



## **PRODUCING HIGH-GRADE RARE EARTH CONCENTRATE**

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**Rainbow Rare Earths Limited**

**Annual Report & Accounts**  
for the year ended 30 June 2019





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# OVERVIEW

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Kiyenzi exploration target  
May 2019



# RAINBOW RARE EARTHS LTD – AT A GLANCE

## Corporate



Rainbow Rare Earths Ltd (“Rainbow” or “the Company”) has been listed on the main board of the London Stock Exchange (standard list) since January 2017



It is focused on the exploration and production of rare earths



The Company’s primary asset is the Gakara project in Burundi

## Gakara Project

Gakara is Africa’s only producing rare earth mine, located just south of Bujumbura, Burundi (East Africa)



First developed by the Belgians in the 1950s, it closed in 1973 before being rediscovered by Rainbow in 2011



Rainbow holds a 25-year mining permit (granted in 2015) over a 39km<sup>2</sup> area



The mine began production in December 2017 – and by 30 June 2019 had exported 1,325 tonnes of Rare Earth (RE) concentrate of 54-58% grade TREO (Total Rare Earth Oxides)



The current processing plant is located approximately 16km west of the mining area next to the main highway due south of Bujumbura



The ore has simple, benign metallurgy/ mineralogy – processing involves crushing/gravity separation only (using no chemicals, and with negligible Uranium/Thorium content)



Rainbow’s basket is weighted towards magnet REs: NdPr oxides represent >80% of the value in the concentrate



The mine has huge potential – mineralisation has been discovered across the mining licence area, with over 1,000 occurrences of high grade RE veins and 30 targets identified to date. Work is now underway to define a significant JORC Resource



The strategy is to develop a large bulk mine capable of delivering >10,000t pa of concentrate for at least 10 years life of mine



Rainbow has longer-term plans to develop downstream separation capability to capture further value



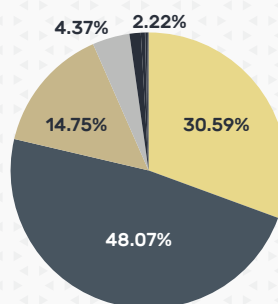
Location of Garaka Rare Earths Project, Burundi

## Gakara Basket

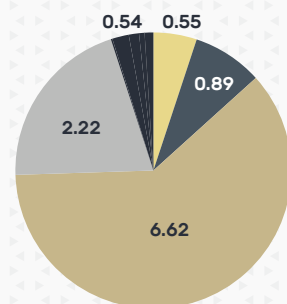
The Gakara basket is weighted heavily towards the magnet rare earths, including neodymium and praseodymium, which are driving demand and account for approximately 70% of annual global REE sales due to their use in vital components in motors, generators, wind turbines, and electric vehicles.

Based on average samples from Gakara, magnet REEs account for approximately 19% of the contained Rare Earth Oxides ('REOs') within the Gakara ore, but represent an average of over 80% of the contained value of REOs at current market prices.

By REO Content (Mass %)



By Value (US\$/Kg TREO)



■ Lanthanum      ■ Praseodymium  
■ Cerium      ■ Others  
■ Neodymium

Based on average of REOs within Gakara in situ vein samples and market prices of purified REOs on China FOB basis as at 25 September 2019

# RARE EARTHS – THE TECHNOLOGY METALS

## What are rare earths?

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

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

### Periodic table with the 17 rare earth element highlighted

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

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

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

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

Australia. Rainbow's Gakara Project is the only producing rare earths mine in Africa. Many of the uses of rare earths are strategic, including in military applications, and 2018-19 has seen the imposition of new tariffs by both the USA and China on imports of rare earth materials and the USA recently announced legislation designed to prevent the Department of Defense purchasing any rare earth magnets manufactured in China, which points to the importance of non-Chinese RE producers such as Rainbow.



Rare earth concentrate in production at Kabezi



## Rare earths and their uses

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

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





# STRATEGIC REPORT

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## CHAIRMAN'S STATEMENT

“The year to 30 June 2019 presented many challenges, particularly at the operating level, but also clearly underlined that Gakara has the potential to be a world-class mine, delivering rare earths into a market that is on the cusp of undergoing potentially explosive growth, driven by green technologies and electric vehicles.

Gakara is a unique asset. Its veins reach grades far in excess of any other rare earth deposits anywhere in the world, and the mineralisation is in the form of seams of almost pure bastnaesite/monazite.

We have discovered these veins outcropping at surface over almost all of the 39km<sup>2</sup> mining permit, which tells us that the deposit contains a potentially vast quantity of high-grade ore. But more recent testing suggests that mineralisation exists across the deposit in lower grades too. This presents us with the possibility that we are looking at an even larger deposit than we had originally thought, and one which may be amenable to bulk mining.

The key to unlocking the value of this deposit will be in rolling out a programme of further exploration, with the objective of allowing us to model the resource in more detail. Not only will this show the full extent of the deposit, but it will allow us to develop a mining and processing plan which will allow us to realise the maximum value from it.

We have had some success in extracting targeted high-grade veins at our first two sites; however, we have learnt that we need to choose the right equipment and mining method to operate efficiently and effectively.

Nevertheless, we have successfully demonstrated that not only is there a strong demand for our concentrate, but that we can successfully export our product. We believe we are the only exporter of rare earth concentrate by sea in the world.

In August 2019, Martin Eales stepped down as Chief Executive. Martin's leadership was invaluable as we transformed Rainbow from an early stage exploration project, through its IPO in January 2017, and into its current form. We are grateful for Martin's input and guidance over the Company's formative years.

At the same time, I was pleased to announce the appointment of George Bennett to the Board of Rainbow as Chief Executive Officer. Not only does George share the ambition of myself and my fellow Board members regarding the future of Rainbow, but he brings with him considerable experience in the natural resources sector, and, crucially, a track record of delivering shareholder value.

In the short time since his appointment, he has initiated a number of changes in strategy which we believe will pave the way for the Company to become the second largest rare earth mine outside China. Much work remains to be done, but George's vision, energy, and determination, together with that of the management team and the Board, give me every confidence that we are firmly on the right track.

The rare earth market has received a considerable amount of attention during 2019, with trade tensions between the US and China leading to speculation about the security of supply of REs, many of which are critical not only to vital sectors such as technology, electric vehicles, and turbines, but also are used in military and scientific applications. China accounts for 90% of world production of REs, and such concerns underline the



importance of a significant non-Chinese source such as Gakara.

However, we believe the wider fundamentals to be even more important. REs such as Neodymium and Praseodymium are used in high-growth industries, and as a result, demand is expected to increase dramatically in the coming years. Yet at the same time, very few new sources are likely to come online, which will create a supply shortfall which is likely to push prices up significantly from current levels.

Although 2019 was undoubtedly a challenging year for Rainbow and its shareholders, the Company is now embarking on a new, much more ambitious direction under new leadership, and will be perfectly placed to benefit from the increased demand for REs in the coming years.

Finally, I would like to thank the many people who have given their support to Rainbow during the year: my fellow Board members for their advice and counsel; the staff and management of the Company, particularly those in Burundi who have shown determination and resilience in challenging conditions; our wider stakeholders including the communities in which we operate, our suppliers, local officials and members of the Burundian ministries of mines and finance, who have been incredibly supportive.

A handwritten signature in black ink, appearing to read 'Adonis'.

Adonis Pouroulis  
Chairman



## CHIEF EXECUTIVE OFFICER'S REVIEW

“ Before I took on the role as Chief Executive Officer in August 2019, I took the opportunity to visit Burundi to see for myself the Gakara mine. This visit confirmed my initial impressions of the project: that the deposit has the potential to be a genuinely world-class rare earth deposit; but that the mining and processing of the orebody, up until that point, had not employed a conventional approach for a new mining project.

The mining permit extends over 39km<sup>2</sup>, and to date well over 1,000 rare earth occurrences at surface have been identified, from all over the licence area. There are over 30 RE targets, many of which were mined by the Belgians 40-60 years ago. In mineralogical terms, these occurrences are strikingly homogeneous, which tells us they are part of the same mineralisation. In fact, we now believe that the permit area is not only pervaded with high grade veins of varying thickness, but that mineralisation also exists in between the veins, which suggests that the area contains a very much larger deposit of rare earths that needs to be confirmed by our revised exploration strategy.

Of course, the precise scale and nature of the orebody can only be determined with confidence through exploration work, which is the foundation for any mining project. A modest drilling programme was completed in 2018, which was mainly focussed on the Kiyenzi deposit. Only a relatively small number of drill cores were selected for analysis, and the cores chosen were those showing areas of visible mineralisation. As a first step, we are now sending all drill cores for analysis, which should quickly give us a much better understanding of the deposit at Kiyenzi in particular. The initial two diamond drill cores, fully analysed from Kiyenzi, appear to confirm our belief that mineralisation exists between the high-grade veins.

In addition, we are developing a programme of exploration work designed to confirm, as a first step, a deposit sufficient to support a 10-year mine life, with concentrate production targeted at 10,000 tonnes per annum. These levels are more ambitious than previous targets, but we believe they are achievable as a result of a change in the approach to defining the resource within our mining permit and a change in the mining method.

Until September 2019, mining focused exclusively on high-grade veins, which were extracted by hand, with all other materials considered waste. Once we have defined a



larger orebody to JORC standards, we will develop a mine plan that will extract ore in bulk, by mechanical means. This will allow us to extract a far greater quantity of material at a much quicker rate, and will mean a far larger tonnage of RoM material but with a lower overall grade of mineralisation.

The mining of lower grade material will, we believe, be most efficiently handled by introducing a simple pre-concentration step possibly involving a scrubber, DMS and spirals, to be confirmed by the ongoing test work. This is likely to be most economical and practical if undertaken nearer the mechanical mining activity.

I am fully aware that investor confidence in the project can only be won through hard work, and hard evidence. I intend to deliver such information to the market as and when it becomes available to us.

In parallel with this exploration and test work programme, we are investing in new mining fleet, which will deliver significant cost savings compared with the rented fleet currently in use, and which will be far better suited to the terrain (particularly in wet conditions). We will continue to mine at the Murambi pit only, which we believe will provide sufficient ore for at least a year, but in a more efficient way than before – the ore extraction will be mechanised, and we will therefore be able to operate with a reduced workforce, delivering further cost savings, while still maintaining our social licence within Burundi. The objective of operations is to reach breakeven profitability at the mine site level by January 2020, which will allow us to deploy our cash resources to develop the resource into a much larger proven target with the ultimate aim of achieving 10,000 tonnes per annum of concentrate.

A more realistic assessment of production over the coming 12 months, combined with the additional focus on expanded exploration, and a metallurgical and mineralogical test work programme as the first phase in developing a much larger project in terms of production and Life of Mine (LoM), will mean that further funding will be required over the next 12 months. However, we are also determined to ensure that additional financing is structured in such a way as to minimise dilution, and phased such that it follows on the back of successful progress we have made towards our objectives, which we believe will underline the huge value in our project and thus improve our valuation.

The Company announced an initial JORC Resource in December 2018, but on a limited scope. We are now testing all the samples collected during the 2018 drilling programme (rather than those that only showed visible mineralisation), and are planning to undertake further drilling in key areas. As a result, I am confident we can deliver a JORC resource in early 2020, supporting our target production levels, and I am equally confident that a bulk mining approach will be far more efficient and scalable than we have seen to date.

But I am also encouraged by the mineralogy of the ore at Gakara. The Kabezi process plant is small in scale and simple in scope – it includes crushing and gravity separation only – and yet the trial mining to date has been able to consistently produce a concentrate of 54–58% TREO, from even lower-grade material we have tested to support my initial impressions of the project. This underlines how simple the mineralogy and metallurgy of the ore is, and is a major differentiating factor compared with other RE projects, many of which include large and complex beneficiation steps and yet still cannot reach concentrate grades close to those of Gakara.

It should also be mentioned that the levels of Uranium and Thorium in the deposit are negligible which demonstrates how benign our ore is and how environmental impact of mining and processing is very low for a RE project, which is hugely advantageous. In most RE deposits around the world Uranium and Thorium are key elements that require extra steps in the process flow sheet for extraction and add huge opex and capex costs to any project. Rainbow has exported concentrate to China, which has very strict limits of radioactivity – imposing limits of less than 0.2µSv/hr (roughly equivalent to background radiation in a granitic area) – without any problems to date.

I mentioned that our target is to define a JORC-compliant Resource sufficient to support the production of 10,000 tonnes of concentrate

over a 10-year mine life – which is more than double our previous target. However, this represents just the first stage for the Gakara project and is likely to be based on just one or two individual deposits. Around 30 potential targets have been identified for further exploration many of which were mined by the Belgians, and once we have achieved the first stage, we will undoubtedly continue to drill further areas to grow the project even further. I would point out that over the last 30 years, the vast majority of large-scale modern mines built in Africa, have been developed from the initial colonial mines rediscovered by their respective mining companies.

In the past, we have also mentioned our interest in developing a down-stream separation/beneficiation capability, which would enable us to process our concentrate into a mixed rare earth carbonate or oxide, or possibly down to individual RE oxides. This would allow us to capture significantly more of the value of our concentrate, and remains firmly in our plans. However, the first step is defining a source of feedstock for such a plant – and our plans in this area will emerge once we have a better understanding of the orebody.

A lot of hard work has gone into developing the Gakara project to date. The deposit is truly unique in its scale and nature, and it was perhaps inevitable that some of the early decisions needed to be revisited. It was clear that before any detailed production plan could be formulated, a far better understanding of the ore body was necessary, and that subsequent mining and processing methods were likely to be much more efficient if mechanised and with larger quantities of ore.

That the Gakara deposit had enormous potential was never in doubt. But I would not have taken on the role as Chief Executive, nor would I have invested personally in the project, had I not believed that the Company could be grown significantly in scale, and would thus be transformed into a RE mine that could compete on the world stage, and be hugely profitable in the process.

I look forward to updating you all on our progress in the months to come.



**George Bennett**  
Chief Executive Officer



## OPERATIONS REVIEW

### Production overview

	Year to 30 June 2018	Year to 30 June 2019
Concentrate sold (tonnes)	475	850
Concentrate exported (tonnes)	575	750
Grade TREO per tonne concentrate	58%	57%
	US\$/tonne	US\$/tonne
Gross sales price – pre TK deduction <sup>1</sup>	2,263	1,949
TK transportation and marketing deductions <sup>1</sup>	175	137
Net sales price <sup>1,3</sup>	2,088	1,812
Other sales costs – transportation and royalty <sup>1</sup>	381	316
Production cost <sup>2</sup>	2,430	4,067
LTIFR	0.00	0.40

**Notes:**

<sup>1</sup> Gross and net sales prices, TK transport and marketing costs, and Other sales costs are shown per tonne of concentrate sold

<sup>2</sup> Production costs are shown per tonne of concentrate exported

<sup>3</sup> Revenue reported in the Financial Statements represents the Net sales price of the tonnes sold in the period

### Mining operations in the year

Mining operations began well in July-September 2018 as production focused on the Gasagwe pit. In dry conditions, waste stripping made good progress and a number of additional veins were exposed, which more than offset variability in thickness and direction of the main vein.

The advent of the rainy season in October 2018 brought challenges as the fleet of haul trucks, all rented locally, proved unable to operate in wet conditions. As a result, waste removal fell and therefore ore exposure also slowed.

In December, production began in earnest at a second site, Murambi. However, the construction of the haul road to the waste dump was slowed, and most of the waste removed had to be placed as road surfacing, where appropriate, or side cast in order to expose the maximum vein material in the short term.

The lack of ore supply to the plant put pressure on the Company's cash position, and underlined the need to review operating procedures in order to become profitable.

### Processing plant

Following the completion of construction at the end of 2017-18, the plant underwent performance tests in August 2018, which were successfully passed. During the year, the plant performed in line with expectations, however production of concentrate was impacted by the shortage of run of mine ore from the pits.

Final concentrate sales in the year amounted to 850 tonnes averaging a grade of 57% TREO, which represented a disappointing total compared with expectations.



Gasagwe mine site  
July 2018 (view to north)

## Rare earths prices

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 2019, 850 tonnes of concentrate were sold, at an average grade of 57% TREO. This resulted in a gross average realised sales price of US\$1,949 per tonne (net realised sales price US\$1,812 per tonne, after accounting for TK deductions for marketing fees of 3.5% and handling costs).

The prime reason for this fall in prices was a drop in underlying rare earth oxide prices, on which Rainbow's final sales price is based. During the 12 months to 30 June 2019, Rainbow's basket price fell from US\$12.78/kg to US\$11.92/kg, and the average price in the year was US\$11.45/kg, 18% lower than the average for the prior year (US\$13.93/kg).

## Safety and Health

The Company takes health and safety extremely seriously, and was proud of having achieved a total of over 1.6 million hours without an LTI. Unfortunately, in February 2019, this record was broken when two employees suffered minor injuries following a lightning strike near a rain shelter where mine workers were taking shelter during a storm. The Lost Time Injury Frequency Ratio ('LTIFR') for the year was therefore 0.40 (2018: 0.00).

Details of the Company's safety and health practices and policies are set out on page 16.



Kabezi plant site.  
July 2018



## FINANCIAL REVIEW

### Profit and loss

With the construction of the Kabezi plant having been completed in the prior year, exports of concentrate commencing in December 2017 and production subsequently building, the Company determined commercial production to have been reached with effect from 1 July 2018 under its accounting policies. As a result, all revenues and production costs in the year have been recorded through the income statement – whereas in the prior year, production costs relating to the mining, processing, and sales of concentrate were capitalised as mine development costs, net of a US\$1.0 million adjustment to eliminate the margin on test revenues from the sale of 475 tonnes of concentrate that represented the contribution to the development costs prior to commencement of commercial levels of production.

Revenues in the period were US\$1.5 million, representing 850 tonnes of concentrate exported and sold at an average net realised price of US\$1,812 per tonne. In the prior year, 450 tonnes were sold at a net price of US\$2,088 per tonne.

Royalty and transport costs of US\$0.3 million included the 4% government royalty on exports, as well as the cost of trucking concentrate from the plant to the port of Mombasa for export.

Production costs of US\$3.1 million included US\$0.6 million of plant costs, US\$1.4 million of mining costs, and US\$1.1 million of local support costs.

The stockpile movement of US\$0.2 million reflected the movement in the value of ore and concentrate stockpiles, which are valued at the lower of cost and net realisable value. The disappointing levels of production in the second half of the year meant that the cost per tonne attributed to this material was higher than its net realisable value, resulting in a write-down of the value of the inventory by US\$0.2 million.

Administration expenses of US\$1.4 million included corporate and head office costs, and were lower than the prior year figure of US\$2.0 million as a result of cost reduction measures as well as the fact that the prior year included a staff bonus of US\$0.4 million.

Adjusted EBITDA for the year, reflecting the above items, was a loss of US\$3.4 million, an increase compared to the prior year's figure of US\$2.0 million.

Share-based payments totalled less than US\$0.1 million in the year (2018: US\$0.7m), and included a credit of US\$0.1 million in respect of share options which lapsed on the basis of non-market performance conditions not having been met. There were no new employee share options awarded in the year.

Depreciation was charged for the first time in the year, as a result of commercial production having been judged to have been reached as at July 2018.

Following a revision to the way in which the Company plans to mine and process material, as explained in the CEO Statement, management reviewed the carrying value of its property, plant and equipment, and concluded that the capitalised costs in respect of the existing plant at Kabezi, and the mine sites of Gasagwe and Murambi should be fully written down, on the basis that the future profitability and cash generation of these activities could not be asserted with confidence. As a result, an impairment of US\$3.9 million was reflected in the income statement during the period. The carrying value of the remaining assets (US\$6.4 million) relate to the wider project, and include exploration and mine development costs that are expected to support economic value in the future, as the operation is grown into a much larger, bulk-mining operation.

Finance income of US\$0.4 million (2018: US\$0.3 million) included foreign exchange gains on movements chiefly between the Burundian Franc ('BIF') and US dollars, the reporting currency of the Group.

Finance costs of US\$2.6 million (2018: US\$0.1 million) included US\$2.5 million in respect of a convertible loan note with Lind Partners, granted in January 2019 and converted in June 2019 (see note 6 for further details), and interest on the Company's overdraft in Burundi, as well as bank charges.

Tax charges included withholding tax and corporation tax in Burundi.

### Balance sheet

The Company's Non-current assets of US\$6.4 million (2018: US\$11.2 million) related to the capitalised brownfield exploration and mine development costs of the Gakara Project in Burundi. In addition to the impairment of US\$3.9 million referred to earlier, the reduction in value reflected the net impact of capex of US\$1.6 million less depreciation of US\$2.6 million.

At 30 June 2019, inventory of US\$0.1 million (2018: US\$0.3 million) largely related to the value of the 51 tonnes of concentrate bagged but not exported at year end.

The Company had borrowings of US\$1.6 million (2018: US\$0.8 million), largely consisting of a US\$0.7 million convertible loan from Pella Ventures Limited, and a US\$0.8 million (2018: US\$0.8 million) bank overdraft facility with Finbank in Burundi.

Trade and other payables amounted to US\$2.1 million (2018: US\$1.4 million), with the increase the result of increased operating activities as well as cashflow constraints meaning many supplier balances were stretched over the year end and settled in July and August 2019.

## Cashflow

Net cash in the 12 months to 30 June 2019 decreased by US\$0.2 million (2018: decrease of US\$2.9 million).

Cash outflows included operating expenses and net movements in receivables and payables (net cash used in operating activities) totalling US\$2.1 million (2018: US\$1.8 million), and US\$1.6 million on brownfield exploration and mining capex (2018: US\$5.2 million).

Cash inflows of US\$3.5 million reflected the Company's financing activities during the year (2018: US\$4.2 million), as discussed below.

## Financing

In order to fund ongoing working capital and capex requirements, the Company raised a net US\$3.5 million in financing during the year, the main elements of which were as follows:

- ▶ US\$1.9 million (net of transaction costs) was raised as a result of a placing of approximately 13 million shares at a price of 12 pence per share in August 2018.
- ▶ In January, the Company entered into a financing facility with Lind Partners. This included a convertible loan of US\$0.75 million, as well as an equity facility, of which three tranches of US\$100k each were drawn during the year. Proceeds from the convertible amounted to US\$750k, with gross proceeds from the three equity tranches amounting to US\$0.3m, which, after deduction of fees in connection with these transactions, resulted in net cash received of US\$0.9 million.
- ▶ In May 2019, the Company entered into a convertible loan with Pella Ventures Ltd, whose beneficiary is A Pouroulis, for US\$0.7 million. This amount was intended to provide bridge financing ahead of a larger equity placing which was concluded in July 2019. This amount is included under Proceeds of New Borrowings in the year.

On 2 July 2019, the Company completed an equity placing that raised net proceeds of US\$4.2 million with new and existing shareholders. In addition, shares were allotted to satisfy the convertible loan with Lind Partners, which is now fully settled. A total of 163,975,884 shares were allotted in total under this transaction, of which 121,207,778 were for cash, 4,859,603 to settle outstanding remuneration, and 37,908,503 in settlement of the Lind Convertible, the Pella Convertible, and other liabilities.

## Taxation

The corporation tax rate in Burundi is 30%, however no taxable profits were earned during the period. Nevertheless, the Company paid a total of US\$131k in withholding tax, corporation tax (based on a minimum 1.5% of revenue in Burundi), and other taxes, in Burundi.



## HEALTH AND SAFETY

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

Throughout the organisation, individuals are held responsible for their own and everyone else's safety and wellbeing, while managers and supervisors are responsible for ensuring standards and that the relevant policies are always adhered to.

The Safety, Health and Environment Committee ('SHEC'), a sub-committee of the Board of Directors (chaired by Shawn McCormick), is ultimately responsible for making sure appropriate policies are in place, and that those policies are being enacted.

### Reporting

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

During the year, there were two LTIs, both relating to a lightning strike which resulted in two mine workers requiring medical attention. Both returned to duties shortly, and procedures around rainstorms have been revisited.

Minor incidents are recorded, investigated and reported to senior management. A total of 27 such incidents were recorded over the period to 30 June 2019, including property damage, near misses, and incidents requiring minor first aid treatment.

### Policies and procedures

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

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

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

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

### Training

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

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

All staff and contractors are required to undergo an induction programme before commencing



activity. This induction serves to set out the rules with which all employees and visitors must comply on site, but also covers training in use of tools and equipment, as well as ensuring all staff are provided with the requisite PPE.

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

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

## Health

A number of illnesses were identified as risks under the OHS system, notably malaria, HIV/AIDS, and gastric infections. The OHS policies and guidelines provide guidance on how to reduce the risks from these and other illnesses.

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

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

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

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

## Other health and safety

All staff are made aware of the potential risks not only to themselves and colleagues, but also to local communities.

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

Rainbow's operational sites are cordoned off and it is not permitted for any persons without the appropriate training or induction, and PPE, to enter.

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





## CORPORATE AND SOCIAL RESPONSIBILITY

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

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

To date, this has included a variety of activities:

- ▶ As at 30 June 2019 Rainbow directly employed 270 Burundian staff, in addition to 38 local sub-contractors
- ▶ Rainbow has also sought to provide local people with business opportunities such as catering for the workforce, and purchases local produce wherever possible
- ▶ Rainbow continues to undertake road infrastructure improvements to public roads which benefit the local community, and used its mining fleet to clear some local roads after landslides in 2018 and 2019
- ▶ Rainbow has spent over US\$8.4 million with local Burundian companies since 2011, including approximately US\$4 million in the years ended 30 June 2019 and 2018
- ▶ All Rainbow mining and production employees can be registered for mobile banking and payment of salaries, whilst permanent employment contracts are now offered at all levels of the company, which minimises temporary labour
- ▶ Up to five young Burundians are offered three-month internships at any time, allowing them to learn new skills and, potentially, secure a long-term role with the Company
- ▶ The state of Burundi has a non-dilutable 10% shareholding in the project and will benefit from any dividends generated, together with normal payroll taxes, corporation taxes and a royalty of 4% on all sales revenue
- ▶ Rainbow has made donations to several projects in the town closest to its mining area with the construction of a municipal building consisting of multi-purpose rooms, offices and equipment
- ▶ Land ownerships and population records have always been recognised along with a compensation formula for any families that have been moved or agricultural land appropriated
- ▶ Rainbow supplies clean fresh water to the community from a tank outside its plant at Kabezi, fed from Rainbow's own borehole supply. Approximately 20,000 litres of water per day are drawn from this tank by the local community
- ▶ Rainbow is committed to adhering to the strictest international health and safety practices. In line with this, the Company employed in the year a fully qualified OHS Manager and has incorporated stringent health and safety measures into day to day practice as well as establishing a formal committee comprised of members of the Board.
- ▶ All employees are equipped with full PPE and rigorous safety assessments are compiled prior to any activity

The Burundi mining industry is in its infancy, and so far, there has been strong support for the Gakara Project at both a local and governmental level. As the sector is in the early stages of growth, Rainbow can play a defining role in the development of the industry in Burundi and accordingly, is committed to continuing close liaison with workers and the local community to ensure the project is run for the benefit of all stakeholders.



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

## Government Payments

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

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

Royalty payments relate to the government royalty of 4% charged on the value of exports. During the year to 30 June 2019, as with the previous year, the Burundian authorities applied the 4% royalty rate to the gross basket price value of concentrate exported, rather than the discounted price actually received. The application of the royalty rate to the higher price was implemented

	2018 (unaudited)			2017 (unaudited)		
US\$'000	UK	Burundi	Total	UK	Burundi	Total
Royalties	-	189	189	-	-	-
Permit and land taxes	-	40	40	-	15	15
Corporation tax	-	2	2	-	-	-
Duties & other	-	183	183	-	10	10
<b>Total tax borne</b>	<b>-</b>	<b>414</b>	<b>414</b>	<b>-</b>	<b>25</b>	<b>25</b>
Payroll tax	327	78	405	199	15	214
Withholding tax	-	100	100	-	1	1
Net VAT	6	84	90	-	7	7
<b>Total net payments to government</b>	<b>333</b>	<b>676</b>	<b>1,009</b>	<b>199</b>	<b>48</b>	<b>247</b>

as a temporary arrangement with the Burundian authorities, pending the recommendation by a World Bank representative as to whether the discount to the market price of separated oxides, which has been applied to Rainbow's concentrate to take into account the considerable additional separation processing that remains to be undertaken by the end user, is reasonable and equitable. Of the US\$185k spent in respect of royalty payments in the year, US\$127k related to the additional payments in respect of the application of the 4% royalty to the higher amount, and is expected to be refunded by the government on implementation of the recommendations of the World Bank's report. See note 13 to the Financial Statements for further information.

Permits and land taxes include community and annual taxes payable under the terms of the Mining Convention for the Mining Permit at Gakara in the year to 30 June 2018. The US\$20k payable in respect of 2019 was settled on 13 August 2019.

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

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



# DIRECTORS' REPORT

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# DIRECTORS' REPORT

The Directors present their annual report and the financial statements of the Group for the year ended 30 June 2019.

## General

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

## Principal Activity

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

## Business Model

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

In the short term, this strategy is focused around the development of the Gakara Project in Burundi, which commenced mining in August 2017 and processing of ore in December 2017. Longer term, the Company hopes to develop this mine further (benefiting from the considerable geological potential of the deposit

held within the Gakara mining permit), and to consider further mining assets for acquisition as appropriate.

## Business Review

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

## Business Risks

A review of the key risks to the Company is set out on pages 26-27.

## Advisers

The Company's advisers are set out on page 67.

## Financial Results

During the 12 months ended 30 June 2019, the Company reported a Net Loss of US\$12,277k (year to 30 June 2018: Net Loss of US\$2,611k).

No dividends have been declared in respect of the years ending 30 June 2019 or 2018.

## Directors

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

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

## Directors' Remuneration

	Salary (US\$'000)		Benefits (US\$'000)		Pension (US\$'000)		Bonus/Other (US\$'000)		Total (US\$'000)	
	June 2018	June 2019	June 2018	June 2019	June 2018	June 2019	June 2018	June 2019	June 2018	June 2019
<b>Non-Executive Chairman</b>										
Adonis Pouroulis	59	55	-	-	-	-	-	-	59	55
<b>Non-Executive Directors</b>										
Robert Sinclair	39	36	-	-	-	-	-	-	39	36
Alexander Lowrie	39	36	-	-	-	-	-	-	39	36
Shawn McCormick	39	36	-	-	-	-	-	-	39	36
Atul Bali	38	36	-	-	-	-	-	-	38	36
<b>Executive Director</b>										
Martin Eales	237	225	8	9	19	19	120	-	384	253
<b>Total</b>	<b>451</b>	<b>424</b>	<b>8</b>	<b>9</b>	<b>19</b>	<b>19</b>	<b>120</b>	<b>-</b>	<b>598</b>	<b>452</b>

### Notes:

- Share option awards in the year are set out in Note 19 to the Financial Statements
- George Bennett was appointed on 27 August 2019



## DIRECTORS' REPORT Continued

Martin Eales's gross salary was remained unchanged in the year at £175k (US\$225k at 2019 FX rates) per annum. He was also entitled to healthcare and employer pension contributions of 8% of his gross salary. Martin Eales stood down on 27 August 2019 and was replaced by George Bennett.

In June 2018, the Remuneration Committee approved a performance bonus to M Eales for £89k (US\$120k), payable in three tranches over the course of 2018-19. This amount was fully accrued at 30 June 2018 and is shown as remuneration in that year. 25% of this amount was paid in cash during the year to 30 June 2019, while the balance was settled through the equity placing in July 2019 (see note 28).

Non-executive Directors' fees remained unchanged in the year at £42.5k (US\$55k at 2019 FX rates) for Adonis Pouroulis as Chair, and £27.5k (US\$36k) for the other Non-executive Directors.

The Non-executive Directors agreed to defer payment of their fees between March and June 2019. These amounts were settled in July 2019, and in the case of A Pouroulis, R Sinclair, S McCormick and A Bali, were settled in shares at the time of the equity placing at a value of 3 pence per share.

A Lowrie received payment of his deferred fees over this period in cash after the year end, however subscribed for an equivalent amount in the equity placing in July 2019. See note 28 for further details.

### Directors' Responsibility Statement

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

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

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

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

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

### Principal Shareholders

A list of shareholders who beneficially hold more than 5% of the Company's shares at 7 October 2019 is as follows:

Name of Shareholder	Number of Ordinary Shares	% of Share Capital
Pella Group (beneficially owned by Adonis Pouroulis)	66,325,549	17.44
Robert Kampf	39,682,540	10.43
Pipestone Capital Inc (beneficially owned by George Bennett)	27,268,034	7.17
The Australian Special Opportunity Fund LP (Lind Partners LLC)	21,875,546	5.75

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

### Interests of Directors and Senior Managers

The interests (all of which are beneficial and include related parties) of the Directors and Senior Managers in the Company's issued share capital at 7 October 2019 are as follows:

Name of Shareholder	Position	Number of Ordinary Shares	% of Share Capital
Adonis Pouroulis	Non-exec chairman	66,325,549	17.44
George Bennett	Chief Exec Officer	27,268,034	7.17
Shawn McCormick	Non-exec director	8,858,239	2.33
Alexander Lowrie	Non-exec director	5,296,792	1.39
Robert Sinclair	Non-exec director	4,568,425	1.20
Atul Bali	Non-exec director	1,874,660	0.49
Cesare Morelli	Senior manager	1,889,995	0.50
Gilbert Midende	Senior manager	1,930,492	0.51
Jim Wynn	Senior manager	1,022,181	0.27
<b>Total</b>		<b>119,034,367</b>	<b>31.30</b>

Adonis Pouroulis, as the largest shareholder, additionally entered into an agreement with the Company such that, provided his interest remains greater than 20 per cent, he will not undertake any activity that might prejudice the normal and independent operation of the Board and the Company. On 29 July 2019 his shareholding fell to 17.44% and this agreement no longer applied.

## Website Publication

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

## Going Concern

The Directors have reviewed the Group's cash flow forecasts for at least 12 months following the reporting date, sensitivities and mitigating actions. After taking into account available cash, overdraft facilities anticipated to remain available and forecast cash flow from operations and fundraising activities, the Directors consider that the Group will have adequate resources to continue its operational existence for the foreseeable future, although believe that the need for the Company to raise further funds represents a material uncertainty that casts doubt on this assumption. Nevertheless, the Directors have a reasonable expectation that this funding will be obtained and accordingly continue to adopt the going concern basis in preparing the financial statements.

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

## Auditor

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

Signed on behalf of the Board of Directors on

**8 October 2019**



**George Bennett**

Chief Executive Officer



## BOARD OF DIRECTORS

### Adonis Pouroulis

#### Non-Executive Chairman

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

### Shawn McCormick

#### Non-Executive Director

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

### Alexander Lowrie

#### Non-Executive Director

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

### Robert Sinclair

#### Non-Executive Director

Robert has over 48 years' experience in finance and accountancy of which 38 years have been spent in the Guernsey financial services industry. He is a director and chairman of the Audit Committee of Chariot Oil & Gas Limited, a fellow of the Institute of Chartered Accountants in England & Wales, and a member of the Institute of Chartered Accountants of Scotland. Robert is a resident of Guernsey.

### Atul Bali

#### Non-Executive Director

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

### George Bennett

#### Chief Executive Officer

*(appointed 27 August 2019)*

With over 25 years' experience in mining, finance and management, George has led a number of mining and energy companies, including Shanta Gold Ltd (which he successfully listed on the London Stock Exchange in 2005), OreCorp Ltd, Argentum (Pty) Energy, and most recently Karo Power (Pvt) Ltd. In 2006, George established MDM Engineering Ltd, which he successfully listed on the London Stock Exchange in 2008. MDM Engineering Ltd is a mining engineering company building mineral process plants and mining infrastructure throughout Africa. In 2014, George was instrumental in selling the business to Foster Wheeler Limited for US\$120 million.

In addition, George has been a partner and director with a number of leading financial, broking and advisory businesses including Fergusson Bros, Simpson Mckie, and HSBC Securities Africa (Pty) Ltd.

## SENIOR MANAGEMENT

### **Gilbert Midende**

#### **General Manager, Burundi**

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

### **Cesare Morelli**

#### **Technical Director**

Cesare Morelli has over 30 years' experience in minerals exploration in Africa including 18 years in diamond exploration with De Beers managing projects in south, west and central Africa. Following his time with De Beers, he spent four years with BHP Billiton as Minerals Exploration Manager for Africa. At BHP Billiton he directed exploration projects in a variety of commodities, namely iron ore, aluminium bauxite, manganese, copper and base metals, nickel and potash. Cesare has been affiliated with Rainbow since its inception and has been responsible for project managing all of Rainbow's exploration work to date. He is a Director of Benu Minerals (Pty) Ltd, a consulting company based in South Africa. Cesare is a member of the South African Geological Society and the South African Council for Natural Scientific Professions.

### **Jim Wynn**

#### **CFO**

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

### **Chris Attwood**

#### **Project Manager**

Chris graduated in 1993 from Camborne School of Mines (UK) with an honours degree in Mining Engineering. He has spent over 25 years in extractive industries in Africa, Asia and Europe where he has specialised in developing and expanding small to medium sized mining operations. Over the last 10 years he has focused on Africa, and his experience includes Bisha Mine (Eritrea), where he was Mine Manager from start of commercial gold production, expansion through to the start of copper. He also recently worked as project manager on a greenfield start up in Tanzania. His production experience includes gold, copper, tin, zinc, coal and industrial minerals using both bulk and narrow vein extraction methods.

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



## BUSINESS RISKS

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

The key risks affecting the Company are set out below:

Risk	Comment	Business impact	Mitigation
Production issues	The production of rare earth mineral concentrate involves a series of processes, from the mining of the ore at the mine site near Mutambu, to the processing of material at the Kabezi plant. Mining operations are subject to a number of risks, including mechanical outages, supply issues (eg fuel), interruptions due to weather and soil conditions, among many others.	High	Management will monitor ongoing risks as far as possible to mitigate potential issues arising which might impact production. The Executive Committee ('Exco') convenes weekly to discuss current concerns, and monthly reports are shared with the Board which highlight the key issues facing operations.
Geological risk	In December 2018, the Company published a JORC Resource for four of the pits within the Gakara deposit, with the rest of the deposits representing an Exploration Target. In a subsequent review for the Competent Persons' Report published in July 2019, MSA held the view that the geological information was only sufficient to report an Exploration Target under JORC. The variations in form and direction of the vein stockwork seen at Gakara are inherently difficult to predict with accuracy. 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	The Company continues to undertake exploration activities on the Gakara deposit to gain a better understanding of the resource. These activities include trenching at surface, ground gravity surveys, and radiometric analysis. The Company is also examining further techniques, including drilling methods, which it will employ as funds allow to give additional data on its deposit.
Rare earth prices	The Company produces rare earth mineral concentrate which is sold to TK on market price less 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 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.
Financing risk	The Company currently forecasts that additional funding will be required in order to deliver its development plans (drilling, test work and mine fleet capex), as well as for general working capital requirements.	High (2018: medium)	Management has had conversations with a number of parties who have expressed interest in investing in the Company. In addition, the Company has begun a programme of cost reduction to reduce expenditure, and has introduced a set of operating improvements designed to increase production in order to minimise operating losses. As well as new investors, the Company has in the past relied on financial support from its cornerstone investors, and may be able to do so in the future if necessary.

Risk	Comment	Business impact	Mitigation
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 if these impacted the mining areas or access routes	Medium	<p>Mitigation of these risks occurring in pit involves proper mine design and slope stabilities to prevent highwall failures.</p> <p>More widely, the Company will continue to explore methods to mitigate soil erosion (eg by planting trees, building culverts, maintaining drainage channels etc).</p> <p>The Company also works with local communities to help keep public routes clear, and has undertaken repairs to drains and culverts. Although not part of its legal responsibility, this is an area in which the Company uses its vehicles and crews to undertake work for the wider community.</p> <p>The Company is in the process of acquiring new mining vehicles, including a grader and a compactor, which will assist in the maintenance of all roads (public and access).</p>
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	<p>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.</p> <p>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.</p>
Currency controls	<p>The Company receives proceeds in US dollars, which, are repatriated to an account in the Burundi Central Bank.</p> <p>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).</p>	Medium	<p>The Company has the right, under its Mining Convention with the Burundian Government, to have unfettered access to its foreign currencies.</p> <p>The Company will continue to monitor currency issues in country, and will negotiate flexible terms with the Government as far as possible.</p>



# CORPORATE GOVERNANCE

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

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

The Board meets regularly, and met eight times in the year to 30 June 2019. Prior to such meetings taking place, an agenda and board papers are circulated to the Directors so that they are adequately prepared for the meetings.

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

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

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

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

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

## Review of Internal Control and Risk Management systems

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

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

- ▶ Budgets and forecasts are prepared by finance staff in conjunction with operating teams, and are reviewed and approved by senior management (and in the case of the Budget, by the Board)
- ▶ Actual results are reported against Budget and forecast, and variances examined
- ▶ Banking transactions must be authorised by at least two staff members, one of whom is a senior manager (normally the CFO)
- ▶ Financial operations in Burundi are reviewed regularly by the CFO, who visits the operations at least every 1-2 months
- ▶ The Group uses a central financial reporting system (Xero) which records all transactions, capturing third party documents (eg invoices) which are reviewed by head office on a monthly basis
- ▶ Senior management regularly discuss material developments (normally weekly), and consider financial and reporting implications of any matters arising

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

## Board of Directors

The Company had one Executive Director and five Non-Executive Directors at 30 June 2019. All major decisions relating to the Group are made by the Board as a whole. Operations are conducted by the subsidiaries of the Company (principally Rainbow Mining Burundi SM) under the direction of the Board of Directors of each of the subsidiary companies. The Company is represented on the board of Rainbow Mining Burundi SM by J Wynn, C Morelli and G Midende.

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

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

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

Name	Age <sup>1</sup>	Position	Appointed	Audit	Remuneration	Nominations	SHEC
Adonis Pouroulis	49	Chairman	5 Aug 2011	-	Member	Chair	-
Shawn McCormick	52	Non-exec	4 Feb 2016	-	Chair	-	Chair
Alexander Lowrie	44	Non-exec	16 Nov 2016	Member	-	Member	Member
Robert Sinclair	69	Non-exec	5 Aug 2011	Chair	Member	-	-
Atul Bali	48	Non-exec	29 Mar 2017	Member	-	Member	-
George Bennett	58	CEO	27 Aug 2019	-	-	-	Member

<sup>1</sup> Ages at 30 June 2019

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

- ▶ All the non-executives are shareholders in the Company (see Directors' Report for details)
- ▶ All the non-executives held share options during the year (see Note 19 for details);
- ▶ Robert Sinclair has a beneficial interest in Artemis Trustees Limited, which provides corporate administration and secretarial services to the Group.

The table below shows the attendance at board and committee meetings during the year to 30 June 2019:

Name	Board	Audit	Remuneration	Nomination	SHEC
Adonis Pouroulis	3/8	n/a	0/1	0/0	n/a
Shawn McCormick	4/8	n/a	1/1	0/0	1/1
Alexander Lowrie	4/8	4/4	n/a	0/0	1/1
Robert Sinclair	8/8	4/4	1/1	n/a	n/a
Atul Bali	6/8	4/4	n/a	n/a	n/a
Martin Eales	8/8	n/a	n/a	n/a	1/1

A number of the Board meetings during the year were formal meetings to approve single items of business – notably in connection with the equity placing in July/August 2018, and the Lind Facility in January 2019. These matters were fully discussed with all Board members ahead of the meetings, and their thoughts and challenges were communicated in advance to the chair of those meetings.



## CORPORATE GOVERNANCE Continued

The Board are regularly informed of developments outside formal board meetings, through update calls and meetings, reports and one-to-one discussions with the CEO and other management.

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

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

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

### Audit Committee

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

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

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

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

The Audit Committee was formally established in January 2017 and met four times during 2018/19.

During these meetings, the following matters were considered:

- The audit plan for the audit of the financial statements for the year ended 30 June 2018 was considered, and following

discussions with management and the auditors, duly approved

- The audit plan for the audit of the financial statements for the year ended 30 June 2019 was considered and approved during the meeting held on 17 June 2019
- The audit of the year ended 30 June 2018 was considered, and key areas of audit risk were discussed with the auditors and with management on 17 September 2018
- The financial statements for the year ended 30 June 2018, and the interim financial statements for the six months ended 31 December 2018, were reviewed. Following due consideration, the Audit Committee recommended to the Board that these Financial Statements be approved

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

The Audit Committee also considered the independence and objectivity of BDO LLP. The Committee considered the composition of the BDO audit team, together with the duration of service of the partner and senior audit team members on the Company's audit, and concluded that BDO LLP was sufficiently independent to conduct the audit. The only non-audit service during the year was the review of the interim financial statements for the six months to 31 December 2018.

### Remuneration Committee

The Remuneration Committee is chaired by Shawn McCormick and its other members are Adonis Pouroulis and Robert Sinclair. It is normally expected to meet at least two times a year. The Remuneration Committee has responsibility for determining, within agreed terms of reference, the Group's policy on the remuneration of senior executives and specific remuneration packages for executive directors and the non-executive chairman. The remuneration of non-executive directors is a matter for the Board. No director may be involved in any discussions as to their own remuneration.

The Remuneration Committee met once during 2018/19 to discuss the terms of the management bonus plan, although ongoing remuneration issues were discussed in separate unofficial meetings, as well as in Board Meetings themselves.

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

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

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

The SHEC met once during the year, to discuss safety processes, with particular emphasis on soil and pit slope stability during rainy conditions.

## Nomination Committee

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

The Nomination Committee did not meet during 2018/19 as the Board did not consider any changes to Board composition to be required during the year. The Nomination committee met on 27 August 2019 to consider the appointment of George Bennett to the Board as Chief Executive Officer.

## Share dealing policy

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

Company or its applicable employees are in possession of inside information.

## Anti-bribery policy

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

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

All personnel are required to receive guidance and training in relation to the Group's Anti-Bribery Policy and procedures. Senior staff have already received this training, and the roll-out to all junior staff continues as an ongoing process.

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

Signed on behalf of the Board of Directors on  
**8 October 2019**



**George Bennett**

Chief Executive Officer



# FINANCIAL STATEMENTS

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# INDEPENDENT AUDITORS' REPORT

## Independent Auditors' report to members of Rainbow Rare Earths Limited

### Opinion

We have audited the financial statements of Rainbow Rare Earths Limited ("the Group") for the year ended 30 June 2019 which comprise consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of Group financial statements is applicable law and International Financial Reporting Standards (IFRS's) as adopted by the European Union.

In our opinion, the financial statements:

- ▶ give a true and fair view of the state of the Group's affairs as at 30 June 2019 and of its loss for the year then ended;
- ▶ the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- ▶ the financial statements have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

### Basis for opinion

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

### Material uncertainty related to going concern

We draw attention to Note 2 to the financial statements concerning the Group's ability to continue as a going concern. The matters explained in note 2 indicate that the Group will require additional funding to meet its liabilities as they fall due for a period of at least the next 12 months. These conditions indicate the existence of a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

We identified going concern as a key audit matter based on our assessment of the significance of the risk and the effect on our audit strategy.

Our audit procedures in response to this key audit matter included:

- ▶ We critically assessed management's cash flow forecast and the underlying assumptions which have been approved by the Board. Our testing included a comparison of forecast rare earth basket prices to spot prices and historic trends together with consideration of market commentary on rare earth pricing. We compared customer discount estimates to the offtake agreement and historic actuals.
- ▶ We compared the forecast production levels and costs to historical actuals and contracts, where applicable. We specifically challenged management regarding potential risks associated with the forecast production rates given the variability in rare earth vein structures and the production issues experienced in FY 2019, together with the basis for cost reductions and consistency with other assumptions.
- ▶ We reviewed the forecast capital expenditure and exploration expenditure to assess the consistency with the Group's strategic plans, production forecasts and quotations obtained.
- ▶ We considered management's judgment that the Group's overdraft facility would continue to remain available and obtained confirmation from the bank that was consistent with management's judgment.
- ▶ We considered management's judgment that the outstanding \$1.4m receivable in respect of the recent equity placing would be received in the near term and evaluated the impact of delays in the receipt on liquidity. We have agreed the amounts outstanding to the original subscription agreement less receipts to date, considered Board reports on the status of the balance and obtained written representation from the Board that they anticipate its receipt.
- ▶ We critically assessed management's sensitivity analysis and performed our own sensitivity analysis in respect of the key assumptions underpinning the forecasts including rare earth basket prices, production and any delays to receipt of the outstanding equity placing receivable.
- ▶ We made inquiries of management regarding discussions held with prospective investors, reviewed Board reports on the sources of funding and obtained written representation regarding those discussions and the Board's conclusion that funds can be accessed to meet the Group's liquidity requirements under the forecasts and reasonable sensitivity scenarios.
- ▶ We reviewed the financial statement disclosures regarding going concern to satisfy ourselves that the disclosures are appropriate.

# INDEPENDENT AUDITORS' REPORT Continued

## Key audit matters ('KAMs')

In addition to the matter described in the material uncertainty related to going concern section, key audit matters are those matters that in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatements (whether or not due to fraud) that we identified. These matters included those which has the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Key Audit Matter

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

Management are required to assess at each reporting date whether there is an indicator of impairment. As detailed in notes 3 and 11, management identified an impairment indicator and performed an impairment test. As a result of the impairment test, the Group recorded an impairment of \$3.9m the Gakara mining assets related to the Gasagwe and Murambi mining areas and the Kabezi production plant. The remaining unimpaired mining assets relate to the wider Gakara mining licence area and equipment for which the carrying amount was determined to be lower than recoverable value.

Given the estimation and judgments required to be exercised by management in determining the recoverable amount of the Gakara assets we considered this to be a significant risk for our audit.

#### How we addressed the audit risk:

- ▶ We evaluated management's impairment indicator assessment and formed our own assessment of impairment indicators.
- ▶ We evaluated management's strategic review and its implications for each significant asset category within the Gakara Project and management's conclusion that impairment of the Gasagwe mining area assets, Murambi mining area assets and Kabezi plant was required.  
In doing so, we considered management's plans for each asset category and cash flow forecasts for these assets including rare earth basket prices, production and expenditure against market data, historical performance and the business plan.
- ▶ In respect of the remaining assets, we evaluated management's assessment that the recoverable value of these assets exceeded their carrying value and discussed this assessment with the Audit Committee.  
In doing so, we compared the market capitalisation at 30 June 2019 and post year end to net assets and the implied value of the assets based on the post year end equity placing. Management concluded that these factors indicated significant underlying value in the wider

Gakara mining licence and supported the remaining carrying value and we evaluated this judgment.

- ▶ We obtained and considered the June 2018 Competent Person's Report which confirmed the continued potential for further brownfields exploration and evaluated the estimated range of high grade material tonnages under the Project's Exploration Target status. In addition, we obtained internal assessments of the potential tonnages associated with a lower grade bulk mining operation and the consistency of the analysis with the strategic plans.
- ▶ We evaluated the accounting policy and disclosures in note 3 and 11 based on our audit procedures.

### Key Observation

We found the Group's assessment that indicators of impairment existed to be appropriate given the production levels achieved and the revised strategic plan established by the Board. We found the impairments recorded to be appropriate and the conclusion that the carrying value of the remaining assets associated with the Gakara mining licence are below their recoverable value to be acceptable. We found the disclosures in the financial statements to be appropriate.

### Key Audit Matter

#### Risk that accounting for the Lind Finance Facility and Pella Ventures loan is inappropriate.

As detailed in note 2, 3, 6 and 16 the Group entered into two financing arrangements during the year which were complex in nature and required management to establish appropriate accounting policies and exercise judgment and estimation of certain aspects of the instruments.

Given the complex nature of the instruments and the judgement and estimation required by management we considered this area to be a significant risk for our audit.

#### How we addressed the key audit matter in the audit:

- ▶ We reviewed the facility agreements and evaluated the accounting treatment adopted by management against the relevant accounting literature, involving our technical accounting specialists as part of this assessment.
- ▶ We obtained management's calculations of the fair value of each element of the instruments at inception, extinguishment and year end as applicable. We considered the appropriateness of the valuations in conjunction with our valuation specialists and confirmed inputs to the calculations to supporting evidence such as the agreements, conversion notices and market data.
- ▶ We specifically considered management's conclusion that the conversion notice received under the Lind facility fixed the number of shares to be issued under the portion of the instrument for which shares were only issued post year end due to a legal requirement for a Prospectus to be issued. In doing so, we reviewed the terms of the conversion notice, compared the shares issued against the conversion notice and made inquiries of management regarding relevant facts and circumstances.



- We obtained management's valuations of the Lind options and the potential conversion right in the Pella loan. We assessed the appropriateness of the valuation methodologies applied, compared key inputs to supporting evidence and compared estimates such as future share price volatility to the Company's historical share price volatility and peer group volatility rates.
- We evaluated the accounting policy and disclosures in the financial statements..

### Key Observation

We found the Group's accounting treatment for the facilities, the associated judgments and fair value estimates applied in the accounting treatment and the disclosures in the financial statements to be appropriate. .

### Materiality

**Group materiality for FY 2019:** US\$106,000

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

**Basis for determining materiality for FY 2019:** 1.5% of Total assets

**Basis for determining materiality for FY 2018:** 1.5% of Total assets

**Group performance materiality FY 2019:** US\$79,500

**Group performance materiality FY 2018:** US\$127,500

**Basis for performance materiality for FY 2019:** 75% of Group materiality

**Basis for performance materiality for FY 2018:** 70% of Group materiality

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

We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of \$5,300. We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds. There were no misstatements identified during the course of our audit that were individually, or in aggregate, considered to be material in terms of their absolute monetary value or on qualitative grounds.

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

### An overview of the scope of our audit

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

Our Group audit scope focused on the Group's significant components which comprised the Burundian operating subsidiary and the parent company. Whilst materiality for the financial statements as a whole was \$106,000, each component of the Group was audited or subject to review procedures to a lower level of materiality. The significant components accounted for 98% of total assets and were subject to audits conducted by BDO LLP using a team with experience of auditing in the mining industry, in Africa and with publicly listed entities. The remaining three non-significant components were principally subject to analytical review procedures with specific procedures for any significant balances impacting the Group results.

We set out above the risks that had the greatest impact on our audit strategy and scope.

### Other information

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

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

We have nothing to report in this regard.

### Matters on which we are required to report by exception

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

- Proper accounting records have not been kept by the Company, or

# INDEPENDENT AUDITORS' REPORT Continued

- ▶ The financial statements are not in agreement with the accounting records and returns; or
- ▶ We have failed to obtain all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

## Responsibilities of Directors

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

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

## Auditors' responsibilities for the audit of the financial statements

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

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

## Use of our report

This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Ryan Ferguson

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

London, United Kingdom  
8 October 2019

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

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2019

	Notes	Year ended 30 June 2019 US\$'000	Year ended 30 June 2018 US\$'000
Revenues	2,3	1,541	992
Production and other sales costs (costs prior to commercial production)		-	(992)
Royalty and transport costs		(269)	-
Production costs	2,3	(3,057)	-
Stockpile movement	12	(153)	-
Administration expenses		(1,433)	(2,044)
<b>Adjusted EBITDA<sup>1</sup></b>		<b>(3,371)</b>	<b>(2,044)</b>
Share-based payments	20	(62)	(709)
Depreciation	4, 11	(2,570)	-
Impairment of fixed assets	3, 11	(3,854)	-
<b>Total operating expense</b>		<b>(11,398)</b>	<b>(2,753)</b>
<b>Loss from operating activities</b>	<b>4</b>	<b>(9,857)</b>	<b>(2,753)</b>
Finance income	5	355	317
Finance costs	5	(2,644)	(79)
<b>Loss before tax</b>		<b>(12,146)</b>	<b>(2,515)</b>
Income tax expense	9	(131)	(96)
<b>Total loss after tax and comprehensive expense for the year</b>		<b>(12,277)</b>	<b>(2,611)</b>
<b>Total loss after tax and comprehensive expense for the year is attributable to:</b>			
Non-controlling interest	22	(785)	(45)
Owners of parent		(11,492)	(2,566)
		<b>(12,277)</b>	<b>(2,611)</b>
<b>The results of each year are derived from continuing operations</b>			
<b>Loss per share</b>			
Basic	10	<b>(5.93)</b>	<b>(1.55)</b>
Diluted	10	<b>(5.93)</b>	<b>(1.55)</b>

Notes on pages 41 to 66 form part of these financial statements.

<sup>1</sup> Adjusted EBITDA represents earnings before finance items, depreciation, amortisation, taxation, share-based payments and impairments.



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2019*

	Notes	Year ended 30 June 2019 US\$'000	Year ended 30 June 2018 US\$'000
<b>Non-current assets</b>			
Property, plant, and equipment	11	6,408	11,249
<b>Total non-current assets</b>		<b>6,408</b>	<b>11,249</b>
<b>Current assets</b>			
Inventory	12	98	280
Prepayments	13	389	209
Trade and other receivables	14	116	461
Cash and cash equivalents	15	119	354
<b>Total current assets</b>		<b>722</b>	<b>1,304</b>
<b>Total assets</b>		<b>7,130</b>	<b>12,553</b>
<b>Current liabilities</b>			
Borrowings	16	(1,562)	(760)
Trade and other payables	17	(2,097)	(1,355)
<b>Total current liabilities</b>		<b>(3,659)</b>	<b>(2,115)</b>
<b>Non-current liabilities</b>			
Provisions	18	(100)	(60)
<b>Total non-current liabilities</b>		<b>(100)</b>	<b>(60)</b>
<b>Total liabilities</b>		<b>(3,759)</b>	<b>(2,175)</b>
<b>NET ASSETS</b>		<b>3,371</b>	<b>10,378</b>
<b>Equity</b>			
Share capital	19	20,056	16,722
Shares to be issued	6	1,375	-
Share-based payment reserve	21	1,764	1,203
Other reserves	21	40	40
Retained loss		(19,040)	(7,548)
<b>Equity attributable to the parent</b>		<b>4,195</b>	<b>10,417</b>
Non-controlling interest	22	(824)	(39)
<b>TOTAL EQUITY</b>		<b>3,371</b>	<b>10,378</b>

These financial statements were approved and authorised for issue by the Board of Directors on 8 October 2019 and signed on its behalf by:

  
**George Bennett**  
Director

Notes on pages 41 to 66 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2019

	Note	Share capital US\$'000	Shares to be issued US\$'000	Share Based Payments US\$'000	Other reserves US\$'000	Accumulated losses US\$'000	Attributable to the parent US\$'000	Non- controlling interest US\$'000	Total US\$'000
<b>Balance at 1 July 2017</b>		<b>13,186</b>	<b>-</b>	<b>494</b>	<b>40</b>	<b>(4,982)</b>	<b>8,738</b>	<b>6</b>	<b>8,744</b>
<b>Total comprehensive expense</b>									
Loss and total comprehensive loss for year		-	-	-	-	(2,566)	(2,566)	(45)	(2,611)
<b>Transactions with owners</b>									
Issue of shares during the year	19	3,770	-	-	-	-	3,770	-	3,770
Share placing transaction costs	19	(234)	-	-	-	-	(234)	-	(234)
Fair value of employee share options in year	20	-	-	709	-	-	709	-	709
<b>Balance at 30 June 2018</b>		<b>16,722</b>	<b>-</b>	<b>1,203</b>	<b>40</b>	<b>(7,548)</b>	<b>10,417</b>	<b>(39)</b>	<b>10,378</b>
<b>Total comprehensive expense</b>									
Loss and total comprehensive loss for year		-	-	-	-	(11,492)	(11,492)	(785)	(12,277)
<b>Transactions with owners</b>									
Issue of shares during the year	19	2,350	-	-	-	-	2,350	-	2,350
Share placing transaction costs	19	(215)	-	-	-	-	(215)	-	(215)
Shares issued to settle convertibles	6	1,199	-	-	-	-	1,199	-	1,199
Shares to be issued to settle convertibles	6	-	1,375	-	-	-	1,375	-	1,375
Share options issued as cost of convertible	6	-	-	499	-	-	499	-	499
Fair value of employee share options in year	20	-	-	62	-	-	62	-	62
<b>Balance at 30 June 2019</b>		<b>20,056</b>	<b>1,375</b>	<b>1,764</b>	<b>40</b>	<b>(19,040)</b>	<b>4,195</b>	<b>(824)</b>	<b>3,371</b>

Notes on pages 41 to 66 form part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

*For the year ended 30 June 2019*

	Notes	For year ended 30 June 2019 US\$'000	For year ended 30 June 2018 US\$'000
<b>Cash flow from operating activities</b>			
Loss after tax for the year		(12,277)	(2,611)
Adjustments for:			
Depreciation		2,570	-
Impairment of property, plant and equipment	3, 11	3,854	-
Share-based payment charge	20	62	709
Finance income	5	(355)	(317)
Finance costs	5	2,644	79
Tax expense	9	131	96
Provisions	18	40	60
<b>Operating loss before working capital changes</b>		<b>(3,331)</b>	<b>(2,044)</b>
Net decrease/(increase) in inventory	12	182	(280)
Net decrease/(increase) in other receivables	13, 14	165	(648)
Net increase in trade and other payables	17	679	938
<b>Cash used by operations</b>		<b>(2,305)</b>	<b>(2,034)</b>
Realised foreign exchange gains		352	294
Finance income	5	1	3
Finance costs	5	(22)	(19)
Taxes paid	9	(131)	(81)
<b>Net cash used in operating activities</b>		<b>(2,105)</b>	<b>(1,837)</b>
<b>Cash flow from investing activities</b>			
Purchase of property, plant & equipment	11	(1,583)	(5,231)
<b>Net cash used in investing activities</b>		<b>(1,583)</b>	<b>(5,231)</b>
<b>Cash flow from financing activities</b>			
Proceeds of new borrowings	16	798	740
Interest charge on borrowings	16	(139)	(52)
Payment of finance lease liabilities	23	(18)	(19)
Proceeds of Lind convertible	6	750	-
Cost of issuing Lind convertible	6	(75)	-
Proceeds from the issuance of ordinary shares	19	2,350	3,770
Transaction costs of issuing new equity	19	(215)	(234)
<b>Net cash generated by financing activities</b>		<b>3,451</b>	<b>4,205</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(237)</b>	<b>(2,863)</b>
<b>Cash &amp; cash equivalents at the beginning of the year</b>		<b>354</b>	<b>3,198</b>
Foreign exchange gains on cash and cash equivalents		2	19
<b>Cash &amp; cash equivalents at the end of the year</b>		<b>119</b>	<b>354</b>

Notes on pages 41 to 66 form part of these financial statements.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. General Information

### Reporting entity

Rainbow Rare Earths Limited ('the Company' or 'Rainbow') is a company domiciled in Guernsey and incorporated on 5 August 2011, with company registration number 53831, and is a company limited by shares. The Company's registered office is Trafalgar Court, Admiral Park, St Peter Port, Guernsey. The consolidated financial statements of the Company for the years ended 30 June 2019 and 30 June 2018 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

As at 7 October 2019, the last practicable date before the publication of these accounts, the Company had total cash of US\$0.4 million.

A balance of US\$1.4 million in respect of subscriptions receivable from shares allotted in July 2019 remained outstanding, however the Board have a high degree of confidence that these funds will be forthcoming during the month of October.

As part of the review of operations undertaken in August and September 2019, management considered that the mining approach adopted until September 2019 at Gakara could no longer be expected with confidence to become profitable, and that while the deposit had considerable potential, a robust mine plan first required more extensive exploration work, aimed at understanding and defining a large, potentially lower-grade orebody, and test work aimed at determining the optimal processing methodology.

Nevertheless, the Company also considered that by reducing operating costs and driving operating efficiencies, production levels could be expected to reach break-even levels within Burundi by January 2020, thus mitigating future operating losses, while retaining the asset and the permit in good order, and protecting Rainbow's social licence in country.

A revised cashflow forecast was prepared based on this approach, covering the period of at least 12 months from the date of publication of these accounts, which included two elements: operating cashflows from the reduced-scale production at Gakara; and an investment plan including the purchase of new mining equipment as well as an exploration and test work programme.

The operating cashflow forecast assumes mining would continue at the Murambi pit alone, and that the overall cost base would be reduced considerably by cutting the workforce, by replacing expensive rented equipment with purchased vehicles, and by disciplined cost management in all areas. A revised breakeven target of 110 tonnes of concentrate per month versus the previous target of 300 tonnes was considered achievable with this tighter, more efficient operating approach.

In terms of the investment programme, management earmarked US\$0.6m for mine fleet purchases, and an estimated total of US\$1.0 million on drilling, sampling and metallurgical/mineralogical test work, with the objective of defining a resource and processing methodology capable of sustaining a 10 year life of mine producing 10,000 tonnes of concentrate per month.

The cashflows thus described indicated that a funding requirement of approximately US\$1.6 million would be required over and above the receipt of US\$1.4 million detailed above. Management are confident that this money can be raised from new investors, based on indications of interest from credible potential investors received to date. Management are eager to defer any equity investment until funds would be needed, in order to allow the share price to improve, thus reducing dilution of existing shareholders.

In addition, management are confident that the US\$0.8 million overdraft facility with Finbank will remain in place, based on continued discussions with the Finbank management, who are keen to transform the facility into a term loan once a revised production plan has been established, based on the new mining methodology and a robust JORC resource.

Management acknowledge that the cashflow forecast contains several assumptions and uncertainties, and that if worse outcomes were to arise in respect of these assumptions, the funding shortfall might be greater and therefore more expensive, more dilutive, or more difficult to obtain. These include the following:

- Production assumptions reflect management's best estimates, but are not based on JORC-compliant resources or reserves, as a result, actual production may be lower than forecast

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

- The forecast assumes operating efficiencies as a result of purchasing new mining vehicles (in place of older rented models less suited to the terrain) and through other improvement initiatives. Should these improvements prove less successful, production may not reach forecast levels
- RE prices are assumed to be at levels close to prevailing levels in September 2019 – however a fall in RE prices would result in operating losses which would increase the funding shortfall

If operating cashflows were lower than anticipated, the Company would consider suspending mining operations in order to stem cash outflows, as well as deferring its investment programme.

In considering the appropriateness of the Going Concern basis, management have considered a worst-case scenario to be one that involved the cessation of production activity from January 2020, and a suspension of the investment and exploration programme pending securing of sufficient funds. The funding shortfall in order to continue in operation under such a negative scenario, is estimated to be US\$0.8 million.

The Board is confident that this funding would be secured, based on its history of successful fundraising, as well as indications of interest received to date from credible third-party investors. However, it also acknowledges that this funding has not, at the present time, been secured with 100% certainty, which has been a deliberate decision in order to avoid unnecessary dilution at the current share price, which the Board believes will rise in the coming months. Accordingly, the Board accepts that the need for additional funding represents a material uncertainty which casts doubt on the ability of the Company to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

## Standards in issue but not effective

The standards which were issued and effective for periods starting on or after 1 July 2018 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 16	Leases	1 January 2019
IFRS 17	Insurance contracts	1 January 2021
IFRIC 23	Uncertainty over Income tax treatments	1 January 2019
Amendment to IFRS 9	Prepayment Features with Negative Compensation	1 January 2019
Annual Improvements to IFRSs	2015-2017 Cycle	1 January 2019
Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IFRS 3	Business Combinations	1 January 2020
Amendments to IAS 1 and IAS 8	Definition of material	1 January 2020

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 except for the following:

### 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 became effective for financial years beginning on or after 1 January 2018.

The impacts of adopting IFRS 9, applied using the modified retrospective approach, on the Group results have been as follows:

**Impairment:** The standard introduces an 'expected credit loss' model for the assessment of impairment of financial assets held at amortised cost. The impact of this transition difference is not considered material to the Group following application of the expected credit loss model noting the absence of significant financial assets.

**Classification and measurement:** The measurement and accounting treatment of the Group's financial assets is materially unchanged on application of the new standard.

### IFRS 16 Leases

The future adoption of 'IFRS 16: Leases' 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 established a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced 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 early adopted the standard in FY 2018.

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 is satisfied 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

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. 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.

In the case of new mining sites, commercial production is deemed to have been met when the site has received all necessary permits and approvals (including a certificate of environmental conformity) and is in operation as a mine. Prior to this period, any costs associated with the mine site are capitalised.

### Depreciation

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

The applicable depreciation rates are as follows:

#### Description within mining and other equipment:

Mine development and restoration costs

Plant and machinery

Vehicles

Computer equipment

Office furniture and fittings

#### Useful life:

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.

Life of mine unit of production basis

5 years

3 years

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.

#### Leases

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to profit or loss over the shorter of estimated useful economic life and the term of the lease.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to profit or loss over the term of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to profit or loss on a straight-line basis over the term of the lease.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

## 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.

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 either accounted for as a hybrid financial instrument and the option to convert is an embedded derivative or the whole instrument is designated at fair value through profit and loss.

Where the instrument is bifurcated, the embedded derivative, where material, 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. Where the instrument as a whole is designated at fair value the instrument is measured at fair value subsequent to initial recognition and changes in fair value recorded in finance costs.



Prior to conversion the embedded derivative or fair value through profit and loss instrument is revalued at fair value. Upon conversion of the loan, the liability, including the derivative liability where applicable, is derecognised in the statement of financial position. At the same time, an amount equal to the redemption value is recognised within equity. Any resulting difference is recognised in retained earnings.

In respect of transaction costs, where transaction costs arise in respect of instruments recorded at fair value through profit and loss they are expensed as incurred. Where costs relate to an instrument containing a host liability and derivative the portion attributable to the host is treated as a deduction against the liability and amortised over the term whilst the portion related to the derivative is expensed immediately.

#### Equity facilities

Where the Company enters into equity drawdown facilities, whereby funds are drawn down initially and settled in shares at a later date, those shares are recorded initially as issued at fair value based on management's best estimation, with a subsequent revaluation recorded based on the final value of the instrument at the date the shares are issued or allocated. Where the value of the shares is fixed but the amount is determined later, the fair value of the shares to be issued is deemed to be the value of the amount drawn down, less any transaction and listing costs.

#### 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 Group assesses on a forward-looking basis the expected credit losses, defined as the difference between the contractual cash flows and the cash flows that are expected to be received, associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables only, the simplified approach permitted by IFRS 9 is applied, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Losses are recognised in the income statement. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through 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 recorded in line with the policy 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 21.

#### 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. All revenues from the project are generated in Burundi and sales are exclusively made to a single customer, thyssenkrupp Materials Trading GmbH, with whom the Company has a 10-year offtake agreement signed in 2014.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

## 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 values 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 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:

### Impairment to the carrying value of plant, property and equipment (note 11)

The Group assessed at 30 June 2019 whether an indication existed that suggests the Company's fixed assets may need to be impaired. In accordance with accounting policies, should such an indication exist, then the Company would estimate the recoverable amount of the asset or, where applicable, the cash generating unit to which it belongs. 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 2019, the carrying value of the Company's fixed assets in respect of the Gakara project was US\$11.2 million.

The review of production strategy after year end indicated that the previous method of focussing on high-grade veins was unlikely to be profitable in the foreseeable future, and that although mining was to continue in the near term, this was primarily to reduce operating losses to a minimal level in order to conserve cash, while the Company proceeded with exploration and other test work in order to define a larger, lower-grade resource and bulk mining operation.

Management thus considered this change in outlook to be an indicator of potential impairment in respect of the carrying values of the processing plant at Kabezi, and the Gasagwe and Murambi pits, whose profitability was predicated on mining and processing high grade ores. As the future profitability of high-grade ore mining and processing could not be determined with reasonable confidence, management judged that the carrying value of these assets should be fully written down, and a charge of US\$3.9 million was recorded in the accounts at 30 June 2019.

Management considered whether impairment was required in respect of the remaining assets associated with the Gakara licence, primarily related to equipment and historic costs associated with the exploration of the wider licence area. Shortly after the year end, the Company concluded a placing at a share price of 3 pence per share, at which level the Company had a market capitalisation in excess of US\$13 million, and on this basis, together with consideration of the plans for the revised development strategy management concluded that no further impairment of the remaining assets at the Gakara level was required.

### Commercial production

During the year, the Board reviewed the operation of the Gakara mine and determined that commercial production had been reached at the project with effect from 1 July 2018.

In reaching this conclusion, management considered factors including the completion of construction and commissioning of the treatment plant (as well as the passing of performance tests in August 2018), the rate of ore extraction from the Gasagwe pit in the month (which was in line with targets at that time), and the fact that a number of export and sales cycles had been successfully completed.

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

In addition, in December 2018, the Company received its environmental conformity certificate in respect of the Murambi pit, and ore extraction began from January 2019. Prior to this, work was restricted to site preparation activities such as constructing roads, pre-stripping waste and collecting samples. The costs associated with this work were capitalised prior to January 2019.

### Share-based payments (note 20)

Share-based payments relate primarily to share options issued by the Company, in relation to employee share benefit schemes. The fair value of such options is 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.

During the year, the Company granted 16,718,987 share options with an exercise price of 5.28 pence to an affiliate of Lind Partners, as part of the Lind Facility financing. The share price at the time of grant was 3.28 pence, and using a Black-Scholes model, these share options were deemed to have a fair value of US\$499k – however this amount was included as a cost of the Lind Convertible, and not as a share-based payment.

### Decommissioning, site rehabilitation and environmental costs (note 18)

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 2019 and concluded that a provision of US\$100k should be recognised in respect of future rehabilitation obligations at the Kabezi plant site, and the Gasagwe and Murambi mining areas.

### Royalty receivables

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

### Lind Facility (note 6)

Refer to note 6 for judgments and estimates in respect of the Lind Facility.

### Pella convertible

Refer to note 16 for judgments in respect of the Pella convertible loan.

### Going concern (note 2)

Refer to note 2 for judgments in respect of the going concern basis of preparation.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

## 4. Loss From Operating Activities

Operating loss includes:

	Year Ended 30 June 2019 US\$'000	Year Ended 30 June 2018 US\$'000
Share based payment	(62)	(709)
Audit of the Group and Company financial statements	(101)	(89)
Non-audit service fees	(2)	(2)
Depreciation	(2,570)	-
Impairment	(3,854)	-

The non-audit services provided by the Company's auditors BDO LLP during the year related to a review of the unaudited interim results for the six months to 31 December 2018.

## 5. Finance Income And Costs

### Finance income

	Year Ended 30 June 2019 US\$'000	Year Ended 30 June 2018 US\$'000
Interest received	1	3
Foreign exchange gains	354	314
<b>Total finance income</b>	<b>355</b>	<b>317</b>

Foreign exchange gains in the current and prior periods mainly relate to gains on settlement of liabilities in Burundi denominated in Burundian Francs ('BIF').

### Finance costs

	Year Ended 30 June 2019 US\$'000	Year Ended 30 June 2018 US\$'000
Charges related to the Lind Facility	2,473	-
Interest on Pella Convertible loan	4	-
Interest on bank borrowing	139	52
Bank charges	23	19
Interest on finance lease	5	8
<b>Total finance costs</b>	<b>2,644</b>	<b>79</b>

The charges associated with the Lind Facility are set out in Note 6 below.

The interest on the Pella Convertible loan is discussed in Note 16.

The interest charge on bank borrowing during the year related primarily to the BIF denominated overdraft with Finbank which carries an interest rate of 14%.

## 6. Lind Facility

The Lind Facility represents a finance arrangement entered into by the Company in January 2019 with The Australian Special Opportunity Fund, LP, an entity managed by The Lind Partners LLC ('Lind').

The facility consisted of three elements: an unsecured convertible security amount of US\$750k (the 'Lind Convertible'); a 24-month equity drawdown facility of up to US\$7.0 million; and share options.

On signing of the facility, the Company received net proceeds of US\$775k – of which US\$750k was in respect of the Lind Convertible, US\$100k was the first drawdown under the equity drawdown facility, and US\$75k was withheld as a commitment fee.

Upon the first advancement of funding, the Company issued 7,500,000 shares as collateral to Lind, to be used at Lind's discretion to satisfy future share allotments.

The Lind Convertible amount of US\$750k had a two-year term and carried no coupon. It was convertible into Ordinary Shares of the Company by reference to face value of US\$900k after a minimum of four months from the date of the agreement (25 January 2019). The conversion price was determined to be the lower of 5.28p (being 130% of the 20-day VWAP prior to the date of the agreement), or a 10% discount to the average of the five consecutive daily VWAPs chosen by Lind during the 20 trading days prior to conversion. The Lind Convertible was initially recorded at the proceeds received, net of transaction costs, and subsequently designated as a liability at fair value through profit and loss held at fair value until settled in equity or the number of shares to be issued was set as a fixed amount.

Lind exercised their right to convert the Lind Convertible into Ordinary Shares in two tranches on 3 and 4 June 2019. The first (3 June 2019) was for 19,047,619 shares at 7.6 pence, equating to £1,448k (US\$1,838k); the second (4 June 2019) was for 14,742,632 shares at 5.75 pence, equating to £858k (US\$1,077k). The total value of the convertible was thus US\$2,915k, based on the fair value of 33,790,251 shares at the date of conversion.

On 30 June 2019, 8,446,360 Ordinary Shares were issued in satisfaction of this exercise, together with the 7,500,000 shares issued as collateral in January 2019, while 17,843,891 Ordinary Shares were allotted on 22 July 2019 following the publication of a Prospectus and the obtaining of the necessary shareholder and regulatory approvals.

In addition to the Lind Convertible, the agreement with Lind also included a 24-month equity drawdown facility. Under the terms of this agreement, Lind agreed to advance monthly amounts of between US\$100k and US\$300k in return for the allotment of shares in the Company, whose price was based on 90% of the average of five consecutive daily VWAPs chosen by Lind during the 20 trading days prior to the issue of the shares. On initial recognition, the Company recorded shares to be issued and a receivable at fair value which was subsequently revalued based on the fair value of the instrument until such time as the shares were issued or allocated.

The initial drawdown of US\$100k on 28 January 2019 was satisfied by the allotment of 3,425,728, with two further drawdowns of US\$100k each in March and May 2019 for 5,132,067 and 3,927,500 shares respectively.

As part of the overall agreement with Lind, the Company also issued 16,718,987 share options at an exercise price of 5.28p, being 130% of the 20-day VWAP prior to date of the agreement. The options, which remain in place at the date of this report, have a term of 48 months. These options were valued using a Black-Scholes model at US\$499k and were treated as a transaction cost of the Lind instrument.

The variable number of shares that could be issued under the Lind Convertible was fixed at the date of conversion (in two tranches – 3 June and 4 June 2019). Management concluded that the number of shares that could be issued from the date of the conversion notices was fixed given the terms of the agreement whereby clauses that could give rise to any further variability being non-substantive. Accordingly, the value of the convertible was fixed at that date and the increase in fair value of the instrument compared with the initial proceeds was recorded as a finance cost in the income statement as follows:

	Finance cost
	US\$'000
Fair value movement on the facility <sup>1</sup>	1,899
Recognition of cancellation fee <sup>2</sup>	75
Share options awarded <sup>3</sup>	499
<b>Total cost of the convertible</b>	<b>2,473</b>

1. The fair value movement includes the change in the fair value of the convertible loan notes between initial recognition at the date the US\$750k proceeds were received, and the fair value of the loan note at the date Lind issued conversion notices and fixed the number of shares to be issued, together with cash based transaction costs expensed. Lind opted to use the 7,500,000 collateral shares in part-settlement of the convertible on 3 June 2019. At the time these shares

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

were allotted to Lind, their value was US\$383k (based on a share price of 3.9 pence at 28 January 2019). The value of these shares at the time of their use in part-settlement of the convertible was US\$724k (based on a share price of 7.60 pence on 3 June 2019). The increase in value of US\$341k effectively represented a credit reducing the overall cost of the convertible which is included in the fair value movement of the loan.

2. Drawdowns under the facility were suspended in March 2019. Under the terms of the agreement, the facility may be cancelled without cost after six drawdowns have been made, or at any time prior to that for a cancellation fee of US\$75k. The US\$75k fee is the expected cost of the equity draw down facility and is the maximum cost to be incurred with regard to cancellation
3. The Fair Value of share options granted to Lind Partners as part of the facility agreement which were considered to represent a transaction cost of the facility and therefore expensed.

The Lind Convertible was settled as follows:

	Shares	Valuation US\$'000
Value at conversion	33,790,251	2,915
Collateral shares taken on 3 June 2019	(7,500,000)	(724)
New shares allotted 30 June 2019	(8,446,360)	(816)
<b>Balance at 30 June 2019</b>	<b>17,843,891</b>	<b>1,375</b>

The balance of US\$1,375k was recorded on the Balance Sheet at Shares to be Issued at year end. These shares were allotted on 22 July 2019 following the publication of a Prospectus and the obtaining of the necessary shareholder and regulatory approvals.

### 7. Remuneration Of Key Management Personnel

Key management personnel are defined as being Executive and Non-executive Directors and Persons Discharging Managerial Responsibility ('PDMRs'), who are in effect the members of the Executive Committee and are set out on pages 24-25.

Their remuneration for the 12 months ended 30 June 2018 and 30 June 2019 is summarised as follows:

	Year Ended 30 June 2019 US\$'000	Year Ended 30 June 2018 US\$'000
Wages and salaries	1,192	1,119
Benefits	54	44
Share-based payments	192	689
<b>Total remuneration of key management personnel</b>	<b>1,438</b>	<b>1,852</b>

Benefits paid to employees include healthcare and pension contributions.

Share-based payments shown above exclude the credit of US\$130k in respect of options lapsed in the year due to non-market performance conditions not having been met.

### 8. Total Employee Remuneration (Including Key Management Personnel)

	Year Ended 30 June 2019 US\$'000	Year Ended 30 June 2018 US\$'000
Wages and salaries	2,433	1,917
Benefits	140	81
Share-based payments	192	709
<b>Total employee remuneration</b>	<b>2,765</b>	<b>2,707</b>



Share-based payments shown above exclude the credit of US\$130k in respect of options which lapsed in the year due to non-market performance conditions not having been met

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

	Year Ended 30 June 2019 US\$'000	Year Ended 30 June 2018 US\$'000
Directors	6	6
Management and administration	10	7
Mining, processing and exploration staff	190	211
	<b>206</b>	<b>224</b>

## 9. Income Tax Expense

	Year Ended 30 June 2019 US\$'000	Year Ended 30 June 2018 US\$'000
Withholding tax	58	93
Current tax expense	23	3
Land tax	20	-
Mining convention community tax	30	-
<b>Total tax expense for the year</b>	<b>131</b>	<b>96</b>

The cost of withholding tax on inbound goods and services in Burundi was US\$58k.

US\$23k was the cost of corporation tax charge in Burundi, which for accounting periods where no tax profits are reported (such as in the year to 30 June 2019), is based on 1.5% of revenues.

Land tax of US\$20k (*taxe superfici re*) relates to the tax payable on the holding of the mining permit. US\$30k community payments relate to the Company's obligations under its mining convention to pay US\$15k per annum to each of the communities in which it operates, Kabezi and Mutambu.

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 2019 US\$'000	Year Ended 30 June 2018 US\$'000
Loss for the year before tax	(12,146)	(2,515)
Income tax using the Guernsey rate of 0%:	-	-
Effects of:		
Differences in tax rates	(2,328)	(292)
Disallowed expenses (impairment)	1,156	-
Tax losses carried forwards	1,172	292
	<b>-</b>	<b>-</b>

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\$12k (30 June 2018: US\$2k), Rainbow Burundi SPRL US\$104k (30 June 2018: US\$104k), and in respect of Rainbow Mining Burundi SM they are US\$1,348k (30 June 2018: US\$186k).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *Continued*

## 10. Loss Per Share

The earnings per share calculations for 30 June 2019 reflect the changes to the number of ordinary shares during the period.

At the start of the year, 174,760,472 shares were in issue. During the year, a total of 41,578,528 new shares were allotted (see note 19 Share Capital) and on 30 June 2019, 216,339,000 shares were in issue. In addition, a further 17,843,891 shares were to be issued at year end, in relation to the Lind Convertible (see note 6). The weighted average of shares in issue in the year was 193,843,716.

Earnings per share have been calculated using the weighted average of ordinary shares. 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			
<b>At 30 June 2018</b>	<b>165,258,477</b>			
<b>At 30 June 2019</b>	<b>193,843,716</b>			

	Basic 2019	Basic 2018	Diluted 2019	Diluted 2018
Loss for the year (US\$'000) attributable to ordinary equity	(11,492)	(2,566)	(11,492)	(2,566)
Weighted average number of ordinary shares in issue during the year	193,843,716	165,258,477	193,843,716	165,258,477
<b>Loss per share (cents)</b>	<b>(5.93)</b>	<b>(1.55)</b>	<b>(5.93)</b>	<b>(1.55)</b>

## 11. Property, Plant and Equipment

	Mine development costs US\$'000	Plant & machinery US\$'000	Vehicles US\$'000	Office equipment US\$'000	Mine restoration US\$'000	Total US\$'000
<b>Cost</b>						
<b>At 1 July 2018</b>	<b>7,791</b>	<b>2,665</b>	<b>709</b>	<b>24</b>	<b>60</b>	<b>11,249</b>
Additions	1,526	-	-	17	40	1,583
Impairment	(1,529)	(2,235)	-	-	(90)	(3,854)
<b>At 30 June 2019</b>	<b>7,788</b>	<b>430</b>	<b>709</b>	<b>41</b>	<b>10</b>	<b>8,978</b>
<b>Depreciation</b>						
<b>At 1 July 2018</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Charge for year	1,981	430	142	7	10	2,570
<b>At 30 June 2019</b>	<b>1,981</b>	<b>430</b>	<b>142</b>	<b>7</b>	<b>10</b>	<b>2,570</b>
<b>Net Book Value at 30 June 2019</b>	<b>5,807</b>	<b>-</b>	<b>567</b>	<b>34</b>	<b>-</b>	<b>6,408</b>
Net Book Value at 30 June 2018	7,791	2,665	709	24	60	11,249

The majority of the construction work at Kabezi and Mutambu was completed in the prior year, and therefore additions to fixed assets were lower in 2019. Included in the US\$1.6 million of additions are US\$0.5 million in respect of pre-stripping and site preparation work at the Murambi pit, which came into production at the end of December 2018.

Commercial production at the Gakara project was deemed to have been reached on 1 July 2018 (see note 3 Accounting Judgements and Estimates). Accordingly, eligible production costs prior to this were capitalised, and net revenues treated as a deduction to property, plant and equipment. The net impact of these in the prior year was an addition of US\$279k to mine development costs.

At 30 June 2019, impairments totalling US\$3.9 million were taken against the plant at Kabezi, and against the Murambi and Gasagwe mine sites (see Note 3 for details).

From July 2018, production costs and revenues have been recorded through the income statement, and depreciation has been charged in accordance with the Company's accounting policies. For the same reasons, no depreciation charge was applied during the prior year.

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

## 12. Inventory

	Year Ended 30 June 2019 US\$'000	Year Ended 30 June 2018 US\$'000
WIP	95	71
Finished goods	-	177
Consumables	3	32
<b>Total inventory</b>	<b>98</b>	<b>280</b>

WIP (Work in Progress) represents 51 tonnes of ore undergoing treatment at the Kabezi processing plant, valued at net realisable value which was the lower than the cost of production. The decrease in value of Finished Goods and WIP of US\$153k is shown in the income statement as an operating expense under Stockpile Movement.

Consumables mainly relates to fuel stocks at 30 June 2019.

## 13. Prepayments

	Year Ended 30 June 2019 US\$'000	Year Ended 30 June 2018 US\$'000
Current prepayments	389	209
<b>Total prepayments</b>	<b>389</b>	<b>209</b>

Current prepayments relate to prepaid operating expenses and include US\$265k 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, in particular in view of the recommendations of a report published in July 2019 by SRK, commissioned by the World Bank at the request of Rainbow and the government, into the reasonableness of the discount received by Rainbow.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

Prepayments also include US\$63k in respect of costs in relation to the equity placing which took place in July 2019, after the year end.

### 14. Trade and Other Receivables

	Year Ended 30 June 2019	Year Ended 30 June 2018
	US\$'000	US US\$'000
VAT recoverable	99	85
Sales proceeds receivable	17	376
<b>Total trade and other receivables</b>	<b>116</b>	<b>461</b>

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

Sales proceeds receivable represent the cash due from the sale of concentrate which took place prior to 30 June 2019, but for which cash was not received until after year end.

### 15. Cash and Cash Equivalents

	Year Ended 30 June 2019	Year Ended 30 June 2018
	US\$'000	US US\$'000
Cash at bank and in hand	119	354
<b>Total cash at bank and in hand</b>	<b>119</b>	<b>354</b>

No cash amounts were restricted at 30 June 2019 (30 June 2018: nil).

### 16. Borrowings

	Year Ended 30 June 2019	Year Ended 30 June 2018
	US\$'000	US\$'000
Bank borrowings (Finbank overdraft)	836	738
Pella Convertible	704	-
Other borrowings	22	22
<b>Total borrowings</b>	<b>1,562</b>	<b>760</b>

All borrowings are deemed to be current.

The following table analyses the movement in borrowings during the year:

	US\$'000
<b>Borrowings as at 1 July 2018</b>	<b>760</b>
Pella Convertible - cash	700
Finbank overdraft	98
<b>Cash flows from borrowings</b>	<b>798</b>
Non-cash interest on Pella Convertible	4
Non-cash movement	4
<b>Borrowings as at 30 June 2019</b>	<b>1,562</b>

In addition to the movements above, interest of US\$139k in respect of the Finbank overdraft was settled in cash in the year.

### Finbank Overdraft

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 initially agreed in October 2017, on a six-month term rolling thereafter, it has been classified as a short-term liability. The balance at 30 June 2019 was 1.9 billion BIF (US\$0.8 million).

The overdraft facility was originally agreed as a short-term source of working capital, however has remained in place for longer than originally intended. This arrangement has been through a series of extensions agreed with Finbank. In August 2019, the facility term was reduced to 1.5 billion BIF (US\$0.6 million) – a reduction settled in cash. Discussions are ongoing with Finbank with regard to the further reduction of the facility by transforming a portion of the balance (expected to be 1.0 billion BIF, or US\$0.4 million) into a term loan repayable over 2-3 years, while the balance of 0.5 billion BIF (US\$0.2 million) remains as an overdraft.

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. Interest on this account amounted to US\$139k during 2019, which was settled in cash.

### Pella Convertible

The Pella Convertible loan represented an unsecured bridge funding facility of US\$0.7 million announced in May 2019, between the Company and Pella Ventures Limited (an entity in which Adonis Pouroulis, Rainbow's chairman and largest shareholder, has a beneficial interest).

Pella Ventures Limited advanced US\$0.7 million to the Company in June for a period of up to 12 months at an interest rate of 15% per annum from drawdown. The terms of the loan agreement dated 7 May 2019 provided that the principal amount of US\$700k and the outstanding interest (US\$4k) would convert into new Ordinary Shares on the same terms as apply to the next equity fundraising undertaken by the Company. The loan was initially recorded at the proceeds received, net of costs. Subsequently, the host liability has been recorded at amortised cost with the derivative associated with the variable number of shares that would be issued on conversion as a derivative. However, the fair value of the derivative was insignificant at 30 June 2019 given the terms of the instrument and proximity to year end.

Following the completion of that placing in July 2019, the Pella Ventures Convertible converted into 18,636,040 new Ordinary Shares.

## 17. Trade And Other Payables

	Year Ended 30 June 2019	Year Ended 30 June 2018
	US\$'000	US\$'000
Trade payables	1,074	535
Accrued expenses	358	355
Payroll and withholding taxes	82	31
Amounts due to staff and management	517	368
Pension contributions	3	3
Other payables	63	63
<b>Total trade and other payables</b>	<b>2,097</b>	<b>1,355</b>

Trade payables and accrued expenses relate to the ongoing operating costs of the mine. These included US\$0.4 million in respect of the rental of mining equipment, US\$0.4 million for technical and professional mining consulting, and US\$0.3 million consumables, equipment, and other running costs.

Amounts due to staff and management include a group bonus accrual of US\$0.4 million in addition to deferred director's fees and senior management salaries, which was settled after the year end.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *Continued*

## 18. Provisions

	Year Ended 30 June 2019 US\$'000	Year Ended 30 June 2018 US\$'000
Rehabilitation provision	100	60
<b>Total provisions</b>	<b>100</b>	<b>60</b>

Rehabilitation provisions relate to the anticipated cost of restoring the operating sites at Kabezi, Gasagwe and Murambi.

## 19. Share Capital

	Year Ended 30 June 2019 US\$'000	Year Ended 30 June 2018 US\$'000
Share Capital	20,056	16,722
<b>Issued Share Capital (nil par value)</b>	<b>20,056</b>	<b>16,722</b>

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

	Number of shares	Value (US\$'000)
<b>At 1 July 2018</b>	<b>174,760,472</b>	<b>16,722</b>
Aug 2018 – share placing	13,146,873	1,875
Jan 2019 – collateral shares issued to Lind (see note 6)	7,500,000	384
Mar 2019 – Lind drawdown tranche 1 (see note 6)	3,425,728	88
Apr 2019 – Lind drawdown tranche 2 (see note 6)	5,132,067	85
May 2019 – Lind drawdown tranche 3 (see note 6)	3,927,500	86
June 2019 – conversion of Lind Convertible (see note 6)	8,446,360	816
<b>At 30 June 2019</b>	<b>216,339,000</b>	<b>20,056</b>

The share placing in August 2018 and the three Lind drawdowns together represent net cash proceeds of shares issued in the period of US\$2.1 million (US\$2.35 million gross less transaction costs of US\$0.21 million).

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

	No of shares	US\$'000
Adonis Pouroulis (Director)	2,496,917	389
Robert Sinclair (Director)	291,624	45
Atul Bali (Director)	416,667	65
Martin Eales (Director)	83,333	13
Jim Wynn (PDMR)	58,333	9
Others (not related parties)	9,799,999	1,527
	<b>13,146,873</b>	<b>2,049</b>

The table below shows a reconciliation of share capital movement for the year ended 30 June 2018:

	No of shares	US\$'000
<b>At 1 July 2017</b>	<b>154,626,472</b>	<b>13,186</b>
December 2017 – share placing	20,000,000	3,516
April 2018 – shares issued for exercise of share options	134,000	20
<b>At 30 June 2018</b>	<b>174,760,472</b>	<b>16,722</b>

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.

## 20. Share Options and Warrants

The total share-based payment charge for the year was US\$62k, representing the net of US\$192k in respect of the fair value charge for share options in issue, reduced by a credit of US\$130k arising on lapsed share options as a result of non-market performance conditions not having been met.

### Employee share options

A total of 12,058,400 employee share options had been issued at 30 June 2018.

No new employee share options were granted during the period, however 1,083,334 share options lapsed in the year. The table below shows the movement on share options held by PDMRs in the year:

	Options held at 30 June 2018	Exercised/ lapsed during the period	Granted during the period	Options held at 30 June 2019	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	(583,334)	-	2,916,666	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	(250,000)	-	1,250,000	12.75	27-Jun-17	27-Jun-17
B Jankowitz	1,500,000	(250,000)	-	1,250,000	12.75	27-Jun-17	27-Jun-17
Others	67,000	-	-	67,000	10.00	30-Jan-17	30-Jan-17
	<b>12,058,400</b>	<b>(1,083,334)</b>	<b>-</b>	<b>10,975,066</b>			

On 17 September 2018, a total of 1,083,334 share options held by senior managers lapsed as a result of non-market performance targets not having been met for the year ended 30 June 2018. This resulted in a reversal of previously recognised fair value charges of US\$130k, which credited against share-based payment charges in the income statement in the year.

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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

At 30 June 2019, the following employee share options were exercisable and outstanding:

	Number	Average weighted exercise price	Fair value (US\$'000)
<b>Outstanding at 1 July 2018</b>	<b>12,058,400</b>	<b>11.72 pence</b>	<b>1,387</b>
Granted during the year	-	-	-
Exercised in the year	-	-	-
Lapsed or expired in the year	(1,083,334)	11.27 pence	(130)
<b>Outstanding at 30 June 2019, of which:</b>	<b>10,975,066</b>	<b>11.77 pence</b>	<b>1,257</b>
- Exercisable	6,910,930	11.80 pence	790
- Not exercisable	4,064,136	11.70 pence	467

### Lind Share Options

In January 2019, 16,718,987 share options were issued to Lind Partners (see note 6) with an exercise price of 5.28 pence. These were exercisable immediately from the date of award for a period of 48 months. The Fair Value of these share options has been estimated using a Black Scholes model to be US\$0.5 million. This cost was included under Finance Costs as part of the cost of the Lind Facility.

### 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 2019, the following share warrants were outstanding:

	Number	Exercise price	Fair value (US\$'000)
<b>Outstanding at 1 July 2018</b>	<b>427,924</b>	<b>US\$0.21</b>	<b>40</b>
Movement in the year	-	-	-
<b>Exercisable at 30 June 2019</b>	<b>427,924</b>	<b>US\$0.21</b>	<b>40</b>

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 BlackScholes were:

	Lind Share Options 25 January 2019	E'ee Share Options 23 August 2017	E'ee Share Options 27 June 2017	E'ee Share Options 30 January 2017	Warrants
Share price (GBP)	0.039	0.1113	0.1275	0.1162	10.83
Exercise price (GBP)	0.0528	0.15	0.1275	0.10	10.83
Expected volatility	90%	90%	90%	90%	50%
Risk-free rate	0.71%	0.71%	0.85%	0.79%	1.8%
Rate of Exchange	1.32	1.28	1.30273	1.23	1.32
Contractual life (years)	4	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.

## 21. Reserves

Reserve	Purpose
Share capital	Value of shares issued less costs of issuance
Shares to be issued	Shares to be allotted in respect of equity commitments
Share-based payment reserve	Fair value of share options issued
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 2019. 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.

## 22. 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 2018	3%	10%
As at 1 July 2017	6	(12)
Loss for year	-	45
At 30 June 2018	6	33
Effective non-controlling interest 2019	3%	10%
As at 1 July 2018	6	33
Loss for year	-	785
At 30 June 2019	6	818
<b>Assets at year-end:</b>		
30 June 2018	1	11,657
30 June 2019	1	6,447
<b>Liabilities at year-end:</b>		
30 June 2018	313	11,958
30 June 2019	313	14,608
<b>Loss for the year to:</b>		
30 June 2018	2	450
30 June 2019	-	7,858

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

### 23. Finance Leases

In June 2017, the Company agreed the terms of a finance lease contract with G Midende (a PDMM and a related party, see note 25 below) for land situated in Kabezi at the site of the processing plant. This agreement came into effect in July 2017 and has been recognised as a finance lease obligation during the period as follows:

	Minimum Payments 2019 US\$'000	Present Value of payments 2019 US\$'000	Minimum Payments 2018 US\$'000	Present Value of payments 2018 US\$'000
Within one year	18	17	18	17
After one year but not more than five years	18	14	36	26
More than five years	-	-	-	-
Total minimum lease payments	36	31	54	43
Less amounts representing finance charges	(5)	-	(11)	-
<b>Present value of minimum lease payments</b>	<b>31</b>	<b>31</b>	<b>43</b>	<b>43</b>

US\$18k was paid during the year in respect of the above lease (2018: US\$19k).

### 24. Capital Commitments

There were no capital commitments at 30 June 2019 (2018: US\$0.1 million).

### 25. Related Party Transactions

	Charged in the year 2019 US\$'000	Settled in year 2019 US\$'000	Balance as at 30 June 2019 US\$'000	Charged in the year 2018 US\$'000	Settled in year 2018 US\$'000	Balance as at 30 June 2018 US\$'000
Artemis Trustees Limited (R Sinclair) – Company secretarial services	32	(16)	16	31	(107)	-
Gilbert Midende – rental of land for plant site and accommodation	43	(25)	20	44	(44)	2
Martin Eales	-	-	-	-	(122)	-
Pella Resources Limited (A Pouroulis) – office rental	-	-	-	-	(43)	-
Pella Ventures Limited (A Pouroulis) – convertible loan	704	-	704	-	-	-
Uvumbuzi Resources Limited (C Morelli) – exploration services	38	(38)	-	110	(117)	-
Benzu Minerals (C Morelli) – exploration services	90	(55)	35	18	(18)	-
	<b>907</b>	<b>(134)</b>	<b>(775)</b>	<b>203</b>	<b>(451)</b>	<b>2</b>

- ▶ The US\$0.7 million convertible loan from Pella Ventures limited is explained in note 16
- ▶ The US\$122k paid to Martin Eales during the prior year related to the unsettled amounts in respect of his waived entitlement to a profit-share agreement under his previous contract
- ▶ US\$25k paid to Gilbert Midende in 2019 included US\$18k in respect of leases (see note 23) and US\$7k in respect of accommodation and associated costs
- ▶ Remuneration with key management personnel has been disclosed in note 7.

## 26. Investment in Subsidiaries

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

Name of Company	Principal Activity	Country of Incorporation	% Share Capital Held	% Share Capital Held
			2019	2018
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.

## 27. Contingent Liabilities

There were no contingent liabilities at 30 June 2019 (30 June 2018: nil).

## 28. Post Balance Sheet Events

On 3 July 2019, the Company concluded a placing of 163,975,884 at a price of 3 pence per share for net proceeds of US\$4.2 million.

121,207,778 new shares were issued for gross funds of US\$4.6 million, including 333,333 shares for US\$13k to A Lowrie, a director of the Company, as well as 26,455,026 shares for US\$1.0 million to a beneficiary of G Bennett, who was appointed a director of the Company on 27 August 2019.

4,859,603 shares were also allotted in satisfaction of US\$184k of outstanding remuneration and fees to directors and senior management.

17,843,891 shares were issued to Lind Partners in settlement of the final balance of the Lind Convertible (see note 6), while 18,636,040 shares were issued to Pella Ventures Ltd (a beneficiary of A Pouroulis) in settlement of the US\$0.7 million convertible loan drawn down in June 2019.

1,428,572 shares were allotted in settlement of other liabilities.

All shares were issued at a value of 3 pence per share.

Commission and other fees totalled US\$352k, and net cash proceeds of the raise amounted to US\$4.2 million, with liabilities and other obligations valued at US\$1.6 million also settled in shares.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *Continued*

	Shares	Cash US\$'000	Other amounts settled US\$'000	Total US\$'000
<b>Placings for cash</b>				
George Bennett (prior to appointment as Director)	26,455,026	1,000	-	1,000
Alex Lowrie	333,333	13	-	13
Others	94,419,419	3,569	-	3,569
<b>Total raised for cash</b>	<b>121,207,778</b>	<b>4,582</b>	<b>-</b>	<b>4,582</b>
<b>Amounts in settlement of outstanding remuneration and fees</b>				
Adonis Pouroulis	472,222	-	18	18
Shawn McCormick	305,555	-	12	12
Robert Sinclair	305,555	-	12	12
Atul Bali	305,555	-	12	12
Martin Eales	1,182,563	-	45	45
Jim Wynn	844,688	-	32	32
Cesare Morelli	640,315	-	24	24
Gilbert Midende	803,150	-	30	30
<b>Total to settle outstanding remuneration and fees</b>	<b>4,859,603</b>	<b>-</b>	<b>184</b>	<b>184</b>
<b>Amounts to settle convertible loans and other obligations</b>				
Lind Partners <sup>1</sup>	17,843,891	-	674	674
Pella Ventures Ltd (A Pouroulis)	18,636,040	-	704	704
Others	1,428,572	-	54	54
<b>Total to settle convertible loans and other liabilities</b>	<b>37,908,503</b>	<b>-</b>	<b>1,433</b>	<b>1,433</b>
<b>Total allotment</b>	<b>163,975,884</b>	<b>4,582</b>	<b>1,617</b>	<b>6,198</b>
Less: commission	-	(78)	-	(78)
Other transaction costs	-	(274)	-	(274)
<b>Net funds</b>	<b>163,975,884</b>	<b>4,230</b>	<b>1,617</b>	<b>5,846</b>

<sup>1</sup> 17,843,891 shares were allotted to Lind Partners as the final settlement of the Lind Convertible. The valuation at the time of conversion was fixed at US\$1,375k and recognised as shares to be issued, whereas the value of these shares based on a share price of 3 pence (the subscription price for the rest of this placing) was US\$674k as shown above.

## 29. Financial Risk Management

The Group's financial liabilities at each period end consist of bank borrowings, convertibles and trade and other payables. All liabilities are measured at amortised cost with the exception of bifurcated derivatives on the Pella loan which are insignificant. 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 assets held at amortised cost. These are detailed in notes 14 and 15.

The fair values of the Group's cash, trade and other receivables, borrowings, convertibles 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 the Group's financial assets will be impaired by the default of a third party. The Group is exposed to credit risk on its cash and cash equivalents as set out in note 15, with additional risk attached to other receivables set out in note 14. Credit risk is managed by ensuring that surplus funds are deposited only with well-established financial institutions of high-quality credit standing.

At 30 June 2019 the Company had no material trade receivables, and a US\$0.1 million VAT receivable in Burundi.

### Market risk

Market risk arises from the Company's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price 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.

Foreign exchange risk is managed by minimising balances held in currencies other than US dollars, particularly Burundian Francs. The table below shows the currency profiles of cash and cash equivalents

Cash and cash equivalents	Year Ended 30 June 2019 US\$'000	Year Ended 30 June 2018 US\$'000
US dollars	96	100
GB pounds	23	252
Burundi Francs	-	2
	<b>119</b>	<b>354</b>

The table below shows an analysis of the currency of the monetary liabilities in the functional currency of the Group (US dollars)

Trade and other payables	Year Ended 30 June 2019 US\$'000	Year Ended 30 June 2018 US\$'000
South African Rand	102	104
GB pounds	166	113
Burundi Francs	599	321
US dollars	207	-
	<b>1,074</b>	<b>538</b>

A 10% movement in the US\$:BIF rate would have resulted in a gain of approximately US\$0.1m (2018: less than US\$0.1m) in the income statement in relation to the cash and cash equivalents and trade payables as at 30 June 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *Continued*

## 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 material exposure to interest rate risk except on cash and cash equivalents 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:

<b>Net debt/(net cash) to equity</b>	<b>30 June 2019 US\$'000</b>	<b>30 June 2018 US\$'000</b>
Total borrowings (note 16)	1,562	760
Less: Cash and cash equivalents (note 15)	(119)	(354)
Net debt	1,443	406
Total equity	3,371	10,378
Ratio	43%	4%

The increase in net debt reflects the increase in borrowings at the year end, notably the US\$0.7 million Pella Convertible, as well as the decrease in cash arising from higher expenditure in the year.

## 30. Non Cash Transactions

Material non cash transactions were as follows:

### 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

### Year end 30 June 2019

- ▶ 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
- ▶ Partial settlement in shares of the Lind Convertible

## 31. Ultimate Controlling Party

The Company does not have a single controlling party.

# DIRECTORS AND ADVISERS

## Executive director

George Bennett - *Chief Executive Officer*

## Non-executive directors

Adonis Pouroulis - *Chairman*

Alex Lowrie

Shawn McCormick

Atul Bali

Robert Sinclair

## Company Secretary

Artemis Secretaries Limited

## Registered office

Trafalgar Court, Second Floor, East Wing,  
Admiral Park, St Peter Port, Guernsey GY1 3EL

## Registrars and transfer office

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

## Bankers

Barclays Bank PLC

Finbank Burundi

## Brokers

Turner Pope

## Independent Auditors

BDO LLP

## Solicitors

Memery Crystal LLP (UK)

Legal Solutions Chambers (Burundi)





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