FOR IMMEDIATE RELEASE

19 September 2018

Rainbow Rare Earths Ltd ('Rainbow' or 'the Company') (LSE: RBW)

Audited results for the year ended 30 June 2018

Rainbow Rare Earths Ltd, the Rare Earth Element ('REE') mining company, is pleased to announce its audited results for the 12 months ended 30 June 2018.

2017-18 HIGHLIGHTS

- Gakara mine brought into production on schedule – first production and 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
- Co-operation 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

As previously announced, the Company will be hosting a shareholder and analyst conference call at 11.30am UK time today. To participate in this conference call, please dial 0808 109 0701, (if you are calling from outside of the UK, please dial +44 (0) 20 3003 2701) and enter participant code 6576380# when prompted to do so. Questions should be sent to shareholderenquiries@stbridespartners.co.uk. Additionally, to send questions through the online chat function that will run concurrently with the call, please use the link below and log in as a participant; the password is: Rainbow

https://sbmf.webex.com/sbmf/onstage/g.php?MTID=e04ec898bd1661cbfb476fa74121c3866

The financial information in this release does not constitute the Financial Statements. The Group's Annual Report which includes an unqualified audit report and audited Financial Statements for the year ended 30 June 2018, will be available in early October on the Company's website at www.rainbowrareearths.com

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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 km^2, 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.

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 TREO 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.

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.

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.

Sales price, cost of sales and production costs

The price that Rainbow receives for its concentrate is a function of the basket price of the underlying individual rare earth oxides contained in its concentrate, as well as of the overall grade of material sold (expressed as a % of TREO), less a discount to take into account the fact that the concentrate consists of mixed and unseparated oxides.

During the year to 30 June 2018, 475 tonnes of concentrate were sold, at an average grade of 58% TREO. This resulted in a gross average realised sales price of US$2,263 per tonne (net realised sales price US$2,088 per tonne, after accounting for TK deductions for marketing fees of 3.5% and handling costs).

Transportation, shipping and handling costs involved in bringing the concentrate from Kabezi to the point of sale, as well a 4% government royalty averaged US$381 per tonne sold. The Company continues to explore transportation routes and methods to minimise these costs.

Production costs include all costs related to the mining and processing of the concentrate, as well as local support costs in Burundi. The principal costs within these areas are salaries, fuel, and the rental of equipment. It is notable that the majority of costs are not directly variable with ore production, and therefore the unit cost per tonne of concentrate produced is very sensitive to the production levels achieved. In the year to 30 June 2018, the production was ramping up, and therefore unit production costs at US$2,430 per tonne produced were higher than will be expected going forward.

During the period production costs were capitalised under the Company's accounting policy as the mine was still to reach commercial production levels, with the margin on revenue also capitalised against the mining asset.

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.

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 Kabezi 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.

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

(a) the preliminary financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and give a true and fair view of the assets, liabilities, financial position and loss of the Group for the Year; and

(b) the preliminary management report for the Year includes a fair review of the information required by the FCA's Disclosure and Transparency Rules (DTR 4.1.8 R and 4.1.9 R).

By order of the Board

Martin Eales
Chief Executive Officer
18 September 2018

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)**

The accompanying notes 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

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2018

	Share capital	Share Based Payments	Other reserves	Accum-ulated losses	Attribut-able to the parent	Non-controlling interest	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	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**

The accompanying notes 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**

The accompanying notes form part of these financial statements.

NOTES TO THE 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.

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	**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

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.

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.

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 plant, property 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 INCOME AND COSTS

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
	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.

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.

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:		
Directors	6	5
Management and administration	7	7
Mining, processing and exploration staff	211	16
	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		Diluted	
	2018	**2017**	**2018**	**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 plant, property 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 plant, property and equipment, in accordance with the Company's accounting policies.

11. PROPERTY, PLANT, AND EQUIPMENT

US$'000	Mine development costs	Plant & machinery	Vehicles	Office equipment	Mine restoration	Total
Cost						
At 1 July 2017	4,603	1,016	169	3	–	5,791
Additions	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).

US$'000	Mine development costs	Plant & machinery	Vehicles	Office equipment	Mine restoration	Total
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 US$'000	Year Ended 30 June 2017 US$'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 US$'000	Year Ended 30 June 2017 US$'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 US$'000	Year Ended 30 June 2017 US$'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 US$'000	Year Ended 30 June 2017 US$'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).

16. BORROWINGS

	Year Ended 30 June 2018 US$'000	Year Ended 30 June 2017 US$'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 US$'000	Year Ended 30 June 2017 US$'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 US$'000	Year Ended 30 June 2017 US$'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**

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

b. 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 accrued at 13% per annum from 1 February 2017. The principal and accrued interest would be due for repayment on 31 January 2019.

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

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.

20. RESERVES

<u>Reserve</u>	<u>Purpose</u>
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.

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	Rainbow Burundi SPRL	Rainbow Mining Burundi SM
Country	Burundi	Burundi
	US$'000	US$'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:

	2018		2017	
	Minimum Payments	Present Value of payments	Minimum Payments	Present Value of payments
	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

	2018		2017			
	Charged in year	**Balance as at 30 June**	**Charged in year**	**Balance as at 30 June**	**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.

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 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	Year Ended 30 June 2017

	US$'000	US$'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:

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.

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.

Risk	Comment	Business impact	Mitigation
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)

Risk	Comment	Business impact	Mitigation
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.