company, as it results in not only safer, but more efficient and effective working practices.

Training is considered particularly important given the bulk of the work at either the Gakara mine site or the Kabezi plant site is undertaken by local recruits, who typically have had little experience of mining prior to working with Rainbow.



Fully inducted, trained and equipped staff

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 PPE.

The site-specific induction for the project was improved during the year to be more relevant to the site and to be more easily understood by new workers.

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 system, notably malaria, HIV/AIDS, and gastric infections. The OHS policies and guidelines provide guidance on how to reduce the risks from these and other illnesses.

Gastric illnesses remain an ongoing risk in Burundi, and hygiene standards are enforced in particular where food is prepared. To that end, kitchen facilities at the Mutambu camp were upgraded during the year, and additional bathroom and toilet facilities installed.

Potable water was also identified as a priority, in view of the absence of reliable sources at operating locations, and during the year, potable water was made available at all sites.

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 have been 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.

Potential risks and risk awareness training includes training in task specific hazard identification and risk assessment, continuous risk assessments (also known as a Daily Safe Task Instruction – 'DSTI') undertaken by the responsible supervisor prior to the start of any work in a specific work area, and standard operating procedures applicable to a specific task or work.

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 of the relevant risks and to provide reminders as to each and everyone's obligations.



Rainbow adopts a zero harm policy

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 in 2011 Rainbow has made specific financial donations of over US\$700,000 to local communities and national social programmes
- ▶ As at 30 June 2018 Rainbow directly employed 157 Burundian staff, in addition to 108 local temporary staff, and 121 sub-contractors
- ▶ Rainbow has also sought to provide local people with business opportunities such as catering for the workforce, and purchases local produce wherever possible
- ▶ Rainbow continues to undertake road infrastructure improvements to public roads which benefit all of the local community, and used its mining fleet to clear some local roads after landslides in early 2018
- ▶ Rainbow has spent over US\$2.3 million with local Burundian companies in the financial years ending 30 June 2017 and 30 June 2018
- ▶ All Rainbow mining and production employees can be registered for mobile banking and payment of salaries, whilst permanent employment contracts are now offered at all levels of the Company, which minimises temporary labour
- ▶ Up to five young Burundians are offered three month internships at any time, allowing them to learn new skills and, potentially, secure a long term role with the Company
- ▶ 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 with the construction of a municipal building consisting of multi-purpose rooms, offices and equipment
- ▶ Rainbow has sought to improve local sporting activities and recently organised a football tournament for the three municipalities which cover the project area, supplying the equipment for the three teams as well as improving the local football facilities in Mutambu
- ▶ During the construction of its processing plant at Kabezi, next to the shore of Lake Tanganyika, Rainbow rerouted an existing lane from across the site to ensure unhindered access to the lake shore and fishing vessels
- ▶ 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 ('ESIA') as part of the mining licence application, which was fully updated during 2017 to incorporate the processing plant area at Kabezi. Rainbow is fully permitted for mining, undertakes no blasting, and uses no hazardous chemicals.
- ▶ Land ownerships and population records have always been recognised along with a compensation formula for any families that have been moved or agricultural land appropriated
- ▶ Rainbow supplies clean fresh water to the community from a tank outside its plant at Kabezi, fed from Rainbow's own borehole supply. Approximately 20,000 litres of water per day are drawn from this tank by the local community
- ▶ Rainbow is committed to adhering to the strictest international health and safety practices. In line with this, the Company employs a fully qualified OHS Manager and has 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 compiled prior to any activity
- ▶ By end August 2018, over 1.2 million LTI-free man hours had been recorded since the start of the project.

The Burundi mining industry is in its infancy, and so far, there has been strong support for the Gakara Project at both a local and governmental level. As the 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.

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.

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	2018 (unaudited)			2017 (unaudited)		
	UK	Burundi	Total	UK	Burundi	Total
Royalties	-	189	189	-	-	-
Permit and land taxes	-	40	40	-	15	15
Corporation tax	-	2	2	-	-	-
Duties & other	-	183	183	-	10	10
Total tax borne	-	414	414	-	25	25
Payroll tax	327	78	405	199	15	214
Withholding tax	-	100	100	-	1	1
Net VAT	6	84	90	-	7	7
Total net payments to government	333	676	1,009	199	48	247

Royalty payments relate to the government royalty of 4% charged on the value of exports. During the year to 30 June 2018, the Burundian authorities applied the 4% royalty rate to the gross basket price value of concentrate exported, rather than the discounted price actually received. The application of the royalty rate to the higher price was implemented as a temporary arrangement with the Burundian authorities in the year, pending the recommendation by a World Bank representative as to whether the discount to the market price of separated oxides, which has been applied to Rainbow's concentrate to take into account the considerable additional separation processing that remains to be undertaken by the end user, is reasonable and equitable. Of the US\$189k spent in respect of royalty payments in the year, US\$146k relates to the additional payments in respect of the application of the 4% royalty to the higher amount, and is expected to be refunded by the government on conclusion of the World Bank's report. See note 13 to the Financial Statements.

Permits and land taxes include community and annual taxes payable under the terms of the Mining Convention for the Mining Permit at Gakara.

Corporation Tax in Burundi relates to a minimum charge incurred during the year, as no tax profits were reported in the local entity.

Payroll taxes, withholding tax, and VAT are included as they represent funds paid directly by the Group to the government.



Local people collecting water from the fresh water tank outside Rainbow's plant at Kabezi

STRATEGIC REPORT



CHAIRMAN'S STATEMENT

“After many years of planning and preparation, 2018 was the year in which Rainbow's Gakara operation transformed from a development project into Africa's only producing rare earth mine.

The significance of this achievement should not be underestimated.

In a market dominated by Chinese producers, Rainbow is now one of only two listed rare earth mine producers outside China.

The most important use of Rainbow's rare earths is in the production of rare earth magnets, the most efficient and powerful of all the varieties available, which are used extensively in electric vehicles, smartphones, wind turbines and generators, and electronics.

There is no longer any real debate around whether the demand for rare earth magnets is going to grow – the question is how quickly and how far.

However, global rare earth production faces a number of challenges if it is to meet this growth in demand. Many existing mines are mature and are facing the need to improve environmental standards or invest heavily in order to stay in operation. At the same time, many projects currently in development typically have low grades of TREO at around 1-5% and require significant funding in order to commence construction. These projects often include rare earth prices well above current levels as part of their base case economic assessments. In order for these projects to become viable, one would need a significant increase in rare earth prices as a whole.

Gakara is unique in a number of very important ways.

At TREO levels of between 47-67%, its grades are many times higher than industry norms. This means that production can be selective, and capex kept low (to date, just over US\$10 million has been spent on the project).

Its operations are environmentally friendly: mining techniques rely to a large extent on manual labourers (recruited from local communities), and processing methods use minimal energy and no chemicals.

The scale of the deposit is also significant – well over 1,000 instances of rare earth mineralisation have been discovered over an area of 39 km², which points to a potentially world-class rare earth deposit, particularly in view of the exceptional grades.

Since first production was announced in December 2017, the mine has begun to ramp up its production of rare earth concentrate, and has a run rate of



5,000 tonnes per annum firmly in its sights by the end of 2018.

A huge amount of effort has gone into bringing the mine into production. The project has relied on the support of the Burundi government and local administrators, as well as a range of national and international suppliers, consultants and contractors. But I would like to thank our staff, without whom nothing could have been achieved, for their passion and commitment.

During the current Financial Year and beyond, the strategy is to expand production by operating multiple mining areas in parallel. In addition, we have plans to develop a downstream separation capability, in order to capture more of the value of our concentrate. The co-operation agreement with TechMet Limited that was announced in August 2018 will bring real impetus to this key element of our growth strategy.

Much has been achieved so far, but far more remains to be achieved if we are to unlock the value potential in this truly exceptional rare earth project.

I would like to take this opportunity to thank our stakeholders for their continued support of the Company and the project. Our employees remain the bedrock of the business and without their dedication and support we would not have achieved so much in such a short space of time. We are very positive about the macro outlook for rare earths and Rainbow Rare Earths is perfectly positioned to benefit from this.

A handwritten signature in black ink, appearing to read 'Adonis Pouroulis', written in a cursive style.

Adonis Pouroulis
Chairman

CHIEF EXECUTIVE OFFICER'S REVIEW

“ At this point last year I was looking forward to the commencement of Rainbow's production and our first exports of rare earth concentrate from Burundi and I am delighted to say that the major anticipated milestones were achieved successfully and safely.

Corporate

Following Rainbow's rapid development during 2017 the Company was able to raise gross proceeds of £2.80 million (US\$3.75 million) in December 2017 at 14p per share, representing a 40% premium to the IPO price. These funds allowed us in particular to invest in exploration and an extensive drilling campaign in 2018, as well as advancing production.

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

The development of a downstream processing capability has long formed a key part of our strategy to grow the profitability of the Company, by allowing us to capture more of the value from the concentrate which we mine from Gakara, and which we currently sell at a discount of approximately 70% to the published price of the individual separated rare earth oxides.

TechMet also contributed US\$0.5 million towards an additional equity placing of US\$2.0 million announced in August 2018, which is intended to fund the development of further new mining areas in our permit area and provide additional working capital for existing operations.

There have been no changes to Rainbow's small corporate office in the UK, where I am based with Rainbow's CFO, Jim Wynn, which keeps overheads to a minimum, whilst the vast majority of the Company's administration and operating staff are based in Burundi.

Operations – Mining

As I reported in this statement last year, 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.

All of the ore production in 2017-18 was derived from Gasagwe and as the year progressed our understanding of the deposit and the most efficient mining techniques improved consistently, which resulted in our monthly record ore production being achieved in June, the final month of the Financial Year. The nature of the vein stockwork at Gasagwe is such that we continue to reveal new veins as production continues and it is likely operations will continue there for longer than the approximate time scale of two years as estimated at the time of the IPO.

In July, just after the Financial Year end, we announced that our second mining area at Murambi is planned to start operating in the fourth quarter of calendar year 2018, subject to final environmental approvals. Murambi has some very similar physical characteristics to Gasagwe in terms of the vein structure, mineralogy and, most importantly, high TREO grades. It has always been part of the Company's strategy to be operating multiple mining faces and Murambi will be a very important source of additional ore to Gasagwe, as well as reducing the reliance on just one area to supply all of our ore.

Operations – Processing

In December 2017 we were proud to announce that not only had commissioning started on our Processing Plant at Kabezi, but also that the very first tonnes of high grade concentrate had been produced and exported from Burundi.

Our team can be rightfully proud of this achievement which was on time and on budget, meeting our stated target dating from the IPO of first production before the end of 2017.

The Kabezi plant is located 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 provides good transportation links for the export of concentrate.

Ore from the mining areas is crushed and screened into different size fractions before gravity separation via a jig or shaking tables is used to concentrate the feed into high grade TREC material. A final crushing circuit ensures that the concentrate to be exported is of a uniform size.

As mentioned previously, 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 without any significant capital expenditure when new mining areas come on stream.

Exports and Sales

As mentioned above, the first 25 tonnes of our high grade rare earth concentrate were produced and exported in December 2017 and by the end of the Financial Year we had produced and exported a total of 575 tonnes, of which 475 tonnes were sold by 30 June 2018. Our concentrate is initially trucked to port on the East African coast and we sell at port to our trading partner, thyssenkrupp Materials Trading GmbH ('TK' or 'thyssenkrupp'), and it is the TK team which identifies, negotiates with and sells to the eventual consumers of our material. We have been very pleased with our relationship with TK and it has been a pleasure working with them.

All of our 475 tonnes sold in the Financial Year were taken by two cornerstone customers with potential for much higher levels of demand as our production levels increase and we have been pleased with the feedback we have received thus far.

Resource Development

At the time of its IPO in January 2017, Rainbow was different to 'normal' mining juniors, in that it raised funds for production development without a Resource calculation and, even more unusually, without a single drill hole having been completed. We have made a great deal of progress over the past year addressing both of these unusual factors.

In late 2017 Rainbow announced the results of both an airborne magnetic survey of the entire Exploration Licence area and a ground based gravity survey at Kiyenzi which highlighted a number of highly prospective drill targets. In early 2018 Rainbow undertook its 'Phase 1' drilling campaign, which focused on Kiyenzi and a number of the airborne anomalies. The results from the Kiyenzi drilling announced in April and June 2018 were very positive, indicating extensive rare earth mineralisation in a 'breccia' formation which is likely to be contained in a much more dispersed area than the narrow veins at Gasagwe and Murambi, for example, and therefore could be more suited to mechanical extraction.

The bulk of Rainbow's 'Phase 2' drilling campaign took place throughout July and August 2018 and at the time these words go to press we are looking forward to publication of our maiden code-compliant resource in the fourth quarter of 2018.

Corporate Social Responsibility

Rainbow now has a significant corporate presence in Burundi and we take great care to meet all of our legal and social obligations. We include local communities in all our activities, whether 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 ore transportation.

At the end of the 2017-18 financial year, Rainbow employed 157 Burundians permanently, and a further 108 on temporary contracts and 121 sub-contractors on specific projects such as construction. Various sub-contractors are also directly influenced by Rainbow's activities and supply services such as catering, trucking, security and domestic workers. Rainbow seeks to minimise the number of ex-patriot staff it employs and is actively focused on 'skills transfer' so that local employees can develop the skills and experience necessary to take on senior roles within Rainbow in the years to come. We have already granted 3 permanent roles to young Burundians who originally joined Rainbow on short internships.

Outside our Kabezi plant we have erected a fresh water tank which is consistently replenished from Rainbow's bore hole. We estimate that approximately 20,000 litres per day of fresh water is supplied in this way to the community, including to the local hospital, which benefits hundreds of people in the Kabezi area.

CHIEF EXECUTIVE OFFICER'S REVIEW **Continued**

Another project we are proud to support is a business which removes the fine waste tailings from our Kabezi plant and using local labour then manufactures bricks, some of which Rainbow has purchased for its own construction activities.

Wherever land is appropriated for Rainbow's exploration or mining 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 2018 the Company did not incur a single LTI, and exceeded over 1 LTI-free million hours since the start of operations. 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.

The Rare Earths market

Very little has changed regarding the fundamentals of the rare earth market in the past year. World demand continues to increase, particularly due to increased production of electric vehicles which require rare earth magnets, and concurrent to this, there is minimal new supply entering the market in the short term, with a large number of potential mines around the world still seeking financing (which we believe will require a significant increase in rare earth prices) which must then be followed by construction. As an existing producer of material with rapidly increasing production levels in the near term, Rainbow is already perfectly positioned to benefit from any short term tightening of global supply.

Rare earth production and processing is still dominated by China, although a number of forecasts are now suggesting that China will be a net importer of rare earths material within five to seven years. Rainbow's location outside of China may also be strategically beneficial to rare earth consumers looking for alternative sources of supply, particularly if the global market in the coming years is affected by some of the trade tariffs and restrictions recently announced by the United States and China. It continues to be a part of Rainbow's core strategy to investigate the options for processing its own concentrate into higher value downstream products and the TechMet co-operation agreement announced in August 2018 will help to accelerate this objective.

Rainbow team

Our core team has remained unchanged throughout the past year and 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) whose commitment and professionalism has allowed Rainbow to deliver so much in a very short space of time, however I am grateful to all our employees for the hard work and dedication they show every day. I am proud but also incredibly fortunate to have such a team.

Outlook for 2018-19

The current financial year will continue to see us increase production on a monthly basis as we target a concentrate production run rate of around 400tpm at the end of calendar year 2018. In the next few months we expect to see our second mining area at Murambi delivering ore alongside Gasagwe and to see the publication of Rainbow's maiden code-compliant Resource calculation following the 'Phase 2' drilling at Kiyenzi.

Rare earth prices have remained relatively stable thus far in 2018, however as mentioned above I believe that the market dynamics are such that prices may be driven significantly upwards at any time and as a Company we look forward to delivering our high quality product into that market.



Martin Eales

Chief Executive Officer

OPERATIONS REVIEW

Production overview

	3 months to 30 Jun 2018	3 months to 31 Mar 2018	3 months to 31 Dec 2017	Year to 30 June 2018
Concentrate sold (tonnes)	350	125	-	475
Concentrate exported (tonnes)	275	250	50	575
Grade TREO per tonne concentrate	55%	61%	62%	58%
	US\$/tonne	US\$/tonne	US\$/tonne	US\$/tonne
Gross sales price – pre TK deduction ¹	2,229	2,357	-	2,263
TK transportation and marketing deductions ¹	202	100	-	175
Net sales price ^{1,3}	2,027	2,257	-	2,088
Other sales costs – transportation and royalty ¹	315	564	-	381
Production cost ²	2,534	2,315	-	2,430
LTIFR	0.00	0.00	0.00	0.00

Notes:

- ¹ Gross and net sales prices, TK transport and marketing costs, and Other sales costs are shown per tonne of concentrate sold
- ² Production costs are shown per tonne of concentrate exported
- ³ Revenue reported in the Financial Statements represents the Net sales price of the 475 tonnes sold in the period

Mining operations in the year

Mining operations began in earnest in August 2017 at the Gasagwe site.

The removal of waste and overburden was largely undertaken by a small fleet of mining vehicles, including two tractor loader backhoes ("TLBs"), two haul trucks, a tractor/trailer, and, during the second half of the year, two excavators.

The ore at Gasagwe consists of a stockwork of veins varying in thickness between 3cm and 20cm. The mineralisation of these veins is in the form of monazite and bastnaesite, and the grade of the pure ore typically varies between 50-60% TREO.

The mining of ore is primarily achieved using manual techniques, with a workforce of some 80 locally-recruited labourers removing the vein material from the host rock with hand tools. The ore is collected in bags before being sent to the plant site for processing.

The manual extraction of the material ensures that dilution of the ore (essentially the extraction of clay saprolite material surrounding the vein) is kept to a minimum.

The Gasagwe orebody is unique in many ways, and the mining methodology continues to evolve and improve. The rate of ore extraction is primarily driven by the speed of stripping of waste to expose the veins, which was significantly improved by the use of excavators in the pit (as well as for the construction of haul and access roads).

In the fourth quarter of the calendar year 2018, it is intended that the commercial extraction of ore can commence from Murambi, the next targeted production area, to the east of Gasagwe. The deposit at Murambi consists of a stockwork of veins similar to that seen at Gasagwe, and mining methods will therefore be very similar. Murambi and Gasagwe will provide two sources of ore feed for the plant in parallel.



Gasagwe mine site
July 2018 (view to north)

OPERATIONS REVIEW Continued

Processing of ore

Ore processing takes place at the Kabezi plant, located approximately 13km to the south of Bujumbura, and 20km to the west of the mining area of Gasagwe.

The construction of the plant at Kabezi was completed during the year. First concentrate was shipped in December 2017, and final commissioning took place in March 2018. Ramp up of production, which involves the clearing of snags and teething problems, took place in the months up to the end of June 2018, and by the end of the period, the plant was fully functional, with commercial production therefore considered to have been met from July 2018 onwards.

The operation of the plant consists of two functions: the crushing and screening of the ore; and the separation of waste material from the ore using gravity.

Ore presented into the plant is crushed and then screened by fraction size. Larger fractions are then processed through the jig, which separates lighter waste material from heavier particles containing greater quantities of rare earths. Smaller fractions, or fines, are also separated using gravity but via shaking tables.

Concentrate from the jig is then crushed down to sub 1mm particles, and together with concentrate from the shaking tables (which is already sub 1mm), is dried before bagging and loading into containers, ready for testing prior to exporting via truck. Each container to be exported contains 25 x 1t bags of concentrate.

A total of 575 tonnes of concentrate were exported from Kabezi in the 12 months to 30 June 2018 with 100 tonnes located at Mombasa ready for sale. The target run rate for concentrate production is approximately 400 tonnes per month, expected to be achieved by the end of 2018.



Safety and Health

By the end of June 2018, the Company had passed the milestone of 1 million LTI-free hours, a significant achievement which reflects the importance placed on safety and well-being of all workers.

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

Kabezi plant site.
July 2018

FINANCIAL REVIEW

Profit and loss

Since the Company's listing in January 2017, the focus has been on bringing the Gakara mine into production and ramping up its output of rare earth concentrate to commercial levels.

During the course of the calendar year 2017, this involved the acquisition, delivery, and assembly of the processing facilities at Kabenzi and the mining equipment needed at Gasagwe, and the recruiting of operating teams at the plant site and also at the mining site, as well as bringing together the assets and staff needed to support operations.

The first shipment of concentrate took place in December 2017, and with initial commissioning of the plant concluded in March 2018, the ramp-up of production continued until the end of the year. In July 2018, the Gakara project was considered to have reached commercial production, and from this point on, all production costs and revenues will flow through the income statement.

However prior to this point, production costs relating to the mining, processing, and sales of concentrate, net of a US\$1.0 million adjustment to eliminate the margin on revenues from the sale of 475 tonnes of concentrate, have been capitalised as mine development costs as per the Company's accounting policy.

Administration expenses of US\$2.8 million (2017: US\$1.7 million) include all corporate and head office costs, as well as the non-cash charge of US\$0.7 million (2017: US\$0.5 million) in respect of share option awards. The increase compared to the prior year primarily reflects the gearing up of activities at all levels of the organisation.

Finance income of US\$0.3 million (2017: US\$0.4 million) includes foreign exchange gains on movements chiefly between the Burundian Franc ('BIF'), GB Pound Sterling, and US dollars, the reporting currency of the Group.

Finance costs of US\$0.1 million (2017: US\$0.2 million) reflect interest on the Company's overdraft in Burundi, as well as bank charges.

Tax charges include withholding tax and corporation tax in Burundi.

Balance sheet

The Company's Non-current assets of US\$11.2 million (2017: US\$6.0 million) relate to the capitalised brownfield exploration and mine development costs of the Gakara Project in Burundi. During the year, this increased by approximately US\$5.2 million, primarily as a result of the capex entailed

in bringing the project into production.

Capitalised costs includes US\$0.3 million of capitalised production costs, net of revenue from concentrate sales, prior to commercial production being achieved.

At 30 June 2018, inventory of US\$0.3 million (2017: nil) was recorded, largely consisting of 143 tonnes of part-processed ore and unsold concentrate at the year end.

The Company had total liabilities of US\$2.2 million (2017: US\$0.4 million), of which US\$0.8 million (2017: nil) related to a bank overdraft facility with Finbank in Burundi, US\$0.5 million (2017: US\$0.1 million) related to trade payables, US\$0.7 million (2017: US\$0.1 million) to accrued expenses including group bonus schemes, with the increase reflecting the new levels of operating activity.

Cashflow

Net cash in the 12 months to 30 June 2018 decreased by US\$2.9 million (2017: increase of US\$3.0 million).

Cash outflows included operating expenses and net movements in receivables and payables (net cashflow from operating activities) totalling US\$1.8 million, and US\$5.2 million on brownfields exploration and mining capex.

Cash inflows of US\$4.2 million reflected the Company's financing activities during the year.

Financing

In December 2017, the Company announced a successful equity placing of 20 million shares at a price of 14 pence, resulting in net proceeds of US\$3.5 million.

Over the course of the year, the Company also drew down funds equivalent to US\$0.7 million under a BIF overdraft facility with Finbank in Burundi.

Taxation

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

DIRECTORS' REPORT



DIRECTORS' REPORT

The Directors present their annual report and the financial statements of the Group for the year ended 30 June 2018.

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 mining and exploration 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 commenced mining in August 2017 and processing of ore in December 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.

Directors' Remuneration

	Salary (US\$'000)		Benefits (US\$'000)		Pension (US\$'000)		Bonus/Other (US\$'000)		Total (US\$'000)	
	June 2017	June 2018	June 2017	June 2018	June 2017	June 2018	June 2017	June 2018	June 2017	June 2018
Non-Executive Chairman										
Adonis Pouroulis	22	59	-	-	-	-	-	-	22	59
Non-Executive Directors										
Robert Sinclair	14	39	-	-	-	-	-	-	14	39
Alexander Lowrie	14	39	-	-	-	-	-	-	14	39
Shawn McCormick	14	39	-	-	-	-	-	-	14	39
Atul Bali	8	38	-	-	-	-	-	-	8	38
Executive Director										
Martin Eales	209	237	3	8	8	19	130	120	350	384
Total	281	451	3	8	8	19	130	120	422	598

Notes:

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

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 19 to the Financial Statements.

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 26.

Advisers

The Company's advisers are set out on page 63.

Financial Results

During the 12 months ended 30 June 2018, the Company reported a Net Loss of US\$2,611k (year to 30 June 2017: Net Loss of US\$1,402k).

No dividends have been declared in respect of the years ending 30 June 2018 or 2017.

Directors

A list of the Directors of the Company is set out on page 24.

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' REPORT Continued

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 (US\$237k) 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 the prior year, 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 historic potential profit share was non-binding and remained at the discretion of the Remuneration Committee. This amount was accrued at 30 June 2017 and settled in cash during December 2017.

In June 2018, the Remuneration Committee approved a performance bonus to M Eales for £89k (US\$120k), payable in three tranches over the course of 2018-19, and subject to availability of funds. This amount was fully accrued at 30 June 2018 and is shown as remuneration in the year.

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.

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 18 September 2018 is as follows:

Name of Shareholder	Number of Ordinary Shares	% of Share Capital
Pella Group (beneficially owned by Adonis Pouroulis)	47,848,861	25.46
Miton Asset Management	9,702,142	5.16

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 at 30 June 2018 are as follows:

Name of Shareholder	Position	Number of Ordinary Shares	% of Share Capital
Adonis Pouroulis	Non-exec chairman	45,351,944	25.95
Shawn McCormick	Non-exec director	8,552,684	4.89
Alexander Lowrie	Non-exec director	4,963,459	2.84
Robert Sinclair	Non-exec director	3,971,246	2.27
Atul Bali	Non-exec director	1,152,438	0.66
Martin Eales	Chief Exec Officer	2,257,299	1.29
Cesare Morelli	Senior manager	1,249,680	0.72
Gilbert Midende	Senior manager	1,127,342	0.65
Jim Wynn	Senior manager	119,160	0.07
Total		68,745,252	39.34

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.

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 (www.rainbowrareearths.com) 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, overdraft facilities anticipated to remain available and forecast cash flow from operations, 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.

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

18 September 2018



Martin Eales

Chief Executive Officer

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 consultant to several technology companies, including 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.

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 master's 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 has over 30 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 Benzu 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 was also 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
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 (eg fuel), interruptions due to weather and soil conditions, among many others.	High	Management will monitor ongoing risks as far as possible to mitigate potential issues arising which might impact production. The Executive Committee ('Exco') convenes weekly to discuss current concerns, and monthly reports are shared with the Board which highlight the key issues facing operations.
Geological risk	The Company does not currently have a code-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 with resulting impacts on production in the short and longer term.	High	Rainbow's models are considered by the Board to be based on conservative assumptions of the quantity and size of rare earth veins within the Gakara licence area. The Company has continued its brownfield exploration activities to improve its understanding of the orebody, to minimise this risk. In addition, the Company intends to conclude exploration work which will enable the publication of a code-compliant Resource in Q4 2018.
Rare earth prices	The Company produces rare earth mineral concentrate which is sold to TK on market price less a deductions and a discount (negotiated by TK with each end customer). Rare earth prices have been volatile in the past. If the underlying rare earth basket price falls, this reduces revenue and will impact the profitability of the mine. The current discount rate is approximately 70%, however may vary with dependent on the arrangements ThyssenKrupp negotiates with any 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 Offtake and Distribution agreement, TK is responsible for negotiating terms with its end customers, which are the ultimate consumers of the Company's concentrate, and is incentivised to obtain the best price through its exposure to risks and rewards of ownership once it obtains title to the concentrate.
Soil instability in mining areas and/or access routes	Heavy rains during the rainy season (Oct-May) can lead to land slippages, which could lead to production interruption in the event that these impacted the mining areas or access routes	Medium	Mitigation of these risks occurring in pit involves proper mine design and slope stabilities to prevent highwall failures. More widely, the Company will continue to explore methods to mitigate soil erosion (eg by planting trees, building culverts, maintaining drainage channels etc)
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.
Financing risk	The Company currently forecasts that it will have adequate headroom to continue in operations. However, in the event that one or more negative scenarios come to pass (such as commodity prices, or production problems), then additional financing may be necessary.	Medium	Management maintains strong relationships with key sources of finance, including its bankers Finbank, its existing shareholders and the wider equity markets in the UK and beyond, as well as a range of finance boutiques who have proposed more exotic financing instruments. The Company also prepares regular forecasts in addition to an annual Budget, which are frequently reviewed by management and by the Board of Directors.
Currency controls	The Company receives proceeds in US dollars, which, are repatriated to an account in the Burundi Central Bank. Burundi has experienced shortages of foreign currency reserves in the past, and it is therefore possible that access to US dollars held in country might be difficult. This would affect the Company's ability to meet ongoing foreign currency obligations (eg corporate costs, and any debt payments in US dollars).	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 2018. 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.

In accordance with the Company's Articles of Association, the Directors submit themselves for re-election every three years at the Company's Annual General Meeting.

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 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 forecasts 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 1-2 months
- ▶ The Group uses a central financial reporting system (Xero) which records all transactions, capturing third party documents (eg 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 2018. 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 by M Eales, J Wynn, C Morelli and G Midende.

CORPORATE GOVERNANCE Continued

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	SHEC
Adonis Pouroulis	48	Chairman	5 Aug 2011	-	Member	Chair	-
Shawn McCormick	51	Non-exec	4 Feb 2016	-	Chair	-	Chair
Alexander Lowrie	43	Non-exec	16 Nov 2016	Member	-	Member	Member
Robert Sinclair	68	Non-exec	5 Aug 2011	Chair	Member	-	-
Atul Bali	47	Non-exec	29 Mar 2017	Member	-	Member	-
Martin Eales	46	CEO	8 Sep 2014	-	-	-	Member

¹Ages at 30 June 2018

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 22 for details)
- ▶ All the non-executives held share options during the year (see Note 19 on page 56 for details);
- ▶ 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 2018:

Name	Board	Audit	Remuneration	Nomination	SHEC
Adonis Pouroulis	6/7	n/a	2/2	0/0	n/a
Shawn McCormick	4/7	n/a	2/2	0/0	2/2
Alexander Lowrie	6/7	3/3	n/a	0/0	2/2
Robert Sinclair	5/7	3/3	1/2	n/a	n/a
Atul Bali	5/7	3/3	n/a	n/a	n/a
Martin Eales	7/7	n/a	n/a	n/a	2/2

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.

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 Safety, Health 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 met three times during 2017/18.

During these meetings, the following matters were considered:

- ▶ The audit plan for the audit of the financial statements for the year ended 30 June 2017 was considered, and following discussions with management and the auditors, duly approved
- ▶ The audit plan for the audit of the financial statements for the year ended 30 June 2018 was considered and approved during the meeting held on 30 July 2018
- ▶ The audit of the year ended 30 June 2017 was considered, and key areas of audit risk were discussed with the auditors and with management
- ▶ The financial statements for the year ended 30 June 2017, and the interim financial statements for the six months ended 31 December 2017, were reviewed. Following due consideration, the Audit Committee recommended to the Board that these Financial Statements be approved

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. The Committee considered the composition of the BDO audit team, together with the duration of service of the partner and senior audit team members on the Company's audit, and concluded that BDO LLP was sufficiently independent to conduct the audit. The only non-audit service during the year was the review of the interim financial statements for the six months to 31 December 2017.

Remuneration Committee

The Remuneration Committee is chaired by Shawn McCormick and its other members are Adonis Pouroulis and Robert Sinclair. 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 met twice during 2017/18 to discuss the terms of the management bonus plan.

Safety, Health, and Environment Committee ('SHEC')

The SHEC 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 SHEC Committee is chaired by Shawn McCormick. The other members of the committee are Martin Eales and Alexander Lowrie.

The SHEC met twice during the year, to discuss the reporting structure for health and safety incidents, to establish and approve safety and community relations strategy, and to consider areas of risk.

CORPORATE GOVERNANCE Continued

Nomination Committee

The Nomination Committee is chaired by Adonis Pouroulis and its other members are Alexander Lowrie and Atul Bali. The Nomination Committee is normally expected to meet at least once per year, or as required. 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 during 2017/18 as the Board did not consider any changes to Board composition to be required during the year.

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 Market Abuse Regulations 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 oversees the day-to-day operation of the Anti-Bribery Policy and procedures. The Board also regularly reviews the operation of the Anti-Bribery Policy and procedures and the Anti-Bribery Officer reports 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. Senior staff have already received this training, and the roll-out to all junior staff continues as an ongoing process.

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

18 September 2018



Martin Eales
Chief Executive Officer

FINANCIAL STATEMENTS



INDEPENDENT AUDITORS' REPORT

Independent Auditors' 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 2018 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 of 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 2018 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 Auditors' 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

The risk that the carrying value of the Gakara Project requires impairment

As at 30 June 2018, The Group's mining assets relating to the Gakara Project totalled US\$11.2m and represented the Group's principal asset.

Management performed an impairment indicator review in accordance with IAS 36 and concluded that no impairment was required. 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 assessment of the recoverable amount of the assets is subject to various significant judgments and estimates as disclosed in note 3.

Given the material nature of the asset, the lower level of production than was expected in the year and the estimation required in assessing the recoverable amount we considered the impairment review and the appropriateness of the estimates in the life of mine plan to be a key focus for our audit.

How we addressed the audit risk:

- ▶ We evaluated management's impairment indicator review. In doing so we considered factors such as the year end market capitalisation against the carrying value of the assets and the implied value of the assets based on equity raised in the year.
- ▶ We assessed the Group's performance against budget for the year in respect of key metrics to identify potential impairment indicators and areas in which the Group is forecasting improved performance.
- ▶ 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, historical data and challenged internal assessments of forecast production made by the Group's internal geologists and external mining engineer. Our testing included a comparison of forecast rare earth prices to market data and trends, assessment of assumptions including future customer discounts against historical data and correspondence with Thyssenkrupp Materials Trading GmbH, forecast costs and benchmarking of the discount rate against peer companies.
- ▶ We challenged management's sensitivity assessments and performed our own sensitivity calculations in respect of factors such as rare earth prices, customer discounts, production and discount rates.
- ▶ We evaluated the accounting policy and disclosures in note 3 and note 11 based on our audit procedures and found these to be appropriate.

Our findings:

We found the Group's assessment that the asset's carrying value is below its net present value as at 30 June 2018 to be appropriate and agreed with management's assessment that no impairment is required, with the key assumptions in the life of mine plan being considered and balanced. We found the disclosures in the financial statements to be appropriate.

The risk that disclosures regarding going concern are inappropriate

The Board is required to consider whether the Group has sufficient funding to meet its working capital requirements for a period of not less than 12 months from the date of approval of the financial statements. Where material uncertainties exist regarding its ability to do so, these must be clearly disclosed.

As detailed in note 2, the Board concluded that the going concern assumption was appropriate having reviewed the cash flow forecasts, sensitivity analysis and mitigating actions, and that no material uncertainties existed which

required disclosure. The forecasts require significant estimation, particularly given the early stage of production, including inputs such as rare earth prices and discounts, production and costs.

Given the estimation required in preparing the forecasts and the early stage of production the risk that going concern disclosures were inappropriate was 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 which have been approved by the Board. Our testing included a comparison of forecast rare earth prices to spot prices and historic trends together with consideration of market commentary on rare earth pricing. We compared customer discount estimates to historic actuals and ranges indicated by the offtake partner and an assessment of the consistency of operating cost assumptions with the life of mine plan.
- ▶ In respect of management's judgment that the dispute with the Burundian authorities regarding the calculation of royalties (refer to note 13) would be resolved in the Company's favour and therefore that the royalty is calculated on prices realised by the Company for ore concentrate, we reviewed the relevant legislation and public information regarding the World Bank's involvement in the process. We performed sensitivity analysis which demonstrated that headroom would be maintained should the Company be unsuccessful or continue to make payments at the higher rate for the entirety of the forecast period.
- ▶ We challenged management regarding any potential risks associated with the forecast increase in production. We confirmed that forecast production from the Gasagwe mining area was consistent with recent production data and trends. In respect of new mining areas we met with the Company's production team / geologists and obtained the results of geological testing to assess the forecast production. We evaluated management's assumptions regarding the timing of such production and the rate of growth including the appropriateness of contingencies included in the forecasts.
- ▶ We reviewed the forecast capital expenditure to assess the consistency with the Group's strategic plans and production forecasts.
- ▶ We considered management's judgment that the Group's overdraft facility would continue to remain available, obtaining direct correspondence from the bank that was consistent with management's judgment.
- ▶ We critically assessed management's sensitivity analysis and performed our own sensitivity analysis in respect of the key assumptions underpinning the forecasts including price, production, cost escalation and the cash flows associated with royalties.
- ▶ We evaluated the accounting policy and disclosures in note 2 based on our audit procedures and found these to be appropriate.

INDEPENDENT AUDITORS' REPORT *Continued*

Our findings:

We found management's judgment that the going concern basis of preparation is applicable to be appropriate based on its forecasts. We found the cash flow assumptions to be balanced overall and that the Group's forecasts demonstrate that headroom will remain available under the forecasts and individual sensitivities without mitigating actions.

We found management's judgment that the likelihood of a combination of downside risks was remote and that, in the event that such a scenario materialised, the Company could take mitigating actions to maintain liquidity to be acceptable. We found the disclosures included in the financial statements to be relevant and informative.

The risk that judgments regarding the date commercial production is reached and associated cost capitalisation are inappropriate

Costs capitalised to the carrying value of the Group's mining assets amounted to \$5.4m as at 30 June 2018. The Group's mining assets had a carrying value of \$11.2m at this date.

Management determined that the Gakara mine did not reach commercial levels of production and was therefore not capable of operating in the manner intended by management during the year, which required judgment as detailed in note 3. Accordingly, costs capitalised during the period included mining, processing and selling costs less adjustments to reduce capitalised costs by an amount equal to the margin on concentrate sold in the period.

Given the judgment required in assessing the point at which commercial production is reached and the associated accounting impact, we considered this to be a key focus for our audit.

How we addressed the audit risk:

- ▶ We challenged management's assessment that the Gakara mine had not reached commercial production status in the period. In doing so, we considered factors such as the production levels during the period against planned production, the profitability of the mine and the performance tests on the plant. We evaluated management's judgment that it was appropriate to assess the Gakara mine as a whole in making this assessment, rather than individual asset categories in which we considered factors such as the business strategy and economic models.
- ▶ We visited the Gakara site and met with operational management to confirm our understanding of the project status at 30 June 2018.
- ▶ We agreed a sample of costs capitalised in the year to supporting documentation and confirmed that the costs met capitalisation criteria under the Group's accounting policies and applicable accounting standards. We confirmed that the margin on revenue recorded during the pre-commercial production phase had been appropriately recorded as a reduction in mine development costs.
- ▶ We evaluated the accounting policy and disclosures in note 3 and note 11 based on our audit procedures and found these to be appropriate.

Our findings:

We found management's judgment that the Gakara mine had not reached commercial production in the year to be supportable. We found the Group's cost capitalisation and accounting for margin arising on revenue during this period to be acceptable and consistent with the Group's accounting policy. We found the disclosures in the financial statements to be appropriate.

The risk that the Group's revenue recognition policy is inappropriate or that revenue is recorded in the wrong period

The Group commenced sales of concentrate in the year and recorded revenue of US\$1.0m under its offtake agreement in accordance with the Group's revenue recognition accounting policy in note 2. Management elected to early adopt IFRS 15 'Revenue from customers' with effect from 1 July 2017.

The appropriateness of the Group's newly established revenue recognition policy and its compliance with IFRS 15 'Revenue from customers'; together with the resulting risk that revenue is recorded in the incorrect period was considered to be a key focus for our audit, particularly as this was the first year in which the Group generated revenue under its offtake agreement.

How we addressed the audit risk:

- ▶ We reviewed the offtake agreement and related supplemental agreements with ThyssenKrupp and assessed the appropriateness of the Group's revenue recognition policy based on the terms of the relevant agreements and IFRS requirements.
- ▶ We verified a sample of revenue recognised during the year to invoices and supporting documents and receipt of payment.
- ▶ We performed cut off procedures to confirm that shipments around the year end had been recorded in the appropriate period under the Group's accounting policy.
- ▶ In respect of revenue recorded for which the expected consideration receivable remained subject to potential adjustments related to the quality of the concentrate material, we challenged management as to the extent to which it was highly probable that no subsequent reversal would be required. In doing so, we verified that the shipments were supported by independent quality test reports and reviewed the historical extent of variances between the initial quality estimates and final payable concentrate values.
- ▶ We reviewed the accounting policy disclosure included in the financial statements in Note 2.

Our findings:

We consider the Group's revenue recognition policy to be consistent with the requirements of the relevant accounting standard and terms of the relevant customer agreements and we have not identified material misstatements within the recognition of revenue for the period.

Our application of materiality

Group materiality for FY 2018: US\$170,000

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

Basis for materiality: 1.5% of total assets

We consider total assets to be the financial metric of the most interest to shareholders and other users of the financial statements given the Group's stage of development 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 \$8,500. 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 comprising of the Burundian subsidiaries that operate the Gakara Mine, and a corporate head office function.

Our Group audit scope focused on the Group's significant components which comprised the Burundian operating subsidiary and the parent company. Whilst materiality for the financial statements as a whole was \$170,000, each component of the Group was audited or subject to review procedures to a lower level of materiality. The significant components accounted for 95% 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 remaining three non-significant components were principally subject to analytical review procedures with specific procedures for any significant balances impacting the Group results.

We set out above the risks that had the greatest impact on our audit strategy and scope. As part of our audit strategy, members of the audit team visited the principal operating location in Burundi.

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 auditors' 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation 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 determine 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.

INDEPENDENT AUDITORS' REPORT **Continued**

Auditors' responsibilities for the audit of the financial statements

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 auditors' 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 auditors' report.

Use of our report

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 auditors' 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.

Ryan Ferguson

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

London, United Kingdom
18 September 2018

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 2018

	Notes	Year ended 30 June 2018 US\$'000	Year ended 30 June 2017 US\$'000
Revenues (prior to commercial production)	2,3	992	-
Production and other sales costs (costs prior to commercial production)	2,3	(992)	-
Administration expenses		(2,753)	(1,565)
Exploration expenditure		-	(95)
Total operating expense		(2,753)	(1,660)
Loss from operating activities	4	(2,753)	(1,660)
Finance income	5	317	414
Finance costs	5	(79)	(156)
Loss before tax		(2,515)	(1,402)
Income tax expense	8	(96)	-
Total loss after tax and comprehensive expense for the year		(2,611)	(1,402)
Total loss after tax and comprehensive expense for the year is attributable to:			
Non-controlling interest	21	(45)	(13)
Owners of parent		(2,566)	(1,389)
		(2,611)	(1,402)
The results of each year are derived from continuing operations			
Loss per share			
Basic	9	(0.02)	(0.01)
Diluted	9	(0.02)	(0.01)

Notes on pages 41 to 62 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	Year ended 30 June 2018 US\$'000	Year ended 30 June 2017 US\$'000
Non-current assets			
Exploration and evaluation assets	10	-	-
Property, plant, and equipment	11	11,249	5,791
Prepayments	13	-	182
Total non-current assets		11,249	5,973
Current assets			
Inventory	12	280	-
Prepayments	13	209	22
Trade and other receivables	14	461	-
Cash and cash equivalents	15	354	3,198
Total current assets		1,304	3,220
Total assets		12,553	9,193
Current liabilities			
Borrowings	16	(760)	(20)
Trade and other payables	17	(1,415)	(429)
Total current liabilities		(2,175)	(449)
Total liabilities		(2,175)	(449)
NET ASSETS		10,378	8,744
Equity			
Share capital	18	16,722	13,186
Share based payment reserve	19	1,203	494
Other reserves	20	40	40
Retained loss		(7,548)	(4,982)
Equity attributable to the parent		10,417	8,378
Non-controlling interest	21	(39)	6
TOTAL EQUITY		10,378	8,744

These financial statements were approved and authorised for issue by the Board of Directors on 18 September 2018 and signed on its behalf by:



Martin Eales

Director

Notes on pages 41 to 62 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2018

	Share capital US\$'000	Share Based Payments 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 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	-	-	-	28	28	-	28
IPO Transaction costs	(778)	-	-	-	(778)	-	(778)
Share Based payment reserve	-	494	-	-	494	-	494
Issue of shares during the year	8,922	-	-	-	8,922	-	8,922
Balance at 30 June 2017	13,186	494	40	(4,982)	8,738	6	8,744
Total comprehensive expense							
Loss and total comprehensive loss for year	-	-	-	(2,566)	(2,566)	(45)	(2,611)
Transactions with owners							
Issue of shares during the year (note 18)	3,770	-	-	-	3,770	-	3,770
Share placing transaction costs (note 18)	(234)	-	-	-	(234)	-	(234)
Share Based payment reserve (note 19)	-	709	-	-	709	-	709
Balance at 30 June 2018	16,722	1,203	40	(7,548)	10,417	(39)	10,378

Notes on pages 41 to 62 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2018

	Notes	For year ended 30 June 2018 US\$'000	For year ended 30 June 2017 US\$'000
Cash flow from operating activities			
Loss after tax for the year		(2,611)	(1,402)
Adjustments for:			
Share based payment charge	19	709	494
Finance income	5	(317)	(414)
Finance costs	5	79	156
Tax expense	8	96	-
Operating loss before working capital changes		(2,044)	(1,166)
Net increase in inventory	12	(280)	-
Net increase in other receivables	14	(648)	(16)
Net increase in trade and other payables	17	938	109
Cash used by operations		(2,034)	(1,073)
Realised foreign exchange gains		294	229
Finance income	5	3	-
Finance costs	5	(19)	-
Taxes paid	8	(81)	-
Net cash used in operating activities		(1,837)	(844)
Cash flow from investing activities			
Purchase of exploration and evaluation assets	10	-	(769)
Purchase of property, plant & equipment	11	(5,231)	(1,363)
Net cash used in investing activities		(5,231)	(2,132)
Cash flow from financing activities			
Proceeds of new borrowings	16	740	250
Interest charge on borrowings	16	(52)	-
Repayment of borrowings	16	-	(1,700)
Payment of finance lease liabilities	22	(19)	-
Proceeds from the issuance of ordinary shares	18	3,770	7,854
Transaction costs of issuing new equity	18	(234)	(444)
Net cash generated by financing activities		4,205	5,960
Net (decrease)/increase in cash and cash equivalents		(2,863)	2,984
Cash & cash equivalents at the beginning of the year			
		3,198	70
Foreign exchange gains on cash and cash equivalents		19	144
Cash & cash equivalents at the end of the year		354	3,198

Notes on pages 41 to 62 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 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 2018 and 30 June 2017 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

Following the successful raising of US\$2 million as announced on 9 August 2018, the Company believes it has sufficient funds to allow it to continue in operation for at least 12 months from the reporting date.

In reaching this conclusion, the Board considered the latest cashflow forecast prepared by management for the period to 30 July 2020 which reflects increased production, considered to be conservative by management, associated with ore from new mining areas and modest production increases from Gasagwe relative to current rates. The forecast indicates that the Company will have sufficient liquidity considering available cash, the existing overdraft facilities which are anticipated to remain available and operating cash flows.

In addition, the Board took into account a range of downside scenarios including: a) a fall in rare earth prices of 10% below management's expectations for market prices; b) a shortfall in production of 10%; and c) a rise in production costs of 10%. It considered that the funding required under these more conservative scenarios would be adequately covered by existing financing facilities, namely the 1.5 billion BIF (US\$0.8 million) overdraft with Finbank in Burundi.

In the unlikely event that more than one downside scenario came to pass at the same time, the Company would consider cutting non-essential expenditure in the short term, and look to renegotiate its facility with Finbank, or indeed consider refinancing with new partners.

Whilst there can be no certainty that such negotiations would be successful, management believes that the probability of such a worst case scenario coming to pass is sufficiently remote, and the likelihood of being able to take mitigating actions and to renegotiate facilities sufficiently probable, that it does not consider this to be a material risk.

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 2018.

Standards in issue but not effective

The standards which were issued and effective for periods starting on or after 1 July 2017 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.

Standard	Description	Effective date
IFRS 9	Financial instruments	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

The Company has reviewed and considered these new standards and interpretations and none of these are expected to have a material effect on the reported results or financial position of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS **Continued**

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 assessed the impact of this standard however based on current operations this standard do not have a material impact on the financial statements.

IFRS 16 Leases

The future adoption of 'IFRS 16: Leases', expected from 1 January 2019, provides for a new model of lessee accounting in which all leases, other than short-term and small-ticket-item leases, will be accounted for by the recognition on the balance sheet of a right-to-use asset and an associated lease liability, with the subsequent amortisation of the right-to-use asset over the lease term. However, as the Company currently has no material leases other than short-term, the expected impact of the adoption of IFRS 16 is immaterial.

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 (with the exception of Rainbow Rare Earths UK Limited, whose functional currency is GBP). 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.

Revenue recognition

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Company has elected to early adopt IFRS 15, with effect from these financial statements.

IFRS 15 had no impact on prior year results as the recognition of the first sale occurred in the year.

The Company produces and sells rare earth concentrate from its Gakara project in Burundi. Once concentrate has been produced at the Kabezi plant in Burundi, it is bagged, sampled, and loaded into containers for transportation to a port, normally in East Africa, for shipment.

The Company currently has a 10-year distribution and offtake agreement with its customer, TK, which commenced in January 2018, and under which all production up to 10,000 tonnes per annum will be sold. Under the terms of the contract, the Company's performance obligation is considered to be the delivery of concentrate meeting agreed criteria.

The performance obligation and associated revenue from customers is recorded when the title for a shipment is transferred to TK, normally at a port in East Africa. On transfer of title, control is considered to have passed to the customer with the Company having right to payment, but no ongoing physical possession or involvement with the concentrate, legal title and insurance risk having transferred.

The price for each shipment is established in accordance with the terms of the offtake agreement, by reference to the market price and quantities of rare earth oxides in each shipment, and the shipping and fees deducted from net proceeds by TK. The Company is entitled to payment for 90% of the shipment on transfer of title with 10% payable subsequently net of any adjustments to reflect quality testing. The Company recognises 100% of the revenue on transfer of title where it is considered highly probable there will be no reversals, having consideration of the independent quality tests performed prior to shipment.

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 requisite permits have 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, brownfield exploration activity within the mining permit area, plant and machinery, motor vehicles, computer equipment, 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.

The Company assesses the stage of a mine development project to determine when it has reached commercial production, at which point the relevant assets begin to be depreciated. Costs associated with bringing the mine into commercial production, including costs such as mining, processing and selling costs for concentrate produced during this period, are capitalised to mine development costs. An adjustment is recorded to cost of sales to eliminate margin generate on revenue during this period with a corresponding reduction in capitalised mine development costs.

The criteria used to assess the date at which commercial production is achieved, being the point at which the mine is ready for its intended use and operating in the manner intended by management, include: completion of a reasonable period of testing, the ability to sustain commercial levels of production, and engineering sign off on the plant performance.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS **Continued**

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 (ie 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;
- ▶ 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.

Inventory

Stockpiles of ore (whether Run of Mine 'RoM' ore, concentrate stockpiles pre-shipment, or concentrate in transit but not yet sold) are valued at the lower of historic cost and net realisable value. Historic cost is based on an allocation of mining costs and (in the case of concentrates) processing costs incurred in bringing the stockpiles to their finished condition for transportation at the period end (including plant running costs, haulage costs from the mine site to the plant, and transportation costs to the port of sale). Realisable value is based on an estimate of selling price less shipment costs, royalties, and other fees to be incurred in the course of the sales process. Inventory stockpile costs do not include an allocation of support costs.

Inventory spares (including tools, parts for equipment, and stocks of consumables) are also valued at the lower of historic cost and realisable value, where material. Spares are reviewed at each period end for obsolescence, with provisions applied to those stock lines whose value in use and re-sale value is uncertain.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS **Continued**

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.

The nature of the Company's reserves is set out in note 20.

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 its rare earths project.

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:

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

The Group assessed at 30 June 2018 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 2018, the carrying value of the Company's fixed assets was US\$11.2 million. 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, as part of the impairment indicator assessment, management have reviewed 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 and demonstrated significant headroom, but involves estimates of rare earth reserves and resources with reference to 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 discount rate used to determine the net present value of future cashflows was 12%, which was felt to be an appropriate rate in view of the overall risk profile of the project.

The model assessed for the purposes of identifying potential impairment indicators was prepared using production targets based on estimated deposits of rare earths within the Gakara permit area from specific sites. The amount of geological evidence to support these assumptions varies, with some deposits (such as Gasagwe and Murambi) relatively well-understood, with others (such as Gomvyi and Kiyenzi) relying on assumptions and a broader range of evidence. For all deposits, the evidence used to determine assessment of the size of resource included measurement of exposed veins at surface (eg through trenching) or at depth (eg through mining), drilling results, ground gravity surveys, airborne radiometric surveys, and the discovery of in situ outcrops and boulders at surface.

Activity to understand further these deposits is ongoing, however even in the event that assumptions about individual deposits prove optimistic, the wide range of future targets give management confidence that sufficient rare earth mineralisation exists to support the assumption that the mine will continue in production for at least 10 years.

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

Commercial production

During the period, the Company completed the construction and commissioning of the Gakara plant, and entered into the ramp-up phase, a period during which the production of concentrate increases until commercial levels are reached.

Prior to reaching commercial production levels, eligible production costs incurred as part of bringing the mine into production are capitalised, and margin generated on revenue is deducted from the carrying value of property, plant and equipment.

Judgement is required with respect to the point at which commercial production is deemed to have been reached.

Although the Kabezi plant was commissioned in March 2018, commercial production was not deemed to have been reached during the year, as the mine as a whole had not reached levels of production which might have indicated that the ramp-up phase was substantially complete.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *Continued*

The reason for the slow ramp-up of ore production lay in the establishment of efficient mining procedures, and the acquisition of mining equipment (in particular excavators and haul trucks) appropriate to maintain a rate of stripping commensurate with commercial production rates. In the case of the Gasagwe mining area, the target ore production rate was achieved for the first time in June 2018 (prior to which, the rate was approximately half this level).

In addition, the performance test for the plant was successfully completed in July 2018, with full operation of the plant handed over to Rainbow by Obsideo, the contractors responsible for its design and construction.

Accordingly, management considered these factors and concluded that commercial production had not been reached until July 2018, and therefore net revenues in the period of US\$1.0 million have been offset by production costs in the income statement, and remaining production costs of US\$0.3 million have been capitalised under mine development assets.

Share based payments (note 19)

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 in prior year

Costs associated with the IPO in the prior year 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 in the year ended 30 June 2017 and US\$0.8 million of costs were deducted from equity.

Transfer to property, plant and equipment in prior year

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.

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 2018 and concluded that a provision of US\$60k should be recognised in respect of future rehabilitation obligations at Kabezi and Gasagwe.

Royalty receivables

Refer to note 13 for judgments in respect of royalty prepayments.

4. Loss From Operating Activities

Operating loss includes:

	Year Ended 30 June 2018 US\$'000	Year Ended 30 June 2017 US\$'000
Share based payment	(709)	(494)
Audit of the Group and Company financial statements	(89)	(42)
Professional fees in relation to the IPO	-	(284)
Non-audit and audit related service fees	(2)	(87)

5. Finance Costs and Income

Finance income

	Year Ended 30 June 2018 US\$'000	Year Ended 30 June 2017 US\$'000
Interest received	3	-
Foreign exchange gains	314	229
Gain on extinguishment of convertible loan notes	-	185
Total finance income	317	414

US\$0.2 million of foreign exchange gains previously reported within administration costs in 2017 have been reclassified to finance income for comparability to 2018 and reflect the nature of the underlying transactions.

Finance costs

	Year Ended 30 June 2018 US\$'000	Year Ended 30 June 2017 US\$'000
Bank charges	19	-
Interest on finance lease	8	-
Effective interest charge on borrowings	52	128
Fair value movement in derivative and interest charge on convertible loan notes	-	28
Total finance costs	79	156

The interest charge during the year related primarily to the overdraft with Finbank which carries an interest rate of 14%. The foreign exchange gain of US\$314k mainly related to the revaluation of GBP funds held in the year.

The interest charge in the prior year related to the Pala loan facility, which was repaid in 2017. The credit in the prior year 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 24-25.

Their remuneration for the 12 months ended 30 June 2017 and 30 June 2018 is summarised as follows:

	Year Ended 30 June 2018 US\$'000	Year Ended 30 June 2017 US\$'000
Wages and salaries	1,119	693
Benefits	44	15
Share based payments	689	483
Total remuneration of key management personnel	1,852	1,191

Benefits paid to employees include healthcare and pension contributions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *Continued*

7. Total Employee Remuneration (Including Key Management Personnel)

	Year Ended 30 June 2018 US\$'000	Year Ended 30 June 2017 US\$'000
Wages and salaries	1,917	877
Benefits	81	20
Share-based payments	709	494
Total employee remuneration	2,707	1,391

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

	Year Ended 30 June 2018	Year Ended 30 June 2017
Directors	6	5
Management and administration	7	7
Mining, processing and exploration staff	211	16
Total employees	224	28

The increase in staff numbers reflects the recruitment of workers at the Gakara project during the year.

8. Income Tax Expense

	Year Ended 30 June 2018 US\$'000	Year Ended 30 June 2017 US\$'000
Withholding tax	93	-
Current tax expense	3	-
Deferred tax expense	-	-
Total tax expense for the year	96	-

The tax expense for the year primarily relates to the cost of withholding tax on inbound goods and services in Burundi. US\$81k was paid during the year in respect of the above taxes.

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 2018 US\$'000	Year Ended 30 June 2017 US\$'000
Loss for the year	(2,611)	(1,402)
Income tax using the Guernsey rate of 0% :	-	-
Effects of:		
Differences in tax rates	(292)	(163)
Tax losses carried forward	292	163
	-	-

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%.

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 individual entities within the Group, 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 Limited are US\$2k (30 June 2017: US\$1k), Rainbow Burundi SPRL US\$104k (30 June 2017: US\$103k), and in respect of Rainbow Mining Burundi SM they are US\$186k (30 June 2017: US\$60k).

9. Loss Per Share

The earnings per share calculations for 30 June 2018 reflect the changes to the number of ordinary shares during the period.

At the start of the year, 154,626,472 shares were in issue. On 19 December 2017, a further 20,000,000 shares were allotted as part of the share placing at that date, followed by 134,000 shares issued to satisfy the exercise of employee share options. The weighted average of shares in issue in the year was therefore 165,258,477.

Earnings per share have been calculated using the weighted average of ordinary shares, adjusted for the effect of the share subdivision at the time of the IPO. 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 2017	112,135,616			
At 30 June 2018	165,258,477			
	Basic 2018	Basic 2017	Diluted 2018	Diluted 2017
Loss for the year (US\$'000)	(2,611)	(1,402)	(2,611)	(1,402)
Weighted average number of ordinary shares in issue during the year	165,258,477	112,135,616	165,258,477	112,135,616
Loss per share (cents)	0.02	0.01	0.02	0.01

10. Exploration and Evaluation Assets

	Total US\$'000
At 1 July 2016	3,827
Additions in year	776
Transfer to property, plant, and equipment	(4,603)
At 30 June 2017	-
Additions in year	-
At 30 June 2018	-

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *Continued*

11. Property, Plant and Equipment

	Mine development costs US\$'000	Plant & machinery US\$'000	Vehicles US\$'000	Office equipment US\$'000	Mine restoration US\$'000	Total US\$'000
Cost						
At 1 July 2017	4,603	1,016	169	3	-	5,791
Additions	2,909	1,649	540	21	60	5,179
Production costs prior to commercial production	279	-	-	-	-	279
At 30 June 2018	7,791	2,665	709	24	60	11,249
Depreciation						
At 1 July 2017	-	-	-	-	-	-
Charge for year	-	-	-	-	-	-
At 30 June 2018	-	-	-	-	-	-
Net Book Value at 30 June 2018	7,791	2,665	709	24	60	11,249
Net Book Value at 30 June 2017	4,603	1,016	169	3	-	5,791

Included under additions to mine development costs in the period were US\$366k in respect of the brownfield exploration and development of new mining areas (including Murambi and Kiyenzi) within the Gakara permit. The remaining additions to mine development relate to the Gasagwe mining area, together with infrastructure, compensation, and access route costs for the overall project.

Commercial production was not deemed to have been reached until July 2018 (see note 3 Accounting Judgements and Estimates). Accordingly, eligible production costs prior to this have been capitalised in the year, and net revenues treated as a deduction to property, plant and equipment. The net impact of these was an addition of US\$279k to mine development costs.

From July 2018, production costs and revenues will flow through the income statement, and depreciation will be charged in accordance with the Company's accounting policies.

For the same reasons, no depreciation charge was applied during the year.

During the prior 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).

	Mine development costs US\$'000	Plant & machinery US\$'000	Vehicles US\$'000	Office equipment US\$'000	Mine restoration US\$'000	Total US\$'000
Cost						
At 1 July 2016	-	-	-	1	-	1
Transfers 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

12. Inventory

	Year Ended 30 June 2018	Year Ended 30 June 2017
	US\$'000	US US\$'000
WIP	71	-
Finished goods	177	-
Consumables	32	-
Total inventory	280	-

WIP (Work in Progress) represents ore undergoing treatment at the Kabezi processing plant, while Finished Goods relate to concentrate that has been produced but not yet sold at year end. In accordance with accounting policies, both WIP and Finished Goods are valued at the lower of cost of production and net realisable value.

Consumables mainly relates to fuel stocks at 30 June 2018.

13. Prepayments

	Year Ended 30 June 2018	Year Ended 30 June 2017
	US\$'000	US US\$'000
Non-current prepayments	-	182
Current prepayments	209	22
Total prepayments	209	204

Current prepayments relate to prepaid operating expenses and include US\$146k in respect of government royalty payments of 4% which have been paid based on the total basket price of exports, rather than on the discounted price received from the Company's customer TK. These amounts have been recorded as prepayments on the basis that Rainbow believes that they will be offset against future royalty payments, pending the conclusion of a report commissioned by the World Bank into the reasonableness of the discount received by Rainbow.

14. Trade and Other Receivables

	Year Ended 30 June 2018	Year Ended 30 June 2017
	US\$'000	US US\$'000
VAT recoverable	85	-
Sales proceeds receivable	376	-
Total trade and other receivables	461	-

VAT recoverable relates to the input VAT recoverable in Burundi, since the VAT registration of the Group's Burundian subsidiary in the year.

Sales proceeds receivable represent the cash due from the sale of concentrate which took place before 30 June 2018, but for which cash was not received until after year end.

15. Cash and Cash Equivalents

	Year Ended 30 June 2018	Year Ended 30 June 2017
	US\$'000	US US\$'000
Cash at bank and in hand	354	3,198
Total cash at bank and in hand	354	3,198

No cash amounts were restricted at 30 June 2018 (30 June 2017: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *Continued*

16. Borrowings

	Year Ended 30 June 2018	Year Ended 30 June 2017
	US\$'000	US US\$'000
Current		
Bank borrowings	738	-
Other borrowings	22	20
Total borrowings	760	20

The Bank borrowings relate to an overdraft facility with Finbank in Burundi. It is expressed in BIF and carries an interest rate of 14%. As the facility was agreed in October 2017, initially on a six-month term rolling thereafter, it has been classified as a short term liability.

Under the terms of this facility, Finbank has security over the fixed and floating assets of Rainbow Mining Burundi SA ('RMB', the local operating company in Burundi which owns the Gakara project and mining permit), the shares of RMB, and the cash held in RMB's Finbank bank accounts. Bank borrowings include US\$52k of interest, which is non-cash.

17. Trade and Other Payables

	Year Ended 30 June 2018	Year Ended 30 June 2017
	US\$'000	US\$'000
Trade payable	535	61
Accrued expenses	355	64
Payroll and withholding taxes	31	17
Amounts due to staff and management	368	135
Pension contributions	3	10
Amounts owed to shareholders	-	126
Rehabilitation provision	60	-
Other payables	63	16
Total trade and other payables	1,415	429

Trade payables and accrued expenses relate to the ongoing operating costs of the mine, which came into production during the year. Accrued expenses include US\$130k to Obsideo Consulting (Pty) Ltd in relation to the construction of the plant at Kabezi.

Amounts due to staff and management include a group bonus accrual.

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.

18. Share Capital

	Year Ended 30 June 2018	Year Ended 30 June 2017
	US\$'000	US\$'000
Share Capital	16,722	13,186
Issued Share Capital (nil par value)	16,722	13,186

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

	Number of shares	Value (US\$'000)
At 30 June 2017	154,626,472	13,186
December 2017 – share placing	20,000,000	3,516
April 2018 – shares issued for exercise of share options	134,000	20
At 30 June 2018	174,760,472	16,722

On 19 December 2017, the Company issued 20,000,000 ordinary shares as part of an equity placing, to new and existing shareholders (but no management or related parties). Net proceeds for this equity raise amounted to US\$3.5 million, after accounting for US\$0.2 million of transaction costs.

On 16 April 2018, 134,000 shares were allotted to satisfy the exercise of employee share options

The table below shows a reconciliation of share capital movement for the year ended 30 June 2017:

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

- On 9 January 2017, the Company subdivided each of its existing ordinary shares (1,221,826) into 67 ordinary shares (81,862,342).
- 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 US\$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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *Continued*

- c. 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 US\$0.15m in foreign exchange following the settlement of the funds).
- d. Costs in relation to the allotment of new shares as part of the IPO amounted to US\$778k. This amount was set off against share capital.
- e. 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

* transactions with related parties.

19. Share Options and Warrants

Employee share options

A total of 9,692,400 share options had been issued at 30 June 2017, 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.

On 23 August 2017, a further 2,500,000 options were awarded to the non-executive board members, at a grant price of 15.00 pence, a premium of 35% to the share price of 11.13 pence at the date of award.

	Options held at 30 June 2017	Exercised/ cancelled during the period	Granted during the period	Options held at 30 June 2018	Exercise price (pence)	Date of grant	Date from which first tranche exercisable (see below)
A Pouroulis	402,000	-	-	402,000	10.00	30-Jan-17	30-Jan-17
A Pouroulis	-	-	500,000	500,000	15.00	23-Aug-17	23-Aug-17
R Sinclair	350,000	-	-	350,000	10.00	30-Jan-17	30-Jan-17
R Sinclair	-	-	500,000	500,000	15.00	23-Aug-17	23-Aug-17
A Lowrie	-	-	500,000	500,000	15.00	23-Aug-17	23-Aug-17
A Bali	-	-	500,000	500,000	15.00	23-Aug-17	23-Aug-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	3,500,000	-	-	3,500,000	10.00	30-Jan-17	30-Jan-17
S McCormick	350,000	-	-	350,000	10.00	30-Jan-17	30-Jan-17
S McCormick	-	-	500,000	500,000	15.00	23-Aug-17	23-Aug-17
J Wynn	1,500,000	-	-	1,500,000	12.75	27-Jun-17	27-Jun-17
B Jankowitz	1,500,000	-	-	1,500,000	12.75	27-Jun-17	27-Jun-17
Others	201,000	(134,000)	-	67,000	10.00	30-Jan-17	30-Jan-17
	9,692,400	(134,000)	2,500,000	12,058,400	11.72		

All awards 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.

4,333,333 share options awarded to M Eales, J Wynn and B Jankowitz during the year ended 30 June 2017 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.

At 30 June 2018, the following share options are exercisable and outstanding:

	Number	Average weighted exercise price	Fair value (US\$'000)
Outstanding at 1 July 2017	9,692,400	10.85 pence	1,140
Granted during the year	2,500,000	15.00 pence	262
Exercised in the year	(134,000)	10.00 pence	(15)
Cancelled or expired in the year	-	-	-
Outstanding at 30 June 2018, of which:	12,058,400	11.72 pence	1,387
- Exercisable	7,160,929	11.35 pence	832
- Not exercisable	4,897,471	12.26 pence	555

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 a funding transaction for the Company. 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 2018, the following share warrants were outstanding:

	Number	Exercise price	Fair value (US\$'000)
Outstanding at 1 July 2017	427,924	US\$0.21	40
Movement in the year	-	-	-
Exercisable at 30 June 2018	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 23 August 2017	Share Options awarded 27 June 2017	Share Options awarded 30 January 2017	Warrants
Share price (GBP)	0.1113	0.1275	0.1162	10.83
Exercise price (GBP)	0.15	0.1275	0.10	10.83
Expected volatility	90%	90%	90%	50%
Risk free rate	0.71%	0.85%	0.79%	1.8%
Rate of Exchange	1.28	1.30273	1.23	1.32
Contractual life (years)	7	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *Continued*

20. 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 2018. Refer to note 21 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 39.

21. Non-Controlling Interest

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

Name of subsidiary: Country:	Rainbow Burundi SPRL	Rainbow Mining Burundi SM
	Burundi US\$'000	Burundi US\$'000
Effective non-controlling interest 2017	3%	10%
As at 1 July 2016	5	(24)
Loss for year	1	12
At 30 June 2017	6	(12)
Effective non-controlling interest 2018	3%	10%
As at 1 July 2017	6	(12)
Loss for year	-	45
At 30 June 2018	6	33
Assets at year-end:		
30 June 2017	1,229	2,358
30 June 2018	1	11,657
Liabilities at year-end:		
30 June 2017	1,539	2,237
30 June 2018	313	11,958
Loss for the year to:		
30 June 2017	20	123
30 June 2018	2	450

22. Finance Leases

In June 2017, the Company agreed the terms of a finance lease contract with G Midende (a PDMR and a related party, see note 24 below) for land situated in Kabezi at the site of the processing plant. This agreement came into effect in July 2017 and has been recognised as a finance lease obligation during the period as follows:

	Minimum Payments 2018	Present Value of payments 2018	Minimum Payments 2017	Present Value of payments 2017
	US\$'000	US\$'000	US\$'000	US\$'000
Within one year	18	17	-	-
After one year but not more than five years	36	26	-	-
More than five years	-	-	-	-
Total minimum lease payments	54	43	-	-
Less amounts representing finance charges	(11)	-	-	-
Present value of minimum lease payments	43	43	-	-

US\$19k was paid during the year in respect of the above lease.

23. Capital Commitments

At 30 June 2018, the Company had an obligation to make payments of US\$0.1 million (2017: US\$0.8 million) to Obsideo Consulting (Pty) Ltd for the design, supply and installation of the processing plant at Kabezi.

24. Related Party Transactions

	Charged in the year 2018	Balance as at 30 June 2018	Charged in the year 2017	Balance as at 30 June 2017	Related party	Description
	US\$'000	US\$'000	US\$'000	US\$'000		
Artemis Trustees Limited	31	-	56	76	R Sinclair	Company secretarial services to the Group
Alexander Lowrie	-	-	88	-	A Lowrie	Shares allotted as underwriting discount
Atul Bali	-	-	42	-	A Bali	Shares allotted for equity raised
Gilbert Midende	44	2	34	2	G Midende	Rental of accommodation for staff, plus acquisition of land for plant site
Martin Eales	-	-	-	122	M Eales	Balance of settlement for waiver of profit-share agreement
Pella Resources Limited	-	-	20	43	A Pouroulis	London office rental
Uvumbuzi Resources Limited	110	-	54	8	C Morelli	Exploration activity
Benzu Minerals	18	-	12	-	C Morelli	Exploration activity
	203	2	306	251		

- ▶ During the prior 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.
- ▶ The US\$122k due to Martin Eales at the prior year end relates to the unsettled amount in respect of his waived entitlement to a profit-share agreement under his previous contract which was settled in the current year.
- ▶ Remuneration with key management personnel has been disclosed in note 6.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *Continued*

25. 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	% Share Capital Held
			2018	2017
Rainbow International Resources Ltd	Rare earth exploration	British Virgin Islands	100%	100%
Rainbow Rare Earths UK Ltd	Service Company	United Kingdom	100%	100%
Rainbow Burundi SPRL	Rare earth exploration	Republic of Burundi	97%	97%
Rainbow Mining Burundi SM	Rare earth 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.

26. Contingent Liabilities

There were no contingent liabilities at 30 June 2018 (30 June 2017: nil).

27. Post Balance Sheet Events

On 9 August 2018, the Company concluded a placing of approximately 13 million new shares at a price of 12 pence per share, raising gross proceeds of approximately US\$2 million.

28. Financial Risk Management

The Group's financial liabilities at each period end consist of borrowings, related party loans and trade and other payables. All liabilities are measured at amortised cost. These are detailed in notes 16 and 17.

The Group has various financial assets, being trade and other receivables and cash, which arise directly from its operations. All are classified as cash or receivables. These are detailed in notes 14 and 15.

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 financial 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.

Cash and cash equivalents	Year Ended 30 June 2018 US\$'000	Year Ended 30 June 2017 US\$'000
US dollars	100	1,250
GB pounds	252	1,937
Burundi Francs	2	11
	354	3,198

Trade and other payables	Year Ended 30 June 2018 US\$'000	Year Ended 30 June 2017 US\$'000
South African Rand	104	5
GB pounds	113	320
Burundi Francs	321	42
	538	367

A 10% movement in the US\$:GBP rate would have resulted in a gain or loss of less than US\$0.1m (2017: US\$0.2m) in the income statement in relation to the cash and cash equivalents as at 30 June 2018.

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 monitors 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. All liabilities are deemed to be short-term as none have repayment maturities beyond 12 months.

Ultimate responsibility for liquidity risk management rests with the 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 2 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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *Continued*

Net debt/(net cash) to equity	30 June 2018	30 June 2017
	US\$'000	US\$'000
Total borrowings (note 16)	760	20
Less: Cash and cash equivalents (note 15)	(354)	(3,198)
Net debt/(net cash)	406	(3,178)
Total equity	10,378	8,744
Ratio	4%	-36%

29. Non Cash Transactions

Material non cash transactions were as follows:

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 19.

Year end 30 June 2018

- ▶ The difference between amounts shown in the cash flow statement and finance costs and the finance income as detailed in note 5.
- ▶ Share based payments, which have been recognised in income statement.

30. 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

Registered office

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Registrars and transfer office

Computershare Investor Services PLC
PO Box 82, The Pavilions, Bridgwater Road
Bristol BS99 7NH

Bankers

Barclays Bank PLC

Finbank Burundi

Brokers

Arden Partners Plc

Independent Auditors

BDO LLP

Solicitors

Memery Crystal LLP (UK)

Legal Solutions Chambers (Burundi)



Rainbow Rare Earths Limited

Registered office

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UK representative office

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