RAINBOW RARE EARTHS LIMITED
ANNUAL REPORT & ACCOUNTS 2022

RAINBOW
RARE EARTHS

A STRATEGIC SOURCE OF RARE EARTH MINERALS FOR A GROWING MARKET

A STRATEGIC SOURCE OF RARE EARTH MINERALS FOR A GROWING MARKET

Rainbow Rare Earths Limited ("Rainbow" or "the Company") is listed on the main market of the London Stock Exchange and is developing a responsible rare earths supply chain to drive the green energy transition.

Rainbow's projects include Phalaborwa in South Africa and Gakara in Burundi. Rainbow is also investigating other processing projects, such as the opportunity of extracting rare earth elements from a nitro phosphate process stream at a phosphoric acid production plant.

Through our processing projects, which have fundamentally different risk profiles to traditional rare earth mining projects, we see enormous potential to facilitate near-term access to sources of critical permanent magnet rare earths, required to decarbonise energy systems in an environmentally responsible way.

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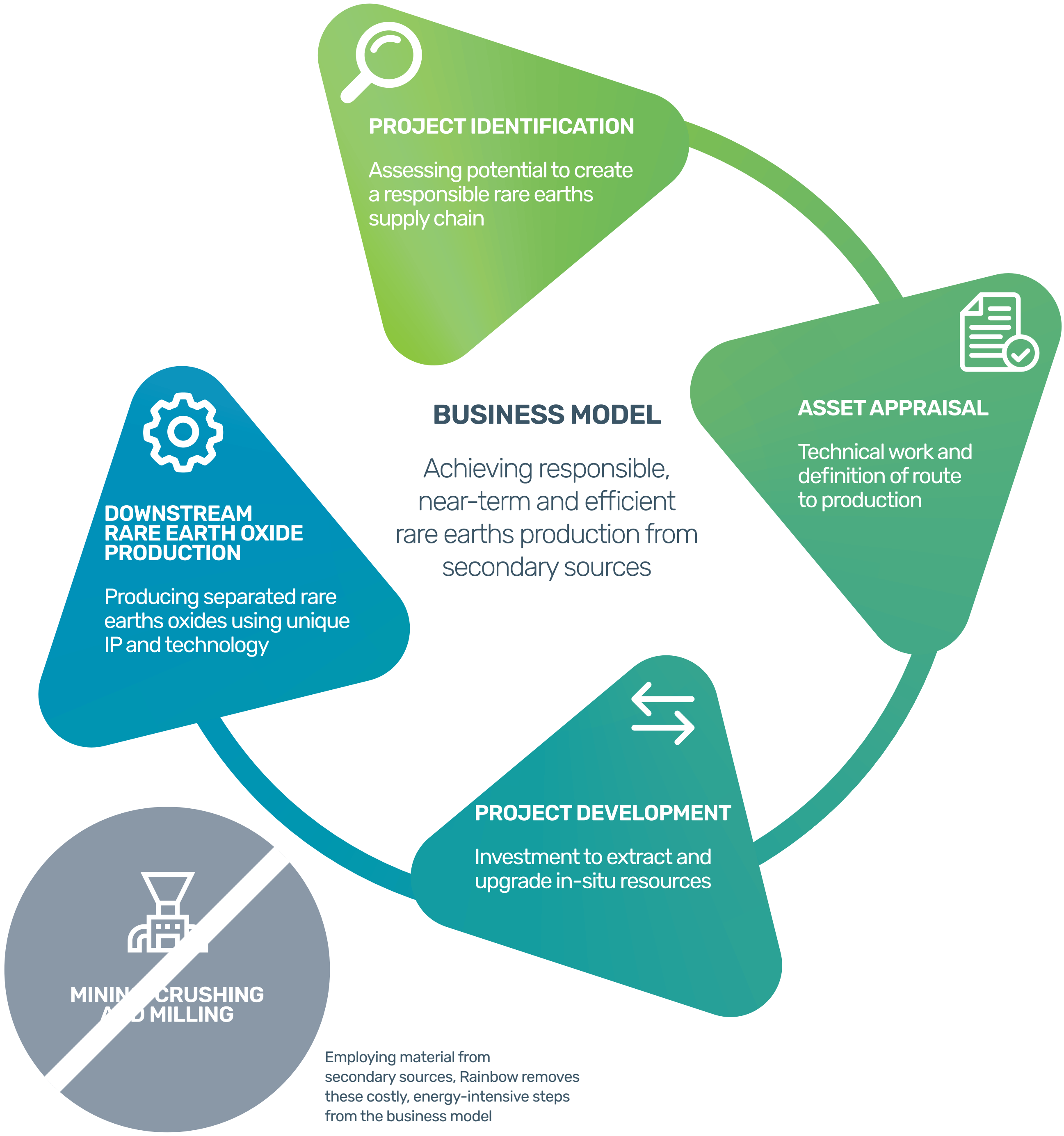
STRATEGY AND BUSINESS MODEL

GROWTH STRATEGY

Rainbow's strategy is to identify near-term, secondary rare earths production opportunities. Meeting escalating demand for critical minerals needed for global decarbonisation, we are focused on producing the magnet rare earth metals neodymium and praseodymium, dysprosium and terbium.

With our strong project development and operating experience, unique intellectual property and diversified portfolio, Rainbow will develop a responsible, independent rare earths supply chain to drive the green energy transition.



NdPr:
DRIVING THE GREEN REVOLUTION

THE GREEN REVOLUTION IS INCREASING DEMAND FOR RARE EARTH PERMANENT MAGNETS

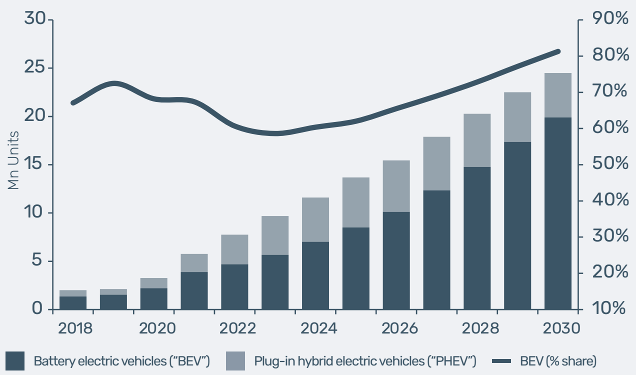
A shift away from fossil fuel consumption to renewable energies and the widespread adoption of green technology are essential for the alleviation of rapid climate change and the wellbeing of the planet. Global wind power growth must triple by 2030 in order to avoid the worst impacts of climate change[1]. However, the low-carbon technologies required to drive the energy transition require an increased and intensive mineral demand.

Central to this mineral demand are rare earth elements – in particular, neodymium, praseodymium ("NdPr") dysprosium ("Dy") and terbium ("Tb") – which are used to make compact, high-strength permanent magnets employed in a variety of modern-day industry, with uses in hybrid and electric vehicles ("EVs") and wind turbines, as well as satellite technology for the aerospace and defence sectors. Permanent magnets, which accounted for 71% of value and 23% of market volume in 2021, are one of the most important and growing drivers of medium - to long-term rare earths demand.

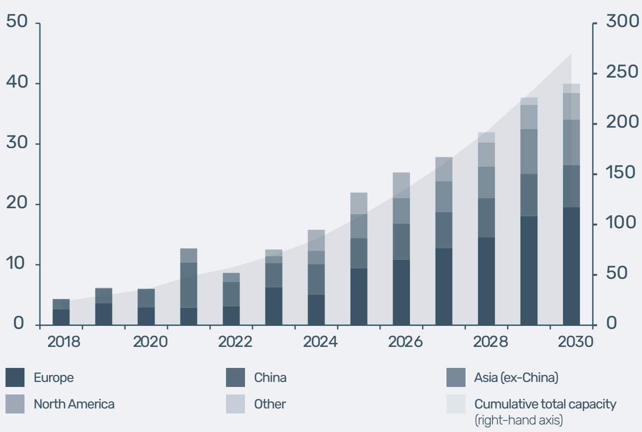
The global expansion of wind power and renewable energy raises the prospects of growing imbalances in supply and demand for NdPr, Dy and Tb. Argus forecasts that the offshore wind turbine market will grow at close to 25% per annum between 2020 and 2030, based on data from the Global Wind Energy Council ("GWEC").

The substantial increase in demand driven by 2050 global wind power targets will only be met if rare earth elements production rises 11 to 26 times over present levels. Some analysts foresee demand for rare earth elements in China rising 18 times over 2020 levels by 2050[2].

Rising EV sales forecasts[3]



Capacity acceleration in offshore wind market



1 Argus Media Ltd ("Argus")

2 IRENA - Critical Metals for the Rare Energy Transition: Rare Earth Elements

3 Argus Rare Earths Analytics April 2022

MARKET OVERVIEW CONTINUED

DEMAND IS UNDERPINNED BY GLOBAL MEGATRENDS AND LEGISLATION

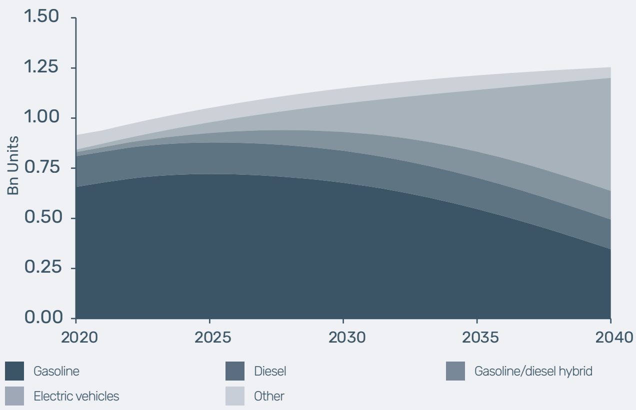
Key global megatrends are driving strong and diversified demand for NdPr:

- Automation: Accelerating technological progress.
- Low carbon transition: Environmental protection and climate change.
- Sustainable resource security: Increasing scarcity and global competition for resources.
- Supply chain security: Against a backdrop of heightened national protectionism.

Demand accelerated by evolving global emissions legislation and international sustainability policy and targets:

- Rare earths have been designated as critical and strategic metals by the US Federal Department of the Interior, the Government of China, the UK Government and the EU Parliament.
- A policy paper was outlined in July 2022 for the UK's first critical minerals strategy including the broad group of rare earth elements specifically for permanent magnets.
- The EU has announced the Raw Materials Act, a legislative proposal aimed at building a more resilient supply chain, supporting projects and attracting more private investment from mining to refining, processing and recycling.
- The UK's offshore wind capacity target has been increased from 40GW to 50GW by 2030.
- The EU is targeting at least 30 million EVs by 2030 and is proposing legislation to completely cut emissions from cars and vans by 2035.
- France aims to produce one million EVs annually by 2025.
- The Biden administration has set a 50% EV sale share target in the U.S. by 2030.

Passenger vehicle fleet forecast[4]



4 Argus

5 International Energy Association, The Role of Critical Minerals in Clean Energy Transitions

6 Argus

7 Magnet rare earth oxides comprise Nd, Pr, Dy and Tb

RARE EARTHS SUPPLY CONSTRAINTS

With production still concentrated in China (accounting for a 90% market share of the rare earths refining market in 2019[5]) and the long lead time and high costs associated with bringing traditional hard rock deposits into production, rare earth supply constraints could derail the success of global decarbonisation. It is regularly noted that the Chinese dominance of the rare earths market has resulted in supply chain uncertainties, and that an ethical and sustainable independent supply chain for strategic materials is required.

Whilst they are found in abundance throughout the world, rare earths are typically co-located in small concentrations, with a significant number of projects being low quality or having high levels of radioactive elements, making them uneconomical or adding to processing complexity.

Whilst some rare earth supply increase is expected over the next decade, it is not forecast to meet the growing demand for permanent magnet materials[6]. According to Argus, new projects will be required to supply c. 25% of the rare earths market by 2030.

RARE EARTHS PRICING OUTSTRIPPING FORECASTS

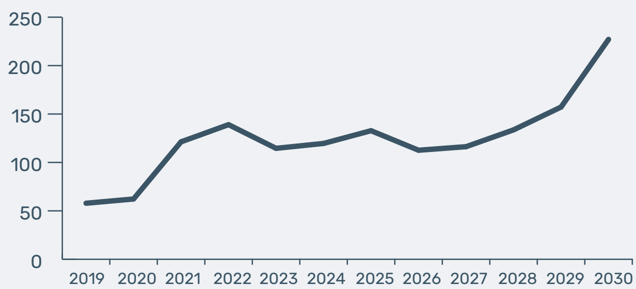
Phalaborwa's rare earths basket price has risen 82% in FY 2022 to US$173.91/kg magnet rare earth oxides[7] at 30 June 2022, significantly outstripping forecast price rises. Nd prices increased 94% from US$74.50/kg to US$144.75/kg and Pr rose 74% from US$82.50/kg to US$143.75/kg.

Driven by a ban on importing rare earths from Myanmar to China (lifted in November 2021) and global logistics pressures, rare earths prices hit 10-year highs in the first quarter of calendar year 2022, with permanent magnet prices having more than doubled since mid-2021. Post financial year end, prices have dropped back in line with Argus forecasts.

For the Gakara project this has driven the estimated realisable price per ton of rare earth concentrate to grow from US$2,767 at 30 June 2021 to US$4,966 at 30 June 2022.

The chart below shows the expected average price per kg of separated rare earth oxides produced at Phalaborwa through to 2030 based on the Argus price forecasts:

Forecast Phalaborwa basket price US$/kg rare earth oxide



DEVELOPING A RESPONSIBLE RARE EARTHS SUPPLY CHAIN

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CHAIRMAN'S STATEMENT

"WITH OUR NEAR-TERM DEVELOPMENT OPPORTUNITY AT PHALABORWA, RAINBOW IS WELL POSITIONED TO CONTRIBUTE TO A RESPONSIBLE, INDEPENDENT SUPPLY CHAIN"

"Our unique and innovative technologies will be instrumental in unlocking sources of critical permanent magnet rare earths which are required to drive global decarbonisation"

From wind turbines to EVs, clean energy is dependent on unlocking increased supplies of critical minerals, including rare earths such as neodymium, praseodymium, dysprosium and terbium which are fundamental components in permanent magnets.

Current geopolitical tensions and energy security risks serve to further highlight the urgency of the clean energy transition, which will not be possible without a reliable supply of minerals. According to the IEA, demand for rare earth elements by 2040 may rise between three and seven times from today's levels.

China currently dominates the global production of rare earth magnets; however, many major governments have now implemented critical and strategic materials policies, with a focus on creating independent rare earth supply.

Rainbow has recently become a member of the European Raw Material Alliance ("ERMA") - an essential alliance which is working to accelerate the green and digital transition through securing and reinforcing rare earths supply chains. Aiming to make Europe economically more resilient, ERMA's goal is to diversify supply chains, promote innovation, create jobs, and attract investment.

With our near-term development opportunity at Phalaborwa, alongside our unique and innovative technologies and processes, we believe Rainbow is well positioned to contribute to a responsible, independent supply chain, unlocking sources of critical permanent magnet rare earths which are required to drive global decarbonisation.

According to Adamus Intelligence, a major shortage of NdPr is predicted by 2035 due to a lack of rare earths sources in the market and the inability of existing producers to increase their output. This underscores the compelling opportunity presented to Rainbow, both at Phalaborwa and from the wider application of our proprietary technology, to achieve near-term, responsible and efficient rare earths production from secondary sources.

Rare earth prices rose substantially in FY 2022, with Phalaborwa's basket price up 82% to US$173.91 per kg of magnet rare earth oxides. Whilst prices fell back after the end of the financial year, they have since moved upwards again and the long-term supply demand fundamentals support significant increases towards the second half of this decade.

We have made significant strides forward in 2022 with a number of interesting collaborations and opportunities which we believe will be central to harnessing value from rare earths contained within secondary sources. Rainbow continues to work closely with K-Technologies Inc. ("K-Tech") and is planning on jointly patenting the rare earths extraction technology we have together developed. We are also collaborating with OCP S.A. ("OCP"), the Moroccan world leading producer of phosphate products, and Mohammed VI Polytechnic University ("UM6P"), a Moroccan university, by signing a Master Agreement in August 2022 on rare earths extraction from phosphogypsum. In addition to this, we signed a Memorandum of Understanding with a major chemicals company in South Africa in June, as part of which we are investigating the opportunity to extract rare earth elements from a nitro phosphate process stream and identifying further global opportunities for our unique rare earth extraction technology.

At our Gakara project in Burundi, which has been on care and maintenance since June 2021, we continue to engage constructively with all stakeholders and remain confident in our ability to resolve the issue and allow operations to recommence.

On behalf of the Board of Directors, I would like to extend our gratitude to our shareholders for their steadfast support, and to Rainbow's management team, employees and contractors for their unwavering commitment to the business' success. We also thank our host governments for their continued productive engagement. Having contributed a considerable amount of value to the Board since we founded the Company in 2011, Robert Sinclair resigned as a Non-Executive Director due to health reasons in January 2022. The Board joins me in thanking Robert for the considerable contribution he has made to Rainbow.

Our purpose is to produce the critical rare earth products required to progress the global green technology revolution in an efficient and responsible manner and thanks to the good progress at Phalaborwa, I believe we are working well towards achieving this goal.

I am encouraged by additional opportunities to leverage our intellectual property and technology to extract rare earths from phosphogypsum. Through our processing projects, which have fundamentally different risk profiles to traditional rare earth mining projects, we see enormous potential to facilitate near-term access to sources of critical permanent magnet rare earths, which are required to decarbonise energy systems in an environmentally responsible way.

Adonis Pouroulis
Chairman

CHIEF EXECUTIVE'S STATEMENT

"WE HAVE BEEN ABLE TO IDENTIFY AND CONFIRM A NOVEL BUT PROVEN PROCESS WHICH WILL ALLOW US TO RECOVER VALUABLE RARE EARTH OXIDES FROM PHOSPHOGYPSUM IN A LOW CAPEX AND OPEX MANNER"

CHIEF EXECUTIVE'S STATEMENT CONTINUED

This has been a year of notable progress for Rainbow, enabling us to unlock a valuable, near-term source of the rare earth permanent magnet metals required so urgently to drive the global green energy revolution. This has involved carrying out a programme of detailed test work at Phalaborwa to better understand the exciting opportunity presented by this asset, leading to the development of an economic flowsheet and the recent publication of the preliminary economic assessment ("PEA").

By concentrating on phosphogypsum opportunities, the usual, extensive resource definition period is removed, significantly reducing the long lead time and risks associated with bringing a traditional mine into production. In addition, we benefit from considerable reductions in capital ("capex") and operating costs ("opex") compared to a traditional mine, due to the absence of hard rock mining, mine waste disposal, ore crushing and milling within the overall project cost base. Because the rare earth elements are present in a "cracked" chemical form in the phosphogypsum, Rainbow's process will deliver separated rare earth oxides in a single process flowsheet at site. This replaces the multiple stages of reagent intensive processing usually required to crack a rare earth mineral concentrate and separate out the rare earth oxides from a mixed rare earth carbonate. Rainbow's process is also expected to have a number of environmental benefits covered on page 17.

Phalaborwa's PEA, which establishes an NPV_{10}[1] of US$627 million, an IRR[2] of 40%, an average operating margin of 75% and a payback period of only 2 years, corroborates our long-held view of the operation's enormous potential as a low capital intensity, high margin, near-term rare earths development project. The base case financial model presented, using near-term rare earth price forecasts well below 2022 averages, demonstrates a robust project with low sensitivity to changes in both rare earth prices and costs.

"The PEA represents a breakthrough step in the development of Phalaborwa"

The work carried out to date at this asset demonstrates Rainbow's ability to overcome the historical technical, environmental, and economic challenges related to extracting rare earths from phosphogypsum. Importantly, whilst the configuration of the process flowsheet is innovative, each individual stage is well tested on a commercial basis, with the required equipment and reagents being readily available.

The successful completion of this PEA represents not only a breakthrough step in the development of Phalaborwa, demonstrating the viability of this opportunity, but also underscores the broader potential to use our unique IP and technology to extract rare earths from other phosphogypsum sources on a global scale. We now intend to advance to feasibility study, identify all permits required for Phalaborwa's development, engage with the relevant authorities to expedite permitting and undertake further process optimisation tests culminating in an extensive process pilot plant operation.

We are committed to responsible business practices from an environmental, social and governance perspective. As a brownfield site, the development of Phalaborwa provides us with a significant opportunity to make positive environmental, social and economic impacts. Effective stakeholder engagement will be a fundamental part of project development, concentrating on understanding key risks and integrating stakeholder considerations into project development decisions to create long-term value.

I believe Phalaborwa's PEA accurately reflects the rigour and expertise we apply to project assessment. As a team, we have led numerous projects through development and have significant experience throughout the asset lifecycle from optimisation and feasibility to plant construction and commissioning. I am exceptionally proud of the progress we have made over the past few years and am confident that we have the right people in place to take Phalaborwa's development forward. With our proven operating experience, unique phosphogypsum processing intellectual property and portfolio of opportunities, I believe that Rainbow is well positioned to develop a responsible rare earths supply chain to drive the green energy transition.

George Bennett
Chief Executive Officer

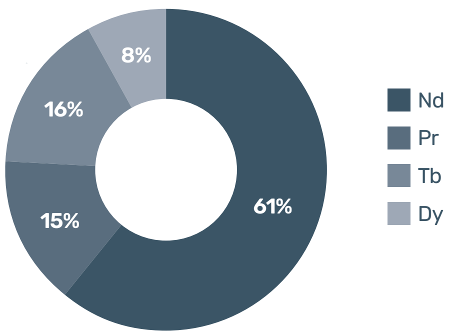
1 Net present value using a 10% forward discount rate

2 Internal rate of return

PHALABORWA
SOUTH AFRICA

EXCITING NEAR-TERM GROWTH OPPORTUNITY

Contribution of TREO by oxide



Key PEA economic outputs

Post-tax NPV_{10}
627.4
US$million

Operating margin
75%

Post-tax IRR
40%

Average operating costs
33.86
US$/kg

Rainbow's Phalaborwa rare earths project in South Africa presents the Company with an exciting near-term opportunity to extract rare earths from a secondary source. Contained in phosphogypsum in two unconsolidated stacks derived from historic phosphate hard rock mining, the rare earths are in a "cracked" chemical form allowing separated rare earth oxides to be produced at site. With no significant costs associated with mining, crushing and grinding ore, or with chemical cracking of the underlying rare earth minerals, the project economics are exceptionally strong.

Phalaborwa has an inferred mineral resource estimate of 30.7Mt at 0.43% TREO, with a rare earth basket that is weighted towards high value NdPr oxide, a critical building block for the global energy transition, which represents 29.1% of the total contained rare earth oxides. Economic Dy and Tb oxide credits further enhance its overall value. Phalaborwa's NdPr grade is substantially higher than a typical low-cost ionic clay rare earth project; much closer to traditional hard rock style deposits.

Fundamental to unlocking the rare earths contained within the phosphogypsum at Phalaborwa (and more widely) is the innovative processing flowsheet developed by Rainbow in parallel with K-Tech. It represents a breakthrough in allowing for the economic extraction of rare earth elements from phosphogypsum, which has historically proven to be challenging. The flowsheet will comprise the following steps (see further detail on page 15):

- Phosphogypsum will be reclaimed hydraulically from the existing stacks and pumped to the processing facility removing soluble impurities prior to the leach process.
- A pre-leach regime will be employed to remove fluoride from the gypsum stream, allowing rare earth grades in the pregnant leach solution to be maximised. The extracted fluoride will produce reagents for use elsewhere in the processing circuit, reducing operating costs.
- The fluoride leached phosphogypsum progresses to a rare earth counter current sulphuric acid leach system for the extraction of the target rare earth elements. This allows for successful recycling of the various acid streams to optimise the overall processing costs.
- A rapid consolidation process for the rare earths in the pregnant leach solution allows the rare earths to be concentrated with primary impurity rejection. This process replaces the originally anticipated nano filtration system, which significantly improves the overall acid recycling, thereby reducing operating costs.
- The rapid consolidation process feeds the downstream continuous ion exchange and continuous ion chromatography processes to deliver separated rare earth oxides. The flow rates to these processes are considerably lower than originally anticipated using nano filtration techniques resulting in significant capital and operating cost savings.

Inferred mineral resource

30.7Mt

at 0.43% total rare earth oxides

High value NdPr

29.1%

of total rare earth oxides

PHALABORWA
CONTINUED

PHALABORWA PEA

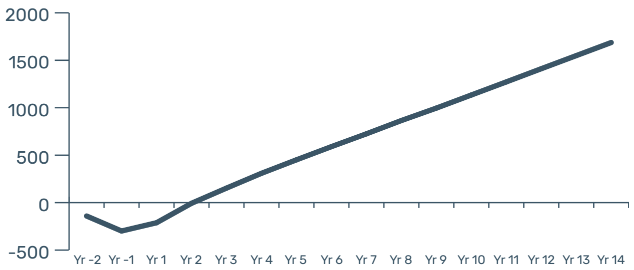
Rainbow is earning a 70% interest in the Phalaborwa project by delivering a pre-feasibility study, which is now in planning having published the strong economic outcome from the PEA.

Robust base case economics
The PEA was based on processing 2.2 million tonnes per annum of phosphogypsum over a 15-year project life to deliver 26,208 tonnes of separated rare earth magnet oxides at an average cost of US$33.86/kg. This delivers an exceptional 75% operating margin at the base case basket price of US$137.92 per kg for the rare earth oxides, based on near term forecasts well below both 2022 year to date average prices and long-term market forecasts.

The base case financial model set out in the PEA delivered exceptionally robust economic returns including:

- Post-tax NPV$_{10}$ of US$627.4 million, representing 212% of the US$295.5 million total capital cost[1];
- Post-tax IRR of 40%; and
- Post-tax payback of upfront capital costs after 2.0 years of operations.

Cumulative cash flow[2]



1 In addition, pre-production costs totalling US$4.0 million are incurred to neutralise water from the gypsum stacks for use as processing water.

2 Post-tax, from base case scenario over the total project life.

NPV upside using year-to-date prices
Using 2022 year to date average rare earth prices or long term forecast rare earth prices, the PEA delivers an EBITDA operating margin over 80%, with an NPV of c. US$1 billion and a payback of 1.7 years.

Minimal sensitivities to cost
The project is insensitive to changes in costs, including an overall low energy intensity at just 20% of annual operating costs. Against a backdrop of the anticipated demand strength and supply constraints for permanent magnet rare earths forecast over the next decade and beyond, Phalaborwa is expected to deliver an independent source of responsibly sourced rare earth oxides for the green revolution.

Environmental benefits
Studies at Phalaborwa have highlighted the environmental benefits of the project, which include very low levels of radioactivity (exempting Phalaborwa from radioactivity regulation) and the ability to neutralise the existing water from the stacks for reuse in a closed circuit as plant process water. In processing material from the existing gypsum stacks at Phalaborwa, we aim to remove existing environmental liabilities and redeposit benign gypsum on a new stack, built according to International Finance Corporation ("IFC") Performance Standards and Equator Principles.

Next steps
Following the publication of the PEA, Rainbow intends to advance the project to feasibility study, identify all permits required for the Project to be developed, engage with the relevant authorities to expedite permitting and undertake further process optimisation tests culminating in an extensive process pilot plant operation. A resource update is also expected for Phalaborwa following drilling work undertaken in June 2022.

GAKARA BURUNDI

The Gakara rare earths project is located in Western Burundi covering an area of approximately 135km². The project benefits from good infrastructure, with road links to Dar es Salaam, Tanzania and Mombasa, Kenya. Trial mining and processing has demonstrated that a high-grade rare earth mineral concentrate, with a 19-20% NdPr content, can be consistently produced via simple gravity separation from the narrow high-grade rare earth veins found across the Gakara licence area.

Gakara was placed on care and maintenance in June 2021 at the request of the Government of Burundi, with the majority of staff placed on suspension and short-term cash requirements minimised. Rainbow continues to engage constructively with all stakeholders to resolve the issue and allow operations to recommence.

On the expected restart of operations, Rainbow will assess the available options to move the project to commercial production.

DEVELOPING NEW SOURCES OF RARE EARTHS FROM PHOSPHOGYPSUM

What is phosphogypsum?

Phosphogypsum is a waste by-product from the processing of phosphate rock in plants producing phosphoric acid and phosphate fertilisers, such as superphosphate.

Available on a global scale in large volumes, phosphogypsum is an attractive secondary source of rare earth elements.

The successful global transition to clean energy is reliant on a considerable increase in supply of critical materials. Rainbow is focused on identifying the optimal way of producing rare earths responsibly from secondary sources, removing significant time, risk and cost from the overall project timeline.

Phosphate rock is mined all over the world, with over three quarters of global reserves located in Northern Africa. Given the prevalence of phosphate mining, phosphogypsum is available throughout the world in large volumes. This makes it an attractive secondary source of rare earth elements.

Recognising this enormous potential, our team is concentrated on securing opportunities for both collaboration and expertise sharing, as well as gaining access to new supply.

In June, Rainbow entered into a Memorandum of Understanding with a diversified chemicals group based in South Africa to investigate the opportunity of extracting rare earth elements from a nitro phosphate process stream at its phosphoric acid production plant near Johannesburg in South Africa.

Under the terms of the MoU, Rainbow is conducting a rare earths extraction pilot study with the chemicals group, involving initial grade test work on processing stream material. This will be followed by a technical programme to confirm a flowsheet using Rainbow's unique knowledge and IP.

The feedstock for the phosphoric acid production plant originates from the same ore originally mined by Foskor that generated the two gypsum stacks at Phalaborwa. Preliminary sampling of the processing stream indicates a grade of 0.81% TREO, with a circa 27% weighting to high-value NdPr, alongside economic levels of terbium and dysprosium, similar to Phalaborwa.

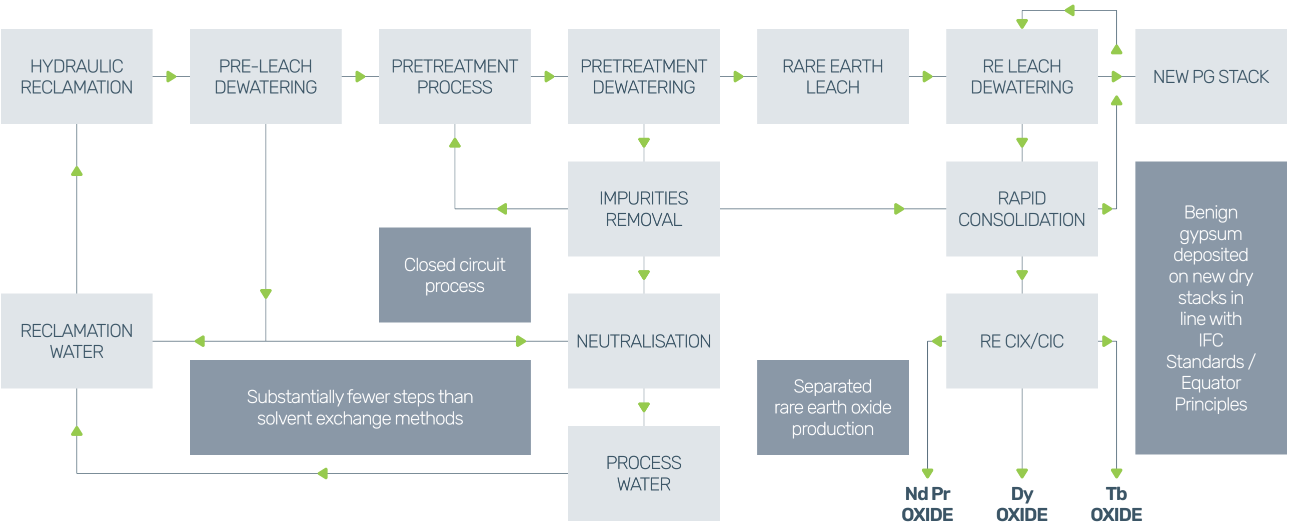
Direct costs associated with the pilot study utilising Rainbow's exclusive IP and technology will be financed by the chemicals group. Subject to a successful outcome, the parties intend to negotiate terms for a potential joint venture agreement to extract value from the rare earths present in the phosphoric acid processing stream.

Post Year-end, in August 2022, Rainbow entered into a Master Agreement with OCP, the Moroccan world leading producer of phosphate products, and UM6P, a Moroccan university with a strong focus on science, technology and innovation, to further investigate and develop the optimal technique for the extraction of rare earth elements from phosphogypsum.

Together with the innovative research carried out by UM6P, OCP has built up significant IP assets and expertise in the field of phosphogypsum processing. This provides a synergistic opportunity for joint development with Rainbow, given Rainbow's expertise and intellectual property on rare earths extraction and processing gained from work carried out to date at Phalaborwa. OCP and UM6P will contribute with their respective expertise, including adapted complementary separation technologies. The Parties intend to develop the optimal route for the extraction of rare earths from phosphogypsum, and the development of pilot and industrial-scale extraction of rare earths from phosphogypsum.

UTILISING OUR BREAKTHROUGH TECHNOLOGY

OUR PROCESS



The recovery of rare earths from phosphogypsum arising as a residue from phosphoric acid production has been the subject of international research for many years. However, the process has proven technically, environmentally and economically challenging.

In 2022, following a robust international test work programme, Rainbow confirmed the successful development of a process flowsheet to extract rare earth elements efficiently from the phosphogypsum stacks at Phalaborwa using an innovative process developed in collaboration with K-Tech. Rainbow and K-Tech and are now in the process of jointly patenting this breakthrough.

The process flowsheet utilises existing technology, proven at a commercial scale across a number of industries, in a novel way. The process includes a number of simple steps to remove impurities from the phosphogypsum before leaching the rare earth elements into a high-grade pregnant leach solution. Efficient recycling of leach streams ensures reagent costs are optimised.

The high grade mixed rare earth solution is ultimately fed into a patented continuous ion exchange ("CIX") and continuous ion chromatography ("CIC") system. This allows for the recovery of high purity separated magnet rare earth oxides with far fewer steps than a traditional solvent exchange process. Unlike traditional separation techniques, the process does not involve the costly separation of low value products, such as cerium and lanthanum, before the high value magnet rare earth oxides can be targeted.

The production of separated magnet rare earth oxides in a single processing facility, without the need to ship significant volumes of low value or waste material between a mine, cracking plant and separation facility, also provide significant environmental and cost benefits when compared to traditional methods.

CIX and CIC are patented and proven processes

Fast, efficient, and precise extraction of trace quantities of target materials from high volume streams

Safe, simple to run, and can operate at a range of temperatures

PRODUCING THE CRITICAL RARE EARTH PRODUCTS REQUIRED TO PROGRESS THE GLOBAL GREEN TECHNOLOGY REVOLUTION IN AN EFFICIENT AND RESPONSIBLE MANNER

OUR CORE VALUES

ZERO HARM
to our people, to the local population, to the wider community and the environment

INTEGRITY
undertaking all our business dealings and relationships with the utmost integrity

RESPECT
for our colleagues, for our local communities and for our customers and stakeholders

ACCOUNTABILITY
to be willing to take responsibility for all our actions

TRANSPARENCY
to conduct all of our business dealings to the highest level of transparency

COURAGE
to be prepared to persevere when others would not

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONTINUED

PEOPLE

Health and safety

Our primary objective is to achieve a zero-harm working environment. Strong occupational health and safety management will always remain a core priority as we progress with the development of Phalaborwa, and we are committed to supporting employee health.

Governance, ethics and values

We uphold strong corporate governance and are committed to ethical business practices, underpinned by our policies, including the Group Code of Conduct. Clear anti-bribery and whistleblowing procedures are in place, with further detail on page 29. Our core values aim to inform a constructive and positive culture at Rainbow. Based on six key principles, our values guide behaviour and business practices.

Fair employment

Rainbow prioritises responsible and fair employment practices and looks to provide a working environment in which everyone is treated with respect. Rainbow is an equal opportunity employer and we do not tolerate discrimination against any of our employees on any grounds (including race, creed, gender, sexuality) and will treat any instances of discrimination as serious misconduct.

ENVIRONMENT

Through environmentally responsible production of rare earths, with a specific focus on NdPr, Rainbow is contributing to the clean energy transition. NdPr are fundamental components in permanent magnets for use in EVs and wind turbines and are therefore critical to global decarbonisation.

Rainbow's unique IP allows us to process rare earth oxides from phosphogypsum in an efficient and responsible way. By retreating secondary material, Rainbow's process at Phalaborwa is expected to have the following environmental benefits:

- Treatment of acidic water currently contained within the gypsum stacks for use in closed circuit in the processing plant;
- Lower use of energy and reagents when compared to traditional hard rock mining deposits;
- Cleaning up historical contamination by redepositing clean, benign gypsum on a new stack, designed in accordance with IFC Standards / Equator Principles; and
- Potential use of the gypsum by-product in the building and other industries.

As we progress to development, we are committed to sound environmental management and endeavouring to minimise any negative impacts of our operations on the physical environment.

COMMUNITY

Rainbow looks to make a positive contribution to the communities in which we operate through the provision of local employment opportunities, the support of local supply chains, community assistance and the transparent payment of taxes and royalties.

Stakeholder engagement will be a fundamental part of project development as the Company progresses Phalaborwa. Our primary aims will be focused on building mutual trust and respect, opening clear lines of communication, understanding key risks and integrating stakeholder considerations into project development decisions to create long-term value.

FINANCIAL REVIEW

PRODUCING THE CRITICAL RARE EARTHS REQUIRED TO PROGRESS THE GLOBAL GREEN TECHNOLOGY REVOLUTION IN AN EFFICIENT AND RESPONSIBLE MANNER

PROFIT AND LOSS

With Rainbow's strategic focus on processing rare earths from secondary sources, predominantly at Phalaborwa in South Africa, and the Gakara project remaining on care and maintenance throughout the year, the income statement represents the administrative costs for the Group for the year.

Income statement costs associated with maintaining the Gakara project on care and maintenance totalled US$1.3 million (FY 2021: US$0.8 million). The increase is due to the change in treatment of costs previously capitalised within exploration and evaluation assets. In FY 2021 a total of US$1.9 million was spent at Gakara, of which US$1.1 million was capitalised comprising US$0.4 million of net costs associated with trial mining and processing, US$0.3 million of depreciation on the mining fleet and US$0.4 million of direct exploration costs. With the project on care and maintenance throughout FY 2022, all costs associated with Gakara are recognised within the income statement as they do not represent costs incurred to evaluate the commercial viability of extracting the mineral resource at the Gakara project. The reduced overall cost base at Gakara in FY 2022 includes costs associated with suspending staff contracts up to 31 December 2021, following which the team was reduced to a core of 22 staff to safeguard the assets and maintain the administration in country. All staff with terminated employment contracts received redundancy payments in accordance with Burundi law.

The Group's corporate costs grew in FY 2022. With the expected fast track development of Phalaborwa, the administrative structures for the Group are being strengthened, and a new administrative hub has been established in South Africa. FY 2022 costs totalled US$2.3 million, increasing from US$1.9 million in FY 2021, predominantly driven by staff costs.

Net finance costs of US$0.3 million (FY 2021: US$nil) relate primarily to foreign exchange differences. Gains on movements between the Burundian Franc ("BIF") and US dollars, the functional currency of the Group, were offset in FY 2022 by losses on movements between GB Pounds, which the Group holds to match future expected costs, and US dollars. Finance costs also include US$0.1 million (FY 2021: US$0.1 million) associated with the FinBank loan in Burundi.

The corporation tax rate in Burundi is 30%. In the absence of taxable profit, a minimum tax is charged calculated as 1% of revenue. The tax charge in the year represents an adjustment to minimum tax from prior periods.

BALANCE SHEET

The Group balance sheet includes US$9.8 million of non-current assets at 30 June 2022 relating to Gakara, including US$8.6 million of exploration and evaluation costs and tangible fixed assets with a net book value of US$1.0 million. The Gakara cash generating unit also includes US$0.9 million of inventory, carried at cost, primarily relating to the stock of available for sale rare earth concentrate in Burundi. Whilst the Gakara project remains on care and maintenance, the Directors are confident that the issues with the Government of Burundi will be resolved, allowing the asset to recommence operations.

A total of US$0.8 million of exploration and evaluation assets were capitalised in the year relating to Phalaborwa, leaving a closing capitalised cost of US$1.9 million. The Group is earning a 70% interest in the Phalaborwa project by completing a pre-feasibility study and at the balance sheet date has no tangible fixed assets and no obligations for environmental closure at the Phalaborwa site.

The Group balance sheet includes US$0.3 million of tax receivables relating to the historic overpayment of royalties and VAT recoverable in Burundi, both measured at expected recoverable value. There are also US$0.5 million of tax and government liabilities in Burundi.

During the year, the Group significantly strengthened its balance sheet, raising US$8.5 million, net of costs, at a price of 15 pence per new Ordinary Share in October 2021. This funding allowed the Pipestone loan to be fully repaid, including accrued interest, via US$0.9 million cash and US$0.2 million equity at 15p per new Ordinary Share. The sole remaining long-term financial liability is the US$0.6 million FinBank loan in Burundi, on which capital repayments are currently being deferred. At 30 June 2022, the Group has US$4.1 million of cash which is predominantly held with Barclays Bank in London.

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 in the period arising as a result of Rainbow's activity, including direct taxes (such as land taxes, duties etc) and indirect taxes (such as payroll taxes, withholding tax, and net VAT paid).

	FY 2022			FY 2021		
US$'000	**South Africa**	**Burundi**	**Total**	UK	Burundi	Total
Royalties	**-**	**-**	**-**	–	36	36
Permit and land taxes	**-**	**-**	**-**	–	–	–
Corporation tax	**-**	**2**	**2**	–	–	–
Duties & other	**-**	**-**	**-**	–	22	22
Total tax borne	**-**	**2**	**2**	–	58	58
Payroll tax	**44**	**78**	**122**	91	154	245
Withholding tax	**-**	**-**	**-**	–	13	13
Net VAT	**(21)**	**(4)**	**(26)**	–	(12)	(12)
Total net payments to government	**22**	**76**	**22**	91	213	304

Royalty payments relate to the Burundi government royalty of 4% charged on the value of exports of rare earths mineral concentrate. No royalties were paid in the current year as operations in Burundi, including all exports, are suspended by the Government.

Permits and land taxes include annual taxes payable to the Government of Burundi under the terms of the Mining Convention for the Mining Permit at Gakara – no payments were made during the current financial year as the Burundi operations are suspended, with the annual cost accrued in the financial statements.

Corporation tax is payable in Burundi based on a minimum 1% of turnover whilst the local operating entity remains loss making. No turnover was reported in the current year with the reported tax payments relating to payments on account to be off-set against future tax liabilities.

Payroll taxes and VAT (net of recovered amounts) are included as they represent funds paid by the Group to the government either directly or via suppliers.

WE ARE COMMITTED TO THE HIGHEST STANDARDS OF CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

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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 2022.

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 development of rare earth minerals projects in South Africa and 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 rare earth minerals projects to become a globally significant and responsible producer of rare earth metals. Once operational, the net cash generated from the Group's projects will be used to service the Company's financing, re-invested in further rare earth project development opportunities, or (where appropriate) repaid to investors in the form of dividends.

In the short term, this strategy is focused on the Phalaborwa rare earths Project in South Africa, where an inferred mineral resource has been defined contained within gypsum stacks derived from historic phosphate hard rock mining. The recently announced preliminary economic assessment has confirmed that the Phalaborwa development opportunity represents an economically attractive potential source of rare earth oxides. The Gakara Project in Burundi is currently on care and maintenance as set out in the Operations Review on page 13.

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 to 27.

Advisers
The Company's advisers are set out on the inside back cover.

Financial results
During the 12 months ended 30 June 2022, the Company reported a net loss of US$3,985k (year ended 30 June 2020: net loss of US$2,742k).

No dividends have been declared in respect of the years ending 30 June 2022 or 2021.

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

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

Robert A.G. Sinclair retired on 18 January 2022 as Non-executive Director.

Directors' remuneration

	Salary/fees (US$'000)		Bonus (US$'000)		Total (US$'000)	
	June 2022	June 2021	**June 2022**	June 2021	**June 2022**	June 2021
Executive Directors						
George Bennett [1]	**325**	269	**134**	–	**459**	269
Non-Executive Chairman						
Adonis Pouroulis	**93**	68	**-**	–	**93**	68
Non-Executive Directors						
Alexander Lowrie	**53**	42	**-**	–	**53**	42
Atul Bali	**49**	40	**-**	–	**49**	40
J Peter Pham	**47**	6	**-**	–	**47**	6
Shawn McCormick	**53**	42	**-**	–	**53**	42
Robert Sinclair	**30**	42	**-**	–	**30**	42
Total	**650**	509	**134**	–	**784**	509

1. In addition to salary, as set out in note 18 to the Financial Statements, Pipestone Capital Inc, in which George Bennett has a beneficial interest, earned interest on an unsecured bridge loan, which was settled in December 2021 by cash and shares issued.

George Bennett's salary was increased with effect from 1 April 2021 from US$250k per annum to US$325k per annum. He is not entitled to any other benefits. George also received a cash settled bonus during the current year.

Non-executive Directors' fees were increased with effect from 1 April 2021 as follows:
- Adonis Pouroulis fees as Non-executive Chairman were increased from £42.5k/annum to £70.0k/annum.
- Other Non-executive Director fees were increased from £27.5k/annum to £35k/annum, with an additional £5k per annum paid to Non-executive Directors (excluding the Non-executive Chairman) who are chairmen on formal Board Committees as set out on page 30.

Atul Bali (Non-executive Director) was appointed as Chairman of the Audit Committee during the year and therefore his fees increased from £35.0k to £40.0k in February 2022.

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 21 October 2022 is as follows:

Name of Shareholder	Number of ordinary shares	% of Share Capital
Pella Group (beneficially owned by Adonis Pouroulis)	76,478,864	14.6%
Pipestone Capital Inc (beneficially owned by George Bennett)	35,601,683	6.8%
Robert Kampf	28,753,578	5.5%

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 21 October 2022 are as follows:

Position	Number of ordinary shares	% of Share Capital
Adonis Pouroulis		
Non-executive Chairman	76,478,864	14.6%
George Bennett		
Chief Executive Officer	35,601,683	6.8%
Alexander Lowrie		
Non-executive Director	6,075,124	1.2%
Atul Bali		
Non-executive Director	3,657,992	0.7%
J Peter Pham		
Non-executive Director	250,000	0.0%
Shawn McCormick		
Non-executive Director	9,316,571	1.8%
Pete Gardner		
Senior manager	200,000	0.0%
Total	**131,580,234**	**25.1%**

Website publication

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

Going concern

The Directors have reviewed the Group's cash flow forecasts for at least 12 months following the reporting date, together with appropriate sensitivities and mitigating actions. A full analysis of the Directors analysis of the going concern status of the Group is set out in note 2 to the Financial Statements.

After considering available cash, loan facilities anticipated to remain available, forecast cash flows and anticipated fundraising activities the Directors consider that the Group will have adequate resources to continue its operational existence for the foreseeable future. However, the cash flow forecast includes additional fundraising which is not yet in place. The Directors believe that the need to raise further funds represents a material uncertainty that casts doubt on this assumption. Nevertheless, the Directors continue to adopt the going concern basis in preparing the consolidated 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
21 October 2022

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 CEO of Chariot Oil & Gas (AIM: CHAR), founder and chairman of the Pella Resources Group, and was the founder and chairman of Petra Diamonds (LSE: PDL). Adonis holds a Bachelor of Science Degree (Honours).

George Bennett
(Chief Executive Officer)

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 (which he seed funded and helped raise the initial capital as a Non-executive Director) 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.

Alexander Lowrie
(Non-executive Director)

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

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 a strategic advisory services company and an adviser to the Pella Resources Group.

Atul Bali
(Non-executive Director)

Atul is a corporate CEO and board member with extensive experience in tech, government contracting and regulated industries operating on all six continents. Over more than 20 years, he has led in excess of 50 M&A and JV transactions in over 25 countries and both managed and served on the boards of several highly regulated businesses. Currently he advises a number of high-growth technology companies, is chairman of the Football Pools and a non-executive director of Everi Holdings Inc (NYSE:EVRI). 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 trained as a Chartered Accountant with KPMG in the UK.

J. Peter Pham
(Non-executive Director)

J. Peter Pham is a scholar and practitioner of International Affairs with more than 20 years of experience in Africa. Most recently, he served until January 2021 as first-ever United States Special Envoy for the Sahel Region with the personal rank of Ambassador. He had previously served as the US Special Envoy for the Great Lakes Region of Africa from 2018-2020.

Ambassador Pham is currently a Distinguished Fellow at the Atlantic Council, a preeminent American foreign policy think tank, where he was Vice President for Research and Regional Initiatives and Director of the Council's Africa Center before his service in government. He is the author of several books and more than 300 articles, essays and reviews on African politics, security, and economic issues. He is also a member of the Board of the Smithsonian National Museum of African Art in Washington, DC, serving between 2016-2021 as Vice Chair, as well as a Non-Executive Director of Africell Global Holdings.

SENIOR MANAGEMENT

Pete Gardner
Chief Financial Officer

Pete is a qualified Chartered Accountant with a breadth of experience in financial management and corporate finance in the natural resources sector. He was the Finance Director of Amara Mining plc from October 2009 managing the corporate and financial development of the company culminating in its acquisition by Perseus Mining, and former Chief Finance Officer for Piran Resources, Chaarat Gold Holdings and Alexander Mining plc.

Dave Dodd
Technical Director

Dave has 45 years of extractive metallurgy experience covering research and development, technical sales and predominantly metallurgical project development and execution. He was Technical Director and co-founder of MDM Engineering between 1987-2014. Dave has designed and commissioned plants across Africa and the rest of the world, covering minerals from REEs to gold, platinum, diamonds, copper, zinc, phosphate, cobalt and many others.

Chris Attwood
Project Manager - Gakara

Chris has more than 20 years' experience in mining and extractive industries. He is a qualified mining engineer (Cambourne School of Mines) and has worked throughout Africa (including Tanzania and Eritrea) as well as the rest of the world. As well as rare earths, Chris has experience with gold, tin, coal, and quarrying operations.

Charles Graham
Project Manager - Phalaborwa

Charles is a Mechanical Engineer with 20 years' experience in project management delivering multidisciplinary mining and infrastructure projects in remote and logistically challenging geographical regions. He has successfully completed multiple feasibility studies across Africa and has a proven track record of increasing project value by reducing capital and operating costs during project life cycle from study to execution.

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

PRINCIPAL RISKS AND UNCERTAINTIES

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
Project definition risk including exploration and extractive metallurgy	At Phalaborwa, the Company has announced a preliminary economic assessment which has confirmed a processing flowsheet capable of economically extracting the magnet rare earth metals from the gypsum stacks in a low capital and low operating cost environment. Further test work, including pilot test work to confirm the efficacy of the processing flowsheet, will be required to provide sufficient confidence for project development, which may not deliver results in line with the preliminary economic assessment. At Gakara, the Company does not currently have a code-compliant Mineral Resource or Reserve due to the complexity of the underlying geological mineralisation. It is possible that the quantity of rare earths present in the licence area is less than management expectations with resulting impacts on plans to develop a long-term commercial operation at Gakara.	**High**	The Company's technical team has designed and commissioned numerous commercial plants in Africa, including rare earth projects. A number of alternative options and technologies are considered for each step of the extractive process to ensure that the final flow sheet chosen for the Phalaborwa Project can be delivered. At Gakara, throughout the 2020-21 financial year trial mining of ore, sourced using both mechanical and manual mining methods from across the licence area, confirmed near vein continuity and quality. Batch processing of this material demonstrated the ability to produce a high-grade rare earth concentrate via simple gravity separation for all ore sources identified to date. Subject to operations re-starting, the Company expects to use operating cash flow to define further low-cost exploration techniques to improve confidence in the Gakara mineralisation.
Political risk in Burundi	On 12 April 2021, the Government of Burundi temporarily suspended the export of concentrate produced at Gakara. This was followed on 29 June 2021 with a suspension of all trial mining and exploration activity. All operations remain on care and maintenance at October 2022. There has been no attempt to remove the mining licence for the Gakara project.	**High**	Management understands that the concerns of the Government of Burundi relate principally to the pricing of the rare earth concentrate sold, which was addressed comprehensively in an independent report commissioned by the World Bank in 2019 and accepted by the Government in 2020. Although the situation has persisted longer than originally anticipated, management notes significant changes in the political landscape in Burundi which occurred in September 2022, which have led to further engagement with the authorities. Accordingly, management expects operations at Gakara to resume in the near term.
Financing risk		**High**	The strong economic returns set out in the recently announced preliminary economic assessment for Phalaborwa are expected to ensure funding is available to progress with a feasibility study for that project. At Gakara, the Company expects funds received from the sale of current mineral concentrate to be available to finance the re-commencement of trial mining operations, which at current rare earth prices would not be expected to require further funding to maintain. Longer term, management maintains strong relationships with key sources of finance. Rainbow has a history of securing funding required for the Company's growth plans, including support from its cornerstone investors, and management expects to be able to secure additional funding as required.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Risk	Comment	Business impact	Mitigation
Rare earth prices	Rainbow's strategy is to identify near-term, secondary rare earths production opportunities. Meeting escalating demand for critical minerals needed for global decarbonisation, we are focused on producing the magnet rare earth metals NdPr, Dy and Tb. Whilst analysts are predicting strong growth in demand for rare earths, prices have been volatile in the past. If the underlying rare earth basket price of the Group's development projects fall, this reduces potential revenue that will impact the long-term profitability of the project and could impact the commercial viability of any development. The Company currently has an off-take agreement with ThyssenKrupp for the Gakara Project trial mining activities in Burundi, selling rare earth concentrate at a discount of approximately 70% to the quoted price of the underlying metal oxides.	**High**	The recently announced preliminary economic assessment for the Phalaborwa Project in South Africa, has confirmed a simple, low-cost operation due to the nature of the rare earth mineral resource contained in a chemical form in two gypsum stacks, which will not require many of the processes associated with a primary mineral ore body for the extraction of rare earths. The resulting operating margin will allow Phalaborwa to generate strong returns in a lower rare earth price environment. The Company will aim to negotiate off-take arrangements if required to ensure a commercial development is viable in the interests of all stakeholders. At Gakara the Company expects to re-commence operations, which are not expected to require further funding to maintain at current rare earth prices. In the event of lower market prices, the Company would seek to defend its margins by reviewing its operating cost base, where possible, reducing discretionary expenditure and optimising the scale of developments to minimise the impact of fixed costs and marginal ore.
Civil unrest	Burundi has experienced civil unrest, including most recently in 2015. South Africa experienced some civil unrest in 2021. Any subsequent instances of civil unrest could impact the long-term operations of the Company's development projects, including the ability to obtain supplies, export production and manage administrative matters.	**Medium**	Although civil unrest is beyond the control of management, the Company maintains strict political neutrality in all countries in which it operates. 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.
Currency controls in Burundi	At Gakara, the Company has received sale proceeds in US dollars, which, are repatriated to an account in the Burundi Central Bank. Burundi has experienced shortages of foreign currency reserves in the past, and it is therefore possible that access to US dollars held in country might be difficult. This would affect the Company's ability to meet ongoing foreign currency obligations including international suppliers, servicing of international debt and repatriation of profits.	**Medium**	The Company has the right, under its Mining Convention with the Burundian Government, to unfettered access to its foreign currencies. The Company will continue to monitor currency issues in country and will negotiate flexible terms with the Government as far as possible.

THROUGH RESPONSIBLE PRODUCTION OF RARE EARTHS, RAINBOW IS CONTRIBUTING TO THE CLEAN ENERGY TRANSITION

CORPORATE GOVERNANCE STATEMENT

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 bearing the size and nature of the Company in mind.

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 seven times in the year to 30 June 2022. 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 may not 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 disseminated 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 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 reviews have been put in place to provide the Board (and the Audit Committee) with assurance that the risks inherent to operating a natural resource 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.
- All banking transactions must be initiated and authorised by at least two staff members, one of whom is a senior manager (CEO or CFO). Since the retirement of the General Manager in Burundi, all payments are approved by the CEO or CFO prior to payment being made locally. For international payments, all payments are approved in the on-line banking system by the CFO following sign-off by the CEO.
- Financial operations in Burundi are reviewed regularly by the CFO, both on visits to Burundi and online. During the current financial year, reviews have primarily been conducted in an online environment and in-country visits limited to discussions with the Burundi Government.
- The Group uses a central financial reporting system (Xero) which records all transactions, capturing third party documents (e.g. invoices) which are reviewed by head office on a monthly basis.
- Senior management regularly discuss material developments (normally weekly) and consider financial and reporting implications of any matters arising.

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

CORPORATE GOVERNANCE STATEMENT CONTINUED

Board of Directors

The Company had one Executive Director and five Non-executive Directors at 30 June 2022. All major decisions relating to the Group are made by the Board as a whole. Operations are conducted by the subsidiaries of the Company. In Burundi, the Company is represented on the board of Rainbow Mining Burundi SM by the CEO and CFO.

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;
- Mergers and acquisitions activity and significant transactions;
- Risk management; and
- 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	Age1	Position	Appointed	Audit	Remuneration	Nomination	SHEC
Adonis Pouroulis	52	Chairman	5 Aug 2011	–	Member	Chair	–
George Bennett	61	CEO	27 Aug 2019	–	–	–	Member
Alexander Lowrie	47	Non-exec	16 Nov 2016	Member	Chair	–	Member
Atul Bali	51	Non-exec	29 Mar 2017	Chair	–	Member	–
J. Peter Pham	51	Non-exec	17 May 2021	–	–	Member	–
Shawn McCormick	55	Non-exec	4 Feb 2016	Member	–	–	Chair

1 Ages at 30 June 2022

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 ended 30 June 2022 (see Note 22 for details).

The table below shows the attendance at board and committee meetings during the year ended 30 June 2022:

Name	Board	Audit	Remuneration	Nomination	SHEC
Adonis Pouroulis	7/7	N/A	1/1	0/0	N/A
George Bennett	7/7	N/A	N/A	N/A	1/1
Alexander Lowrie	7/7	3/3	1/1	n/a	1/1
Atul Bali	6/7	3/3	N/A	0/0	N/A
J. Peter Pham	6/7	N/A	N/A	0/0	N/A
Shawn McCormick	7/7	1/1	N/A	N/A	1/1
Robert Sinclair	3/3	2/2	1/1	N/A	N/A

The membership of Board committees was updated in the year following the resignation of Robert Sinclair in January 2022. The table of Board committee attendance is based on the Board committee appointments at the time of the relevant meeting. The Board is 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.

CORPORATE GOVERNANCE STATEMENT CONTINUED

Audit Committee
The Board has established an Audit Committee with formally delegated duties and responsibilities. The Audit Committee is chaired by Atul Bali since January 2022 following the retirement of Robert Sinclair. Alexander Lowrie has been a member of the committee throughout the year. Shawn McCormick was appointed as a member following the retirement of Robert Sinclair.

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

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

The Audit Committee was formally established in January 2017 and met three times during 2021/22. During these meetings, the following matters were considered:

- The audit of the year ended 30 June 2021 was planned and the key areas of audit risk were discussed ahead of the relevant audit procedures being undertaken.
- The financial statements for the year ended 30 June 2021, and the interim financial statements for the six months ended 31 December 2021, 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 informal review of the interim financial statements for the six months to 31 December 2021.

Nomination Committee
The Nomination Committee is chaired by Adonis Pouroulis, with the other members comprising Atul Bali and J. Peter Pham.
The Nomination Committee is normally expected to meet only 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 2021/22.

Remuneration Committee
The Remuneration Committee members are Alex Lowrie (Chairman) and Adonis Pouroulis. Robert Sinclair was a member of the committee until his retirement in January 2022. It is normally expected to meet at least once 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 2021/22 to discuss a proposal for an award under the short-term and long-term incentive plans for senior management.

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

The SHEC met once during 2021/22 to discuss the Terms of Reference for the committee, the Company's policies and ESG priorities and regulatory developments.

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 (including whistleblowing), which apply to the Group, 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.

Pete Gardner acts as the Group's Anti-Bribery Officer. The Anti-Bribery Officer 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.

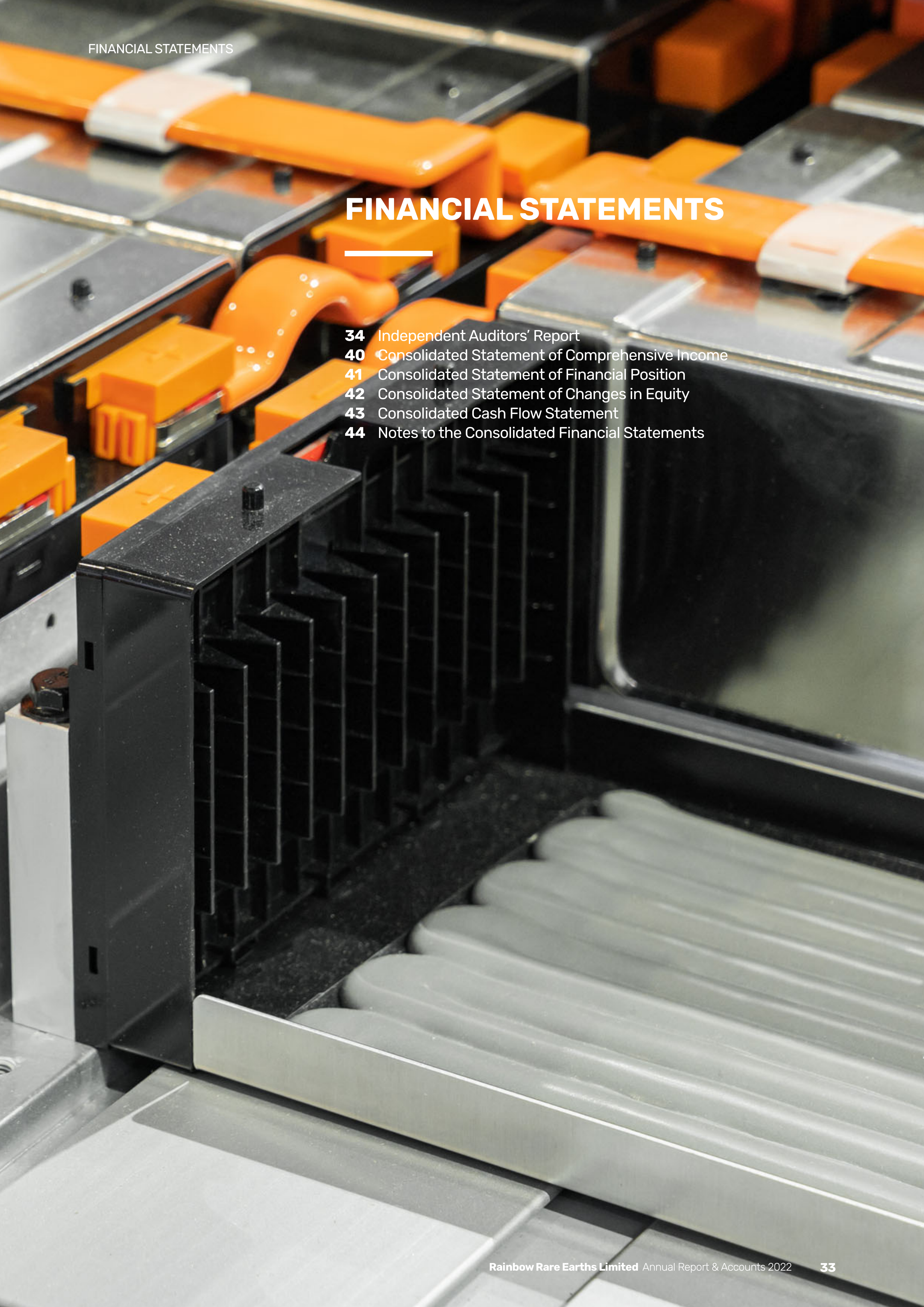
All personnel are required to receive guidance and training in relation to the Group's Anti-Bribery Policy and procedures. Senior staff have already received this training, and training for junior staff continues as an ongoing process.

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
21 October 2022

George Bennett
Chief Executive Officer

OPPORTUNITY TO ACHIEVE ADDITIONAL VALUE FROM FURTHER DOWNSTREAM PROCESSING



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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF RAINBOW RARE EARTHS LIMITED

Opinion on the financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's affairs as at 30 June 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

We have audited the financial statements of Rainbow Rare Earths Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 30 June 2022 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

Following the recommendation of the audit committee, we were appointed by the audit committee on the 03 October 2016 to audit the financial statements for the year ending 30 June 2016 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 7 years, covering the years ending 30 June 2016 to 30 June 2022. We remain independent of the Group and the Parent Company 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 public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Group or the Parent Company.

Material uncertainty relating to going concern

We draw attention to note 2 to the financial statements concerning the Group's ability to continue as a going concern. As stated in note 2 the Group has forecasted that it will need to raise additional funding to complete a feasibility study at Phalaborwa. These conditions, along with the other matters set out in Note 2 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 evaluation of the Directors' assessment of the entity's ability to continue to adopt the going concern basis of accounting and in response to the key audit matter is described below.

- Critically assessing Director's cash flow forecast and the underlying assumptions which have been approved by the Board. This included stress testing and applying sensitivities to the base cashflow forecast. Our testing included testing the integrity of the model, comparing forecast costs to historical actuals, evaluating the consistency of the forecast capital and exploration expenditure within the Group's strategic plans, and considering the reasonableness of the sensitivities applied and outcome of the reverse stress tests.
- Verifying cash balances used in the forecast close to the date of sign off of these financial statements, by tracing cash positions against bank statements.
- Agreeing future cash outflows in respect of loans to underlying agreements. This included assessing the FinBank addendum that confirmed capital repayments are not required until after January 2023 and ensuring the timing of the capital repayments and interest charges was appropriately reflected in cashflows commencing from January 2023.
- Assessing the reasonableness of the cash outflows for the corporate overhead, which included some contingency and considering the completeness of the costs included in the forecast.
- Assessing the level of cash outflows assumed for the Gakara mine, which was assumed to remain on care and maintenance for the entire forecast period. This involved comparing forecast cash outflows to prior year actuals and considering the completeness of the costs included in the forecast.
- We considered the ability of the group securing additional funds based on its history of successful fundraising and its share price performance and assessed the alternative actions available to management should they be unable to access additional funds.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

INDEPENDENT AUDITOR'S REPORT CONTINUED
TO THE MEMBERS OF RAINBOW RARE EARTHS LIMITED

Overview

Coverage	93% (2021: 99%) of Group loss before tax 96% (2021: 100%) of Group total assets		
Key audit matters		2022	2021
	1. Carrying value of Burundi assets	✓	✓
	2. Going concern	✓	✓
Materiality	**Group financial statements as a whole** US$160k (2021: US$130k) based on 4% of loss before tax. In the prior year materiality was based on 1% of total assets. The change in materiality basis is based on the increased focus of the Group on the Phalaborwa asset which has a low proportion of total assets. Therefore, loss before tax would be a more appropriate materiality base as this represents the costs incurred to fund the group in the pre-revenue phase of operation.		

An overview of the scope of our audit
Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

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 South Africa and Burundi. In approaching the audit we considered how the Group is organised and managed. We assessed the business as being two projects comprising of the Gakara and the Phalaborwa Projects, and a corporate head office function.

Our Group audit scope focused on the Group's principle operating entities, Rainbow Rare Earths Limited, Rainbow Mining Burundi and Rainbow International Resources. We have identified these entities as significant components for the purposes of our financial statement audit, based on their relative share of total assets. The significant components accounted for 96% of total assets and were subject to full scope audits conducted by the group engagement team, using a team with experience of auditing African exploration entities. Full scope audits were performed on these significant components.

The remaining components of the Group were considered non-significant, and these components were principally subject to analytical review procedures with specific procedures for any significant balances impacting the Group results.

All audit work (full scope audit or review work) was conducted by the group engagement team, with the exception of the inventory count which was carried out by BDO member firm.

Key audit matters

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 misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Conclusions related to going concern, we have determined the matter below to be the key audit matter to be communicated in our report.

Key audit matter: Carrying Value of Burundi Assets (Exploration Assets, Inventory and the Royalty Receivable)
Refer to Note 3, 12, 14 & 15

The exploration assets are the most significant assets on the Group's balance sheet and relate to the exploration licence acquisition costs and subsequently capitalised exploration expenditure incurred on the Group's Projects, Gakara and Phalaborwa.

As at 30 June 2022, the Group's capitalised exploration costs amounted to US$10,588k (30 June 2021: US$9,751k), of which US$8,635k (2021: US$ 8,635k) relates to the Gakara asset in Burundi.

In June 2021, the Burundian Government put a suspension on trial mining operations. This followed an export ban that was put in place by the Burundian Government in March 2021. As a result, since June 2021 the mine has been on care and maintenance and there have been no changes in operations since then. No additional costs were capitalised to Gakara in the 2022 period.

In addition to the capitalised exploration costs, the Group holds rare earths inventory produced during 2021 that remains unsold as at 30 June 2022 from the Gakara asset of US$717k (2021: US$717k), and has a royalty receivable from the Burundian Government arising from overpayment of royalties on exported rare earths sales of US$109k as at 30 June 2022 (2021: US$178k), amounts are reflected net of the impairment provision raised.

Should the suspension and export ban not be lifted, operations may not restart and the value of the Gakara exploration asset, rare earths inventory and royalty receivable asset may not be recoverable and require impairing to their recoverable amount.

Given the judgement involved in assessing this, the carrying value of these assets is a key audit matter.

How the scope of our audit addressed the key audit matter

To assist us in determining whether the carrying amount of the exploration and evaluation asset, inventory and royalty receivable is recoverable, we have undertaken the following procedures:

- We made inquiries of Management regarding the suspension of mining operations and export ban imposed by the Government of Burundi and read board minutes, public announcements and correspondence with the Burundi Government and legal advisers.

Exploration and evaluation assets:
We evaluated Management's impairment indicator assessment and formed our own assessment of impairment indicators by considering the requirements of IFRS 6- Exploration for and Evaluation of Mineral Resources. In doing so we:
- Confirmed the Group continues to hold valid title to the Gakara Project by inspecting the licence agreements;
- Reviewed strategic plans to confirm that further expenditure on exploration to evaluate mineral resources in the specific area is planned, and reviewed the assumptions in management's economic model that indicated the carrying amount of the exploration and evaluation asset is likely to be recovered, subject to the suspension from trial mining operations and export ban being lifted;
- Considered the reasonableness under the accounting standard of expensing costs incurred opposed to capitalising them by assessing the nature of the costs incurred in relation to the capitalisation criteria. This included making inquiries of management and operational staff to understand the nature of the trial mining and processing activities so we could evaluate management's conclusion that they did not contribute to the exploration and evaluation activities; and
- Assessed the financial statement disclosures, specifically including the uncertainty of the project given the suspension of operations and the export ban imposed by the Government of Burundi.

Inventory:
The inventory on hand is made up of 420 tonne rare earth minerals. There is a risk that inventory on hand is overvalued and cannot be realised if the export ban is not lifted. In addressing this risk, we performed the following procedures:
- A BDO member firm attended an inventory count at the year-end where the number of bags of sealed and unsealed inventory were counted. The contents of the rare earth material was confirmed by evaluating plunge samples using a handheld X-Ray Fluorescence scanner.
- We assessed the net realisable value of a basket of rare earth by comparing the historical and forecasted realisable value against the carrying amount of inventory held, to consider whether the stock was appropriately valued at the lower of cost and net realisable value.
- We assessed the financial statement disclosures, specifically including the uncertainty of the project given the current export ban imposed by the Government of Burundi.

Royalty receivable:
At the year-end the Group held a receivable of $109k, net of provisions raised. In respect of historically overpaid royalties arising from the sale of rare earth concentrate. There is a risk that the receivable is overvalued and cannot be recovered. In addressing this risk, we performed the following procedures:
- We considered the gross value of the receivable. As no sales took place in the year due to the ongoing export ban, no additional royalty payments were incurred. In addition, none of the receivable was settled in the period.
- For the royalty recoverable in respect of overpayments made in prior years we agreed the gross balance to correspondence from the Government that confirmed that the amounts recognised were repayable to the company.
- We assessed Management's assumptions to determine the recoverable amount of the receivable given the time that has elapsed with no payments being received. We recalculated the impairment which involved probability weighting potential different outcomes of the manner of recovery, including recovering the asset by offset against future payments discounted for the time value of money, and no amounts being recovered.
- We assessed the financial statement disclosures, specifically including the uncertainty of the project given the suspension of operations and the current export ban.

Key observations:
Based on procedures performed, we consider that managements judgement in respect of the carrying value of these assets is reasonable, and that the disclosure included within the financial statements details the significant uncertainty over when the suspension from mining operations and the export ban will be lifted, which may impact the recoverability of the carrying value of the Gakara exploration and evaluation assets, inventory and royalty receivable.

INDEPENDENT AUDITOR'S REPORT CONTINUED
TO THE MEMBERS OF RAINBOW RARE EARTHS LIMITED

Our application of materiality
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.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. 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.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements	
	2022 US$'000	2021 US$'000
Materiality	**160,000**	130,000
Basis for determining materiality	**4% of loss before tax**	1% total assets
Rationale for the benchmark applied	We considered loss before tax to be the most significant determinant of the Group's financial performance given the increased focus on Phalaborwa which makes up a low proportion of the group's total assets, and the costs incurred to keep Gakara on care and maintenance being expensed in the period. Therefore, loss before tax would be a more appropriate materiality base as this represents the costs incurred to fund the group in the pre-revenue phase of operation.	We consider total assets to be the most significant determinant of the Group's financial performance on the basis that the Group's principal activity is the exploration of mining assets, and it is the value of assets that is of the greatest interest to the users of the financial statements.
Performance materiality	**112,000**	91,000
Basis for determining performance materiality	Performance materiality was set at 70% (2021: 70%) of the materiality level based on our assessment of a number of factors including the expected total value of known and likely misstatements (based on past experience), our knowledge of internal control and management's attitude towards proposed adjustments.	

Component materiality
We set materiality for each component of the Group based on a percentage of 75% of Group materiality to ensure that the risk of errors exceeding component materiality was appropriately mitigated; this was capped due to aggregation risk in line with the ISAs (UK). Component materiality was US$120,000 for each component (2021: US$86,600). In the audit of each component, we further applied performance materiality levels of 70% (2021: 70%) of the component materiality.

Reporting threshold
We agreed with the Audit Committee that we would report to them all individual audit differences in excess of US$3,200 (2020: US$2,600). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information
The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts, 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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Other Companies (Guernsey) Law, 2008 reporting
We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:
- proper accounting records have not been kept by the Company; or
- the financial statements are not in agreement with the accounting records; or
- we have failed to obtain all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

INDEPENDENT AUDITOR'S REPORT CONTINUED
TO THE MEMBERS OF RAINBOW RARE EARTHS LIMITED

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement within the Directors Report, 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 Company'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.

Auditor's 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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Our testing also included, but was not limited to:

- Gaining an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates through review of minutes of meetings and public available information and considering the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with the Companies (Guernsey) Law, 2008 and international accounting standards, as well as Burundian and South African mining, environmental and taxation legislation.
- We assessed that the accounts could be susceptible to fraud through management override of controls, including bribery.
- Communicating relevant and identified laws, regulation, and potential fraud risks to all engagement team members and remaining alert to any indicators of fraud or non-compliance with laws and regulations throughout the audit. The engagement partner assessed the engagement team's collective competence and capabilities to be appropriate to identify or recognise non-compliance with laws and regulations.
- Fraud enquiries were held with operational staff to identify whether any instances of fraud was noted in the period.
- Testing the financial statement disclosures to supporting documentation, performing testing on account balances which were considered to be a greater risk of susceptibility to fraud. These balances relate to our key audit matters as disclosed above.
- Obtaining an understanding of the control environment in monitoring compliance with laws and regulations through review of minutes of meetings and enquiries put to Management.
- Making enquiries of management as to whether there was any correspondence with regulators and the Government, in so far as the correspondence related to the financial statements and reviewed this correspondence.
- Performing targeted journal entry testing based on identified characteristics the audit team considered could be indicative of fraud to address the presumed risk of management override of controls, including bribery. For example, we tested capitalisation to property plant and equipment or exploration assets with the opposite entry being processed against bank and cash accounts and not against liability accounts.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on 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.

Peter Acloque
For and behalf of BDO LLP, Chartered Accountants and Recognised Auditor
London, United Kingdom

21 October 2022

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 2022

	Notes	**30 June 2022 US$'000**	30 June 2021 US$'000
Revenue		**-**	639
Cost of sales		**-**	(639)
Gross profit		**-**	-
Administration expenses		**(3,654)**	(2,707)
Loss from operating activities	4	**(3,654)**	(2,707)
Finance income	6	**216**	433
Finance costs	7	**(543)**	(466)
Loss before tax		**(3,981)**	(2,740)
Income tax expense	10	**(4)**	(2)
Total loss after tax and comprehensive expense for the year		**(3,985)**	(2,742)
Total loss after tax and comprehensive expense for the year is attributable to:			
Non-controlling interest	24	**(105)**	(52)
Owners of parent		**(3,880)**	(2,690)
		(3,985)	(2,742)
The results of each year are derived from continuing operations			
Loss per share (cents)			
Basic	11	**(0.76)**	(0.60)
Diluted	11	**(0.76)**	(0.60)

Notes on pages 44 to 66 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2022

	Notes	30 June 2022 US$'000	30 June 2021 US$'000
Non-current assets			
Exploration and evaluation assets	12	**10,588**	9,751
Property, plant and equipment	13	**1,043**	1,354
Right of use assets	19	**108**	70
Total non-current assets		**11,739**	11,175
Current assets			
Inventory	14	**858**	863
Trade and other receivables	15	**401**	441
Cash and cash equivalents	16	**4,134**	573
Total current assets		**5,393**	1,877
Total assets		**17,132**	13,052
Current liabilities			
Trade and other payables	17	**(909)**	(1,009)
Borrowings	18	**(235)**	(1,231)
Lease liabilities	19	**(32)**	(14)
Total current liabilities		**(1,176)**	(2,254)
Non-current liabilities			
Borrowings	18	**(518)**	(662)
Lease liabilities	19	**(81)**	(69)
Provisions	20	**(61)**	(61)
Total non-current liabilities		**(660)**	(792)
Total liabilities		**(1,836)**	(3,046)
Net assets		**15,296**	10,006
Equity			
Share capital	21	**41,442**	32,465
Share-based payment reserve	23	**1,467**	1,295
Other reserves	23	**-**	60
Retained loss		**(26,572)**	(22,878)
Equity attributable to the parent		**16,337**	10,942
Non-controlling interest	24	**(1,041)**	(936)
Total equity		**15,296**	10,006

These financial statements were approved and authorised for issue by the Board of Directors on 21 October 2022 and signed on its behalf by:

George Bennett
Director

Notes on pages 44 to 66 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2022

	Note	Share capital US$'000	Share-based payments US$'000	Share warrant reserve US$'000	Other reserves US$'000	Accumulated losses US$'000	Attributable to the parent US$'000	Non-controlling interest US$'000	Total US$'000
Balance at 1 July 2020		**28,132**	**1,099**	**40**	**60**	**(20,542)**	**8,789**	**(884)**	**7,905**
Total comprehensive expense									
Loss and total comprehensive loss for year		–	–	–	–	(2,690)	(2,690)	(52)	(2,742)
Transactions with owners									
Shares placed during the year for cash consideration	21	3,423	–	–	–	–	3,423	–	3,423
Share placing transaction costs	21	(85)	–	–	–	–	(85)	–	(85)
Non-cash issue of shares during the period	21	250					250	–	250
Share warrants expired in the year	21	–	–	(40)	–	40	–	–	–
Fair value of employee share options in year	22	–	510	–	–	–	510	–	510
Share options exercised in the year, net of costs	21	745	(314)	–	–	314	745	–	745
Balance at 30 June 2021		**32,465**	**1,295**	**-**	**60**	**(22,878)**	**10,942**	**(936)**	**10,006**
Total comprehensive expense									
Loss and total comprehensive loss for year		–	–	–	–	(3,880)	(3,880)	(105)	(3,985)
Transactions with owners									
Shares placed during the year for cash consideration	21	8,779	–	–	–	–	8,779	–	8,779
Share placing transaction costs	21	(240)	–	–	–	–	(240)	–	(240)
Non-cash issue of shares during the period, net of costs	21	157	–	–	–	–	157	–	157
Eliminate historic discount on extinguishment of interest free bridge loan		–	–	–	(60)	60	–	–	–
Fair value of employee share options in year	22	–	298	–	–	–	298	–	298
Share options exercised in the year, net of costs	21	281	(126)	–	–	126	281	–	281
Balance at 30 June 2022		**41,442**	**1,467**	**-**	**-**	**(26,572)**	**16,337**	**(1,041)**	**15,296**

Notes on pages 44 to 66 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2022

	Notes	30 June 2022 US$'000	30 June 2021 US$'000
Cash flow from operating activities			
Loss from operating activities		**(3,654)**	(2,707)
Adjustments for:			
Depreciation		**380**	37
Impairment of royalties receivable		**69**	128
Share-based payment charge	22	**297**	510
Operating loss before working capital changes		**(2,908)**	(2,032)
Net decrease/(increase) in inventory	14	**5**	(121)
Net increase in trade and other receivables	15	**(29)**	(190)
Net(decrease)/increase in trade and other payables	17	**(100)**	136
Cash used by operations		**(3,032)**	(2,207)
Realised foreign exchange gains		**186**	359
Finance income	6	**-**	-
Finance costs	7	**-**	(23)
Taxes paid	10	**(2)**	-
Net cash used in operating activities		**(2,848)**	(1,871)
Cash flow from investing activities			
Purchase of property, plant & equipment	13	**(42)**	(690)
Exploration and evaluation costs	12	**(837)**	(2,024)
Net cash used in investing activities		**(879)**	(2,714)
Cash flow from financing activities			
Proceeds of new borrowings	18	**-**	275
Repayment of borrowings	18	**(1,009)**	(438)
Interest payments on borrowings	18	**(138)**	(104)
Payment of lease liabilities	19	**(24)**	(56)
Proceeds from the issuance of ordinary shares	21	**9,077**	4,727
Transaction costs of issuing new equity	21	**(275)**	(85)
Net cash generated by financing activities		**7,631**	4,319
Net increase/(decrease) in cash and cash equivalents		**3,904**	(266)
Cash & cash equivalents at the beginning of the year		**573**	788
Foreign exchange (loss)/gains on cash and cash equivalents		**(343)**	51
Cash & cash equivalents at the end of the year	16	**4,134**	573

Notes on pages 44 to 66 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

1. GENERAL INFORMATION

Reporting entity
Rainbow Rare Earths Limited ("the Company") 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 Connaught House, St Julian's Avenue, St Peter Port, Guernsey, GY1 1GZ. The consolidated financial statements of the Company for the years ended 30 June 2022 and 30 June 2021 comprise the Company and its subsidiaries.

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.

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments measured at fair value through profit or loss.

Going Concern
As at 30 September 2022, the Group had total cash of US$2.9 million.

The Board have reviewed a range of potential cash flow forecasts for the period to 31 December 2023, including reasonable possible downside scenarios. This has included the following assumptions:

Corporate:
The forecast includes US$2.5 million of ongoing general and administrative costs of the Group over the 18-month period from 1 July 2022 to 31 December 2023, based on the current administrative costs of the Group. The budget excludes any significant expenditure on new business opportunities beyond early costs totalling US$39k over the 18-month period.

Management's reasonably plausible downside scenario includes a 10% contingency for unexpected costs plus a further US$500k for business development costs.

Phalaborwa:
This forecast includes all costs required for the completion of the Phalaborwa PEA (announced in October 2022) and the ongoing resource update estimated at US$583k. The forecast also includes salary and consultant costs of US$623k for the core project team tasked with advancing the project. A budget for the further work required to deliver a feasibility study at Phalaborwa, including pilot test work, has not yet been defined. Management's reasonably plausible downside scenario includes US$7.6 million for further work at Phalaborwa during the 18-month forecast period.

Gakara:
The cash flow forecasts assume ongoing care and maintenance costs totalling US$746k. Further, in the event that the Gakara project returns to operations, stock of rare earth concentrates with an estimated gross sales value of US$1.6 million would be sold to provide the funds to re-commence operations. The forecasts show that, with the current productive capacity of the operations, the Gakara project would not require additional financial support from Rainbow Rare Earths Limited at current rare earth prices. At 30 June 2022 the Group has US$557k of undiscounted financing liabilities relating to a term loan from FinBank in Burundi. Capital repayment of this loan is formally suspended until 31 December 2022, with interest of US$7k per month being paid in cash. Whilst operations at Gakara remain suspended, management expect the repayment of principal to remain suspended. Notwithstanding, the forecast includes repayment at a rate of US$21k per month from 1 January 2023, including interest, within the care and maintenance costs for the Gakara project.

Conclusion
The base case forecast includes a total cash outflow over the Period of US$4,735k, compared to a cash balance at 1 July 2022 of US$4,134k, which confirms that the Group will need to raise additional finance before 31 December 2023. Management's reasonably plausible downside scenario, which includes the discretionary costs to progress a feasibility study at the Phalaborwa project and an allowance for other business development opportunities, suggests that a total of US$9.2 million will need to be raised.

The Board is confident that this funding will be secured, based on its history of successful fundraising. However, it also acknowledges that this funding is not, at the present time, in place. Accordingly, the Board acknowledges that the need for additional funding represents a material uncertainty which may cast significant 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. The financial statements do not include any adjustments that would result if the Group was unable to continue as a going concern.

2. ACCOUNTING POLICIES CONTINUED

New and amended standards and interpretations adopted by the Group
No material changes to accounting policies arose as a result of new standards applied by the Group from 1 July 2021.

New standards, interpretations, and amendments not yet effective
Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2022 reporting periods and have not been early adopted by the Group. These standards include:

- IAS 37 - Onerous Contracts – Cost of Fulfilling a Contract amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. These amendments are mandatorily effective for periods beginning on or after 1 January 2022.
- IFRS Standards 2018 to 2020 – Annual Improvements – The affected standards are: IFRS 1 (First-time Adoption of IFRS, IFRS 9 (Financial Instruments), IFRS 16 (Leases) and IAS 41 (Agriculture). The amendments are effective for annual reporting periods beginning after 1 January 2022, with early application permitted.
- IAS 16 - Property, Plant and Equipment - Proceeds before Intended Use regarding proceeds from selling items produced while bringing as asset into the location and condition necessary for it to be capable of operating in the manner intended by management. These amendments are mandatorily effective for periods beginning on or after 1 January 2022.
- IFRS 3 Amendments – Reference to the Conceptual Framework – Effective for annual reporting periods beginning after 1 January 2022.
- IAS 1 – Presentation of Financial statements – The classification of liabilities as current or non-current basing the classification on contractual arrangements at the reporting date. These amendments are effective for periods beginning on or after 1 January 2023.
- IAS 1 and IFRS Practise Statement 2 – Disclosure of Accounting Policies – Amendments to "Presentation of Financial Statements" and an update to "Making Materiality Judgements" to help assist with providing useful accounting policy disclosures. The amendments are effective from 1 January 2023 but may be applied earlier.
- IAS 8 Amendments – Definition of Accounting Estimate - The amendments introduce a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The amendments are effective for periods beginning on or after 1 January 2023, with earlier application permitted, and will apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the company applies the amendments.

With the exception of the amendment to IAS16, which will impact the future accounting treatment of revenue generated during the commissioning phase of a commercial development at any of the Group's projects, these amendments are not expected to have a material impact on the Group.

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 all of its subsidiaries. The Group's strategy is focused on developing rare earth projects in South Africa and the Republic of Burundi, which will generate revenue in United States Dollars. All support services are charged between group companies in United States Dollars. The Group is funded by various financial liabilities which are principally denominated in United States Dollars and shareholder equity.

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.

2. ACCOUNTING POLICIES CONTINUED

Revenue recognition
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, ThyssenKrupp, which commenced in January 2018, under which the majority of production has been sold. Under the terms of the contract, the Company's performance obligation is considered to be satisfied and associated revenue from customers is recorded when the legal title for a shipment is transferred to ThyssenKrupp, normally at a port in East Africa, after which the Company has no responsibility for the onward shipment of the concentrate.

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. Shipping and other fees are deducted from net proceeds by ThyssenKrupp. 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 evaluation 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. Costs associated with exploration and evaluation include costs related to trial mining and processing when such activity is focused on improving the understanding of the ore body. Such costs include the cost of mining, processing and sales costs for concentrate produced as a result of trial mining activities, excluding any costs associated with year-end inventory.

Costs incurred prior to the legal right to a mineral project being obtained are written off immediately. 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 plant and machinery, mine development costs, 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. 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 on a straight-line basis over the estimated useful life of the asset. Residual values and useful lives are reviewed on an annual basis and changes are accounted for over the remaining lives.

The applicable depreciation rates are as follows:

Description	Useful life
Plant, machinery, and mine infrastructure	5 years
Vehicles	5 years
Computer equipment	3 years
Office furniture and fittings	7 years

Depreciation incurred on equipment used in exploration is capitalised to exploration and evaluation costs.

2. ACCOUNTING POLICIES CONTINUED

Impairment of non-financial assets including 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 transfer 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 performs an impairment test in accordance with the provisions of IAS 36. In such circumstances the aggregate carrying value of the exploration and evaluation asset, together with any associated property, plant and equipment held within the relevant cash generating unit, 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.

Where the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset or cash generating unit is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the Income Statement. Impairment losses recognised for a cash generation are recognised against goodwill (if any) and then to identifiable assets on a pro-rata basis.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a reversal of the conditions that originally resulted in the impairment. This reversal is recognised in the Income Statement and is limited to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in prior years.

Leases

At inception the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset, for a period of time, in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset. This may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has the right when it has the decision-making rights that are most relevant to changing how and for what purposes the asset is used. In rare cases where the decision about how and for what purpose the assets is used is predetermined, the Group has the right to direct the use of the asset if either:
  - the Group has the right to operate the asset; or
  - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

The right-of-use asset is initially measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, impairment indictors for the right-of-use asset is assessed annually and will be adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate. The liability is subsequently measured at amortised cost using the effective interest method. Lease payments are apportioned between the finance charges and reduction of the lease liability using the incremental borrowing rate implicit in the lease to achieve a constant rate of interest on the remaining balance of the liability.

2. ACCOUNTING POLICIES 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 project. 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 tangible or intangible fixed assets of the same amount. Upon commercial production this addition is then charged against profits over the life of the project. Closure provisions are updated annually for changes in cost estimates as well as for changes to the anticipated life of the project, 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 where realisable value is considered to be lower than historic cost.

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. When no taxable profit arises, current tax includes a minimum tax charge in Burundi calculated as 1% of revenue.

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.

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, to the extent they represent financial assets, 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 loss, 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

2. ACCOUNTING POLICIES CONTINUED

Financial instruments continued

- **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 statement of financial position date.

  A financial liability is removed from the balance sheet when it is extinguished, being when the obligation is discharged, cancelled, or expired. On extinguishment of a financial liability, any difference between the carrying amount of the liability and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss. A modification or exchange of a financial liability is either accounted for as an extinguishment of the original financial liability or a renegotiation of the original financial liability. An extinguishment or substantial modification of a financial liability results in de-recognition of the original financial liability and any unamortised transaction costs associated with the original financial liability are immediately expensed to the profit and loss account. Where the change in the terms of the modified financial liability are not substantial, it is accounted for as a modification of the original liability, with the modified financial liability measured at amortised cost using the original effective interest rate. To determine whether the terms of the modified liability are substantially different from those of the original one, a qualitative assessment is performed. If it is not already clear from a qualitative assessment that a modification has resulted in a substantial change, then quantitative assessment is performed. This includes consideration whether the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

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 23.

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, considering market-based vesting conditions.

The fair values of share options are measured at fair value at the date of grant by use of an option pricing model. Where the share options only contain service conditions or non-market conditions, a Black – Scholes model is used. Where the share options contain market conditions, a Monte Carlo simulation model is used and reflected in the fair value of the options granted. Details of the assumptions used in those models are included in Note 22 Share based payments.

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 fair value is measured using the Black-Scholes model. Where warrants are issued in respect of services provided, the fair value is expensed on a straight-line basis over the vesting period (if applicable). Where warrants are considered to represent a transaction cost attributable to a liability recorded at amortised cost the fair value is deducted from the liability and amortised subsequently through the effective interest rate. Where a fixed number of warrants are issued, and the exercise price is in the functional currency of the issuer the warrant fair value is credited to equity. Where the number of warrants is fixed but the exercise price is in a currency other than the functional currency of the issuer the instrument fails the "fixed-for-fixed" criteria and is recognised as a financial liability at fair value through profit and loss.

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 judgment and estimation uncertainty are:

Accounting treatment of exploration and evaluation costs
Significant accounting judgement
Judgment was required in determining how to treat costs incurred during the year for the Group's development projects in South Africa and Burundi. For the Phalaborwa asset management note that the project is based on a JORC compliant mineral resource contained within gypsum stacks at the Phalaborwa site. The Group has signed a legal agreement to earn a 70% economic interest in the project. Accordingly, all costs associated with defining the technical feasibility and commercial viability of the project are being capitalised under IFRS6. For the Gakara asset management note that the project has been on care and maintenance throughout the year. Accordingly, none of the costs incurred have been focused on improving the understanding of the ore body, and as such all costs have been recognised in the income statement in the year.

Impairment indicator assessment for exploration and evaluation assets and associated assets (notes 12 and 13)
Significant accounting judgement
Judgment was required in determining whether indicators of impairment existed at 30 June 2022 for the Group's exploration and evaluation assets. The Board assessed factors including the remaining licence term, the plans for future exploration and the results of activities to date together with the strategic plans for the asset against the criteria set out in IFRS 6. For the Phalaborwa asset management note the recently announced preliminary economic assessment has confirmed a processing flow sheet capable of economically extracting the magnet rare earth metals from the gypsum stacks in a low capital and low operating cost environment with strong economic returns. Accordingly, management do not consider there to be any indicators of impairment for the Phalaborwa asset. For the Gakara cash generating unit management considerations for each of the criteria set out in IFRS 6 were as follows:

1. **The period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future and is not expected to be renewed**
   The Gakara mining licence is valid until 2040. Management considered the current political situation in Burundi, which has led to a suspension of operations at Gakara, noting that this is in contravention of the legally binding mining convention in place between the Government of Burundi and the Group's Burundi subsidiary, Rainbow Mining Burundi SM. Whilst formal negotiations to allow the operations to re-start have not yet delivered a positive result, numerous discussions have been held with the Government of Burundi indicating that the suspension does not constitute a long-term threat to the integrity of the licence. Management notes significant changes in the political landscape in Burundi which occurred in September 2022, which have led to further engagement with the authorities. Management is confident that operations will be allowed to re-start following discussions with the Government of Burundi and, accordingly, do not consider this to be an indicator of impairment for the Gakara asset.

2. **Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.**
   A budget has been prepared for the re-start of trial mining and processing activities at Gakara, which shows that at current rare earth prices, positive cash flow is expected at the project. This cashflow will be re-invested in Burundi to further expand the productive capacity of the trial mining operation to fully utilise the pilot plant capacity and allow exploration to expand into new areas across the licence. Notwithstanding the current suspension of activities in Burundi, this intention remains.

3. **Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.**
   An updated JORC compliant exploration target for the Gakara project was announced in October 2020, which showed considerable potential for commercially viable quantities of mineral resources to be defined. Subject to Government support exploration and evaluation work is expected to re-commence in the 2022/2023 financial year.

4. **Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.**
   The Gakara mining licence covers an area of 39km^2 over which numerous occurrences of rare earth mineralisation have been detected from both surface sampling/mapping and geophysical surveys. Due to the complex nature of the stockwork vein systems much of the focus since 2017 has been on trial mining and processing to demonstrate the ability to recover a saleable concentrate from the vein hosted mineralisation and to define the best mining methodology to exploit these types of structures. At the point of suspension of activities recent investment had delivered a pathway which is expected allow this work to fund further exploration activity across the licence. Despite the capacity of the current pilot plant not representing commercial scale production, management are confident that at current rare earth prices ongoing production utilising the full capacity of the pilot plant would allow the full recovery of the carrying amount of the non-financial assets in the Gakara cash generating unit. This does not remove the intention to undertake further exploration and evaluation work to allow a full commercial scale operation to be developed.

At 30 June 2022 the Directors consider that no formal indicators of impairment exist under the framework of IFRS6 for the Gakara project and, accordingly, that no formal impairment review is required for either the intangible or tangible fixed assets in the Gakara cash generating unit. This judgement also extends to the expected net realisable value of the inventory at Gakara. However, the Directors note there is a significant uncertainty relating to the current political situation in Burundi and have added disclosure relating to this uncertainty in the appropriate places within the financial statements as set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 30 JUNE 2022

3. ACCOUNTING JUDGMENTS AND ESTIMATIONS CONTINUED

Recoverability of royalty receivable (note 15)
Key sources of estimation uncertainty
Rainbow Mining Burundi SM has historically overpaid royalties arising from the sale of rare earth concentrate. Whilst the Government has accepted in writing that the overpaid royalties are recoverable, no repayment has been received to date. The Directors have impaired the royalty receivable based on an assessment of the likelihood that the overpayment will be recovered, considering a range of possible outcomes including recovery against future royalty liabilities. The impairment has been recognised in administrative expenses. The assessment was updated at 30 June 2022 and further impairment of US$69k has been recognised in the year. The discount rate used and estimated timing of recovery of the royalty receivable are both management's best estimates and future recovery may differ.

Valuation of available for sale mineral concentrate (note 14)
Significant accounting judgement
Trial mining and processing operations at the Gakara project in Burundi are currently on care and maintenance at the request of the Government of Burundi. At 30 June 2022 the operation has 421t of available for sale mineral concentrate with an estimated sale value of US$1.6 million carried at cost of US$717k on the Group balance sheet. This concentrate cannot be sold due to an export ban imposed by the Government of Burundi. Judgement was needed in assessing whether the current export ban would be lifted, allowing the value of the concentrate to be realised. Management made judgements on the political situation in Burundi and assess that it is probable that the current export ban will be lifted in due course, and that the timing of the likely sale would not impact the carrying value of the mineral concentrate at the balance sheet date.

Decommissioning, site rehabilitation and environmental costs (note 20)
Key sources of estimation uncertainty
The Group's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. Estimation and experience are used in determining the expected timing, closure, and decommissioning methods, which can vary in response to changes in the relevant legal requirements or decommissioning technologies. No provision was deemed necessary for the Group's Phalaborwa project as on-site activities have not yet commenced and historical environmental liabilities associated with the site remain with the previous owners.

The discounted provision recognised for the Group's Gakara project represents management's best estimate of the rehabilitation costs that will be incurred, discounted from the period in which they are judged to be 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.

Share based payments (note 22)
Key sources of estimation uncertainty
The valuation of share options issued in the year has been based on a Black-Scholes model. The inputs to the model represent the Director's best estimates for the likely exercise behaviour of the option holders. The expected future share price volatility was estimated based on the historical volatility of the Company's share price and a representative peer group of similar companies.

4. LOSS FROM OPERATING ACTIVITIES

Operating loss includes:

	30 June 2022 US$'000	30 June 2021 US$'000
Employee remuneration (excluding share options)	**(1,936)**	(1,025)
Share-based payment charge	**(298)**	(510)
Audit of the Group financial statements [1]	**(150)**	(136)
Non-audit service fees paid to Company auditor	**-**	(2)
Depreciation	**(380)**	(37)
Impairment of Royalties Receivable	**(69)**	(128)
Taxes and duties	**-**	(175)

1. Audit fees include US$132k for the current year and US$18k for the prior year.

5. SEGMENTAL INFORMATION

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 the Group has two reportable segments:

- Phalaborwa – a gypsum stack re-treatment project for the recovery of rare earths in South Africa.
- Gakara – a high-grade rare-earth project in Burundi.

Unallocated costs include corporate costs, which are not reported by entity to the Board.

Year ended 30 June 2022:

	Phalaborwa US$'000	Gakara US$'000	Unallocated US$'000	Total US$'000
Revenue	–	–	–	**-**
Production and sales costs	–	–	–	**-**
Administration expenses	–	(1,368)	(2,286)	**(3,654)**
Loss from operating activities	–	(1,368)	(2,286)	**(3,654)**
Finance income	–	22	194	**216**
Finance costs	–	(97)	(446)	**(543)**
Loss before tax	–	(1,443)	(2,538)	**(3,981)**
Income tax expense	–	(4)	–	**(4)**
Loss after tax	–	(1,447)	(2,538)	**(3,985)**
Segmental assets	2,198	10,985	3,949	**17,132**
Exploration and evaluation assets	1,953	8,635	–	**10,588**
Property, plant and equipment	–	1,042	1	**1,043**
Other assets	–	108	–	**108**
Current assets	245	1,200	3,948	**5,393**
Segmental liabilities	(133)	(1,232)	(471)	**(1,836)**
Capital expenditure	837	–	1	**838**

Year ended 30 June 2021:

	Phalaborwa US$'000	Gakara US$'000	Unallocated US$'000	Total US$'000
Revenue	–	639	–	**639**
Production and sales costs	–	(639)	–	**(639)**
Administration expenses	–	(806)	(1,901)	**(2,707)**
Loss from operating activities	–	(806)	(1,901)	**(2,707)**
Finance income	–	345	88	**433**
Finance costs	–	(126)	(340)	**(466)**
Loss before tax	–	(587)	(2,153)	**(2,740)**
Income tax expense	–	(2)	–	**(2)**
Loss after tax	–	(589)	(2,153)	**(2,742)**
Segmental assets	1,116	11,352	584	**13,052**
Exploration and evaluation assets	1,116	8,635	–	**9,751**
Property, plant and equipment	–	1,353	1	**1,354**
Other assets	–	70	–	**70**
Current assets	–	1,294	583	**1,877**
Segmental liabilities	–	(1,209)	(1,837)	**(3,046)**
Capital expenditure	1,116	1,484	–	**2,600**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 30 JUNE 2022

6. FINANCE INCOME

	30 June 2022 US$'000	30 June 2021 US$'000
Interest received	-	-
Foreign exchange gains	216	433
Total	**216**	433

Foreign exchange gains in the current and prior periods mainly relate to gains on translation of funds from US dollars to Burundian Francs ("BIF") plus the settlement of liabilities in Burundi denominated in BIF.

7. FINANCE COSTS

	30 June 2022 US$'000	30 June 2021 US$'000
Change in fair value of warrant liability (notes 18 and 22)	109	(256)
Interest on Pipestone bridge loan (note 18)	(52)	(140)
Interest on bank borrowing (note 18)	(86)	(99)
Interest on short term bridge loan (note 18)	-	(5)
Bank charges	-	(24)
Reversal of accrued finance costs associated with Lind facility	-	75
Interest on lease liabilities	(13)	(17)
Foreign exchange losses	(501)	-
Total	**(543)**	(466)

Foreign exchange losses in the current period arise principally from GBP and ZAR bank accounts, which the Group holds to match future expected cash outflows, which depreciated in value against the US dollar during the year.

8. 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 set out on pages 24 to 25. Directors' emoluments are set out on page 22.

Their remuneration for the 12 months ended 30 June 2022 and 30 June 2021 is summarised as follows:

	30 June 2022 US$'000	30 June 2021 US$'000
Wages and salaries	1,330	1,110
Bonus	218	-
Benefits	8	16
Share- based payments	274	510
Total remuneration of key management personnel	**1,830**	1,636

Benefits paid to key management personnel include pension contributions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 30 JUNE 2022

9. TOTAL EMPLOYEE REMUNERATION (INCLUDING KEY MANAGEMENT PERSONNEL)

	30 June 2022 US$'000	30 June 2021 US$'000
Wages and salaries	**1,914**	2,048
Bonus	**218**	-
Benefits	**43**	69
Share-based payments	**287**	510
Total employee remuneration	**2,462**	2,627

Benefits paid to employees include healthcare and pension contributions.

Staff costs include US$239k capitalised within Exploration and Evaluation assets in the year (2021: US$1,048k).

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

	30 June 2022	30 June 2021
Directors	**7**	6
Management and administration	**28**	20
Mining, processing, and exploration staff	**-**	235
Total	**35**	261

10. INCOME TAX EXPENSE

	30 June 2022 US$'000	30 June 2021 US$'000
Current tax expense	**-**	2
Prior year tax adjustment	**4**	-
Total tax expense for the year	**4**	2

The income tax charge in the year relates to a minimum tax in Burundi for accounting periods where no taxable profits are reported calculated as 1% of revenue (2021: 1% of revenue).

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:

	30 June 2022 US$'000	30 June 2021 US$'000
Loss for the year before tax	**(3,981)**	(2,740)
Income tax using the Guernsey rate of 0%:	**-**	-
Effects of:		
Differences in tax rates	**(337)**	(215)
Differences in capital allowances	**(289)**	42
Differences in treatment of exploration and evaluation costs	**-**	(178)
GAAP differences	**3**	-
Tax losses carried forwards	**623**	351
Minimum income tax based on revenue in Burundi	**-**	2
Adjustment of Burundi tax in respect of prior years	**4**	-
Total	**4**	2

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 (Proprietary) Limited, which was established on 3 March 2022, is subject to an income tax rate in South Africa of 28%. In Burundi, Rainbow Burundi SPRL and Rainbow Mining Burundi SM are subject to corporation tax in Burundi 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 are Rainbow Rare Earths (Proprietary) Limited US$18k, Rainbow Burundi SPRL US$Nil (30 June 2021: US$1k) and Rainbow Mining Burundi SM US$3,727k (30 June 2021: US$3,127k).

The tax losses for Rainbow Mining Burundi SM expire after five accounting periods based on a 31 December tax year-end. The tax losses for Rainbow Rare Earths (Proprietary) Limited have no expiry. The unrecognised deferred tax asset for Rainbow Mining Burundi SM expires as follows: US$1,063k on 31 December 2022, US$608k on 31 December 2023, US$821k on 31 December 2024, US$345k on 31 December 2025, US$568k on 31 December 2026 and US$323k on 31 December 2027.

11. LOSS PER SHARE

The earnings per share calculations for 30 June 2022 reflect the changes to the number of ordinary shares during the period.

At the start of the year, 476,411,434 shares were in issue. During the year, a total of 9,598,875 new shares were allotted (see note 21 Share Capital) and on 30 June 2022, 524,405,810 shares were in issue. The weighted average of shares in issue in the year was 508,566,911.

The loss per share has been calculated using the weighted average number of ordinary shares in issue. The Company was loss making for all periods presented, therefore the dilutive effect of share options has not been accounted for in the calculation of diluted earnings per share, since this would decrease the loss per share for each reporting period.

	Basic and diluted	
	2022	2021
Loss for the year (US$'000) attributable to ordinary equity holders	**(3,880)**	(2,690)
Weighted average number of ordinary shares in issue during the year	**508,566,911**	450,749,572
Loss per share (cents)	**(0.76)**	(0.60)

12. EXPLORATION AND EVALUATION ASSETS

	Gakara US$'000	Phalaborwa US$'000	Total US$'000
At 1 July 2020	7,572	–	**7,572**
Additions	1,102	1,116	**2,218**
Adjustment of rehabilitation provision	(39)	–	**(39)**
At 30 June 2021	8,635	1,116	**9,751**
Additions	–	837	**837**
At 30 June 2022	8,635	1,953	**10,588**

Only costs relating to the Phalaborwa Project were capitalised during the financial year. The Burundi Project has been under care & maintenance throughout the year and, accordingly, none of the costs meet the requirements under the Group's accounting policy for capitalisation.

The Phalaborwa project represents an opportunity to extract rare earth elements from the chemical re-treatment of gypsum stacks. A JORC compliant rare earth resource was declared on 17 June 2021 and the costs of establishing the commercial viability of development for the project are being capitalised as exploration and evaluation assets under IFRS 6. Additions in the year include costs associated with process development to deliver an economic and technically viable route to recovering rare earths. Additions in 2021 included US$750k consideration payable under the earn-in agreement payable in cash and shares together with costs associated with the definition of the inferred mineral resource, metallurgical test work and technical support.

On 12 April 2021 RMB received notification from the Ministry of Hydraulics, Energy and Mines of the Republic of Burundi of a temporary suspension on the export of concentrate produced from the trial mining and processing operations at the Gakara Project. On 29 June 2021 a further notification was received suspending all trial mining and processing operations pending negotiations on the terms of the Gakara mining convention signed in 2015.

Following face to face meetings in Burundi in April 2022 the Company presented a detailed plan to the Government for the export of the current stock of rare earth concentrate along with responses to all questions raised by the Government relating to the Company's operations in Burundi. The Company is awaiting a formal response to this export plan, noting increased engagement following significant changes in the political landscape in Burundi in September 2022. The Directors have also received confirmation from independent legal advisors that the mining convention in place between RMB and the Government of Burundi remains legally binding on both parties, and that the actions of the Government of Burundi have not been in accordance with that legally binding agreement.

Based on an assessment of both the legal and political position, the Directors have a reasonable expectation that the current temporary suspension does not represent a threat to the licence and activities will be allowed to re-start. Accordingly, the Directors do not believe this uncertainty represents an indication of impairment of the exploration and evaluation assets at Gakara, or the associated property, plant and equipment or inventory within the Gakara cash generating unit. The royalty recoverable, which also forms part of the Gakara cash generating unit, is considered separately as set out in note 15. As set out in note 3 the Directors do not consider there to be any indicators of impairment for the Gakara cash generating unit, however they note that the current suspension of activities could result in future losses for the Group if it is not resolved as anticipated.

FinBank SA hold security over the fixed and floating assets of Rainbow Mining Burundi SM ("RMB") which include US$7.3 million of exploration and evaluation assets associated with the Gakara mining permit in Burundi.

13. PROPERTY, PLANT AND EQUIPMENT

US$'000	Mine development costs	Plant and machinery	Vehicles	Office equipment	Total
Cost					
At 1 July 2020	183	2,665	1,074	45	3,967
Additions	–	182	508	–	690
At 30 June 2021	**183**	**2,847**	**1,582**	**45**	**4,657**
Additions	–	42	–	–	42
At 30 June 2022	**183**	**2,889**	**1,582**	**45**	**4,699**
Depreciation					
At 1 July 2020	47	2,665	298	15	3,025
Charge for year	26	2	241	9	278
At 30 June 2021	**73**	**2,667**	**539**	**24**	**3,303**
Charge for the year	26	1	316	10	353
At 30 June 2022	**99**	**2,668**	**855**	**34**	**3,656**
Net Book Value at 30 June 2022	**84**	**221**	**727**	**11**	**1,043**
Net Book Value at 30 June 2021	110	180	1,043	21	1,354
Net Book Value at 30 June 2020	136	–	776	30	942

Depreciation of US$Nil (2021: US$269k) relating to mining vehicles, plant and machinery and site infrastructure was capitalised in the year as part of Exploration and Evaluation costs.

FinBank SA hold security over the fixed and floating assets of Rainbow Mining Burundi SA which include US$1,042k (2021: US$1,353k) of property, plant, and equipment in Burundi.

As set out in note 12 the Directors recognise the uncertainty relating to the temporary suspension of trial mining and processing activities in Burundi which could impact the carrying value of the property, plant and equipment within the Gakara cash generating unit, which comprises US$1,042k of the net book value at the balance sheet date.

14. INVENTORY

	30 June 2022 US$'000	30 June 2021 US$'000
Finished goods	**717**	717
Consumables	**141**	146
Total inventory	**858**	863

Finished goods represents 421 tonnes (2021: 421 tonnes) of rare earth concentrate available for export at the Kabezi processing plant. The cost is considered to be below the net realisable value and no provision for impairment has been made at 30 June 2022 (2021: US$Nil).

As set out in note 12, the Directors recognise the uncertainty relating to the temporary suspension of trial mining and processing activities in Burundi which could impact the carrying value of the inventory within the Gakara cash generating unit, which comprises all of the inventory held at the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 30 JUNE 2022

15. TRADE AND OTHER RECEIVABLES

	30 June 2022 US$'000	30 June 2021 US$'000
VAT recoverable	**214**	189
Prepayments	**70**	66
Royalty receivables	**109**	178
Deposits paid	**5**	5
Sundry debtors	**3**	3
Total trade and other receivables	**401**	441

VAT recoverable relates to the input VAT recoverable in Burundi (US$194k, 2021: US$189k) and South Africa (US$20k, 2021: US$Nil). During the year ended 30 June 2021 a tax audit was undertaken in Burundi over the local operating subsidiary, Rainbow Mining Burundi SM (RMB), covering the period from 2017 to 2019. The audit concluded that reverse VAT totalling US$181k had not been correctly accounted for on several invoices received for services supplied to RMB from international suppliers. The reverse VAT is recoverable under Burundi legislation and, accordingly, both the asset and liability are recognised at 30 June 2022.

The US$109k (2021: US$178k) in respect of royalty receivables arises due to a gross overpayment of US$306k for royalties up to 30 June 2020, which were paid based on the total basket price of exports, rather than on the discounted price received from the Company's customer ThyssenKrupp. In July 2020 the Government of Burundi accepted the recommendations of a report published in July 2019 by SRK, commissioned by the World Bank on behalf of the government, which accepted that the discounted price received by Rainbow was reasonable. Subsequent royalties have been paid on the basis of the discounted price. Despite the Government of Burundi agreeing to repay the difference in September 2020 no repayment has been received to date. The Directors have impaired the royalty receivable based on an assessment of the likelihood that the overpayment will be recovered, considering a range of possible outcomes including recovery against future royalty liabilities, and no recovery. The impairment of US$69k is recognised in administrative expenses, in the current year (2021: US$128k).

Expected credit losses were assessed at 30 June 2022 considering various potential scenarios, information regarding the counterparty credit risk, the historical payment profiles, and forward-looking factors. No expected credit loss provision was considered necessary in the year (2021: US$Nil).

16. CASH AND CASH EQUIVALENTS

	30 June 2022 US$'000	30 June 2021 US$'000
Cash at bank and in hand	**4,134**	573
Total cash at bank and in hand	**4,134**	573

No cash amounts were restricted at 30 June 2022 (30 June 2021: nil).

17. TRADE AND OTHER PAYABLES

	30 June 2022 US$'000	30 June 2021 US$'000
Trade payables	**174**	71
Accrued expenses	**255**	233
Taxes and social security	**360**	363
Burundi land taxes payable	**60**	60
Amounts due to staff and management	**-**	32
Other payables	**-**	250
Provision for employment disputes	**60**	-
Total trade and other payables	**909**	1,009

Tax and social security payables include US$329k for taxes provided as a result of a tax audit undertaken in Burundi over the local operating subsidiary, Rainbow Mining Burundi SM (RMB), covering the period from 2017 to 2019. Reverse VAT totalling US$152k and withholding tax totalling US$75k had not been correctly accounted for on a number of invoices received for services supplied to RMB from international suppliers. A further US$10k of payroll taxes were found not to have been paid on salaries for casual staff. Penalties totalling US$92k on the unpaid taxes have also been provided for in accordance with Burundi legislation. An internal review was carried out for the period following the tax audit and a further US$24k of taxes and penalties provided for 2020 and 2021.

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

18. BORROWINGS

	30 June 2022 US$'000	30 June 2021 US$'000
FinBank Loan	557	579
Pipestone Loan	-	1,008
Warrant liability	196	306
Total borrowings	**753**	1,893
Borrowings fall due:		
Due within one year	235	1,231
Due between 2 to 5 years	518	662
Total	**753**	1,893

The following table analyses the movement in borrowings:

	30 June 2022		30 June 2021	
	US$'000	US$'000	US$'000	US$'000
Borrowings brought forward		1,893		1,680
Cash flows from borrowings				
Drawdown of borrowings	-		275	
Repayment of borrowings	(834)		(438)	
Interest paid	(138)		(104)	
		(972)		(267)
Non-cash movement in borrowings				
Interest charge on borrowings	138		244	
Settlement of borrowings in shares	(175)		-	
Valuation of warrant liability	(109)		256	
Extinguishment of Pipestone bridge loan	-		(925)	
Drawn down of renewed Pipestone bridge loan	-		925	
Other	(22)		(20)	
		(168)		480
Borrowings carried forward		753		1,893

FinBank Loan
The FinBank loan facility in Burundi is expressed in BIF and carries an interest rate of 15%. Interest has been paid throughout the period. Capital repayments have been suspended since April 2021 as a result of the export ban imposed in Burundi on the Group's rare earth concentrate from trial mining and processing activities. This is not a substantial modification of the loan.

Under the terms of this loan, FinBank has security over the fixed and floating assets of Rainbow Mining Burundi SM ("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 the loan amounted to US$98k (2021: US$98k).

Pipestone Bridge Loan
On 21st February 2020 Pipestone Capital Inc, provided a US$1 million unsecured bridging loan to the Company. The loan did not bear interest, with the finance cost provided by the issue of 2 million warrants. Further detail on the warrants is provided in note 22. In June 2020 the original Pipestone loan was re-financed, with US$75k repaid via the issue of 1,993,779 shares. The remaining US$925k was extinguished and replaced with a new, interest free, unsecured bridging loan of US$925k pending a larger capital raise. The loan was further refinanced following an equity raise in November 2020. The Company had no headroom under the prospectus directive regulations to issue shares at the price of the November 2020 equity raise to repay the loan and had insufficient funds to allow for repayment in cash. As a result, the US$925k interest-free liability was extinguished and replaced with a new unsecured bridge loan from 1 December 2020 which bears interest at a rate of 15% per annum. In December 2021 this loan was repaid with cash (US$886k) and the issue of 875,389 shares (US$175k).

19. LEASES

	30 June 2022 US$'000	30 June 2021 US$'000
Lease liabilities fall due:		
Due within one year	**32**	14
Due between 2 to 5 years	**35**	37
After 5 years	**46**	32
Total	**113**	83

The following table analyses the movement in lease liabilities:

	30 June 2022		30 June 2021	
	US$'000	US$'000	US$'000	US$'000
Lease liabilities brought forward		**83**		128
Cash flows from leases				
Payment of lease liabilities	**(23)**		(39)	
Interest paid	**(13)**		(17)	
		(36)		(56)
Non-cash movement in leases				
Recognition of lease liabilities	**110**		27	
Interest charge on leases	**13**		17	
Revaluation on termination	**(57)**			
Change in lease term	**-**		(33)	
		66		11
Lease liabilities carried forward		**113**		83

Right of use assets

	Land and buildings US$'000
Balance as at 1 July 2020	104
Right of use asset recognised in the year	27
Amendment to expected life	(33)
Depreciation in year	(28)
Balance as at 30 June 2021	**70**
Right of use asset recognised in the year	110
Amendment to expected life	(48)
Depreciation in year	(24)
Balance as at 30 June 2022	**108**

At 1 July 2020 two leasehold properties were recognised as right of use assets in Burundi in accordance with IFRS 16. During the year ended 30 June 2021 a further property lease was recognised in Burundi and notice was served on one property. During the year ended 30 June 2022 a new office lease was entered into in South Africa and the leases for the two properties initially recognised at 1 July 2020 were formally terminated.

The two remaining leasehold properties are subject to annual agreements, with right of use assets and lease liabilities calculated by reference to the Group's anticipated long-term intentions to renew the lease agreements.

There are no other lease commitments with the short term lease of a bulldozer terminated in the year ended 30 June 2021 after total payments of US$107k in the year ended 30 June 2021.

20. PROVISIONS

	Rehabilitation provision US$'000
At 1 July 2020	100
Discount	(39)
At 30 June 2021	**61**
Discount	–
At 30 June 2022	**61**

The rehabilitation provision relates to the anticipated cost of restoring the operating sites at the Gakara project in Burundi, discounted to reflect management's best estimates of the timing of future estimated cashflows.

No provision is deemed necessary for the Group's Phalaborwa project as on-site activities have not yet commenced and historical environmental liabilities associated with the site remain with the previous owners.

21. SHARE CAPITAL

	30 June 2022 US$'000	30 June 2021 US$'000
Share Capital	**41,442**	32,465
Issued Share Capital	**41,442**	32,465

The table below shows a reconciliation of share capital movements:

	Number of shares	US$'000
At 30 June 2020	**421,981,551**	28,132
November 2020 - Share placing – Cash receipts net of costs	42,700,000	3,338
December 2020 - Exercise of share options (cash receipts)	3,000,000	215
January 2021 - Exercise of share options (cash receipts)	4,000,000	290
February 2021 - Exercise of share options (cash receipts)	2,700,000	200
April 2021 - Exercise of share options (cash receipts)	800,000	58
Costs associated with exercise of share options	–	(18)
June 2021 - Phalaborwa consideration shares	1,229,883	250
At 30 June 2021	**476,411,434**	32,465
July 2021 - Exercise of share options (cash receipts)	2,500,000	182
October 2021 - Share placing – Cash receipts net of costs	32,900,000	6,557
November 2021 - Share placing – Cash receipts net of costs	10,000,000	1,982
December 2021 – Pipestone Loan repayment shares	875,389	175
April 2022 - Exercise of share options (cash receipts)	1,718,987	116
Costs associated with exercise of share options and loan settlement	–	(35)
Total	**524,405,810**	**41,442**

On 27 November 2020 the Company issued 42.7 million new ordinary shares at a price of 6 pence per share, raising gross cash proceeds of US$3.4 million (before costs of $85k).

Between December 2020 and April 2021 Australian Special Opportunity Fund, LP exercised options over 10.5 million shares at an exercise price of 5.28p per share, raising gross cash proceeds of US$763k (before costs of US$18k).

On 25 June 2021 1,229,882 shares were issued to Bosveld Phosphates (Pty) Limited to settle US$250,000 consideration due under the Phalaborwa co-development agreement originally announced on 3 November 2020.

On 13 July 2021 Australian Special Opportunity Fund, LP exercised options over 2.5 million shares at an exercise price of 5.28p per share, raising gross cash proceeds of US$182k.

On 13 October 2021 the Company issued 32.9 million shares at a price of 15 pence per share, raising gross cash proceeds of US$6.8 million (before costs of $221k).

On 15 November 2021 the Company issued a further 10.0 million shares at a price of 15 pence per share, raising gross cash proceeds of US$2.0 million (before costs of $18k).

On 25 April 2022 Australian Special Opportunity Fund, LP exercised options over 1,718,987 million shares at an exercise price of 5.28p per share, raising gross cash proceeds of US$116k.

22. SHARE OPTIONS AND WARRANTS

The total share-based payment charge for the year was US$287k, US$144k relating to the initial tranche of options issued under the Long Term Incentive Plan and US$143k relating to 3.8 million options issued under the existing share option plan as set out in more detail below (2021: US$510k).

Employee share options
At 30 June 2022, the following employee share options were exercisable and outstanding:

	30 June 2022		30 June 2021	
	Number	**Average weighted exercise price (pence)**	Number	Average weighted exercise price (pence)
Share option plan				
Outstanding as at 1 July	**7,991,400**	**12.19**	5,491,400	12.28
Granted in the year	**3,800,000**	**16.03**	2,500,000	12.00
Lapsed in the year	**-**		–	–
Outstanding as at 30 June	**11,791,400**	**13.43**	7,991,400	12.19
Exercisable as at 30 June	**8,491,400**	**12.53**	7,991,400	12.19
Long Term Incentive Plan				
Outstanding as at 1 July	**3,708,000**	**-**	–	–
Granted in the year	**-**	**-**	3,708,000	–
Outstanding as at 30 June	**3,708,000**	**-**	3,708,000	–
Exercisable as at 30 June	**1,236,001**	**-**	–	–

No employee share options were exercised or lapsed in the year. The options outstanding at 30 June 2022 across both the share option plan and long-term incentive plan had a weighted average remaining contractual life of 6.7 years (2021: 7.8 years).

During the year 3.8 million options were issued as follows:

- 500,000 being issued to a non-executive director (PDMR) on 6 July 2021. The options have an exercise price of 18 pence per share and vest immediately on issue with a term of 10 years.
- 800,000 being issued to key personnel (not PDMR's) on 6 July 2021. The options have an exercise price of 18 pence per share and vest in three tranches after 12 month, 24 months and 36 months, with a term of 10 years, subject to the personnel remaining employees of the group.
- 2,500,000 issued under the existing Share Option Plan: CEO: 1,600,000 options and CFO: 900,000 options (both PDMR's). The options have an exercise price of 15 pence per share and vest in three tranches after 12 month, 24 months and 36 months, with a term of 10 years, subject to the personnel remaining employees of the group.

The options have been valued using a Black-Scholes model using the inputs as detailed below:

	Options granted 6 July 2021 to PDMR	**Options granted 6 July 2021 to non PDMR**	**Options granted 2 February 2022**
Share price (GBP pence)	14.75	14.75	16.63
Exercise price (GBP pence)	18.00	18.00	15.00
Expected volatility	106.61%	106.61%	78.64%
Risk free rate	0.14%	0.14%	1.08%
Rate of Exchange	1.38	1.38	1.36
Time to exercise (years)	3.00	5.00	5.00

Expected volatility was determined by reference to the annual volatility of the Company's closing mid-market share price on the London Stock Exchange.

Lind share options
In January 2019, 16,718,987 share options were issued to Lind Partners 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 was 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, a funding arrangement entered into by the Company in January 2019.

During the 2021 financial year 10,500,000 options originally issued to Lind Partners in January 2019 with an exercise price of 5.28 pence per share were exercised for gross proceeds of US$763k. During the year ended 30 June 2022 a further 4,218,987 options were exercised for gross proceeds of US$298k. At 30 June 2022 a further 2 million options with an exercise price of 5.28 pence per share are outstanding which can be exercised until 24 January 2023.

22. SHARE OPTIONS AND WARRANTS CONTINUED

Warrants

	Number	Exercise price
Outstanding and exercisable at 1 July 2020	2,427,924	£0.067 [1]
Expired during the year	(427,924)	US$0.21
Outstanding and exercisable at 30 June 2021 and 2022	**2,000,000**	**£0.0455**

1. Weighted average exercise price calculated for US$ based warrants on US$:GBP exchange rate ruling on 30 June 2020.

During the year ended 30 June 2021, 427,924 warrants with an exercise price of US$0.21 per share originally issued to Chrystal Capital Partners LLP on 9 November 2015 expired.

On 21 February 2020, 2,000,000 warrants were issued to Pipestone Capital Inc, in which George Bennett, the Company's CEO, has a beneficial interest. The warrants were issued in lieu of interest on a US$1 million bridging loan provided to the Company as set out in note 18. The warrants have a contractual life of 4 years at an exercise price of 4.55 pence per warrant. The Pipestone warrants are recognised as a financial liability at fair value through profit and loss with changes in value included under Finance Costs as part of the cost of the Pipestone Loan Facility as set out in note 7.

As noted above, the Pipestone warrants are classified as a financial liability and are revalued at each period end using a Black-Scholes model. The inputs into the model were:

	At 30 June 2022	At 30 June 2021
Share price (GBP pence)	**12.38**	14.50
Exercise price (GBP pence)	**4.55**	4.55
Expected volatility	**52.07%**	106.71%
Risk free rate	**1.87%**	0.18%
Rate of exchange	**1.22**	1.38
Time to exercise (years)	**1.50**	1.67

Expected volatility was determined by reference to the annual volatility of the Company's closing mid-market share price on the London Stock Exchange.

The expected life used in the model has been on management's best estimate for the effects of exercise restrictions and behaviour.

23. RESERVES

Reserve	Purpose
Share capital	Value of shares issued less costs of issuance
Share-based payment reserve	Fair value of share options issued
Other reserves	Fair value adjustments for interest free loans
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 2022. Refer to note 24 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 30 JUNE 2022

24. 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	Total Group
Country	Burundi	Burundi SM	
	US$'000	US$'000	US$'000
Effective non-controlling interest	3%	10%	**13%**
Interest of non-controlling interest			
As at 1 July 2020	7	877	**884**
Minority share of loss for year	–	52	**52**
At 30 June 2021	7	929	**936**
Minority share of loss for year	1	104	**105**
At 30 June 2022	8	1,033	**1,041**
Assets at year-end:			
30 June 2021	1	10,019	**10,020**
30 June 2022	1	9,603	**9,604**
Liabilities at year-end:			
30 June 2021	295	19,298	**19,593**
30 June 2022	295	19,936	**20,231**
Loss for the year to:			
30 June 2021	–	(524)	**(542)**
30 June 2022	–	(1,055)	**(1,055)**

No dividends have been paid to minority interests in the year (2021: nil).

25. CAPITAL COMMITMENTS

There were no capital commitments on 30 June 2022 (2021: nil). Under the terms of the Gakara Mining Convention there are no minimum expenditure commitments in respect of exploration and evaluation activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30 JUNE 2022

26. RELATED PARTY TRANSACTIONS

	Year to 30 June 2022			Year to 30 June 2021		
	Charged in year US$'000	**Settled in year US$'000**	**Balance as at 30 June 2022 US$'000**	Charged in year US$'000	Settled in year US$'000	Balance as at 30 June 2021 US$'000
Gilbert Midende [1]	**50**	**(50)**	**-**	35	(35)	–
Benzu Minerals (Proprietary) Limited [2]	**48**	**(48)**	**-**	23	(23)	–
Pipestone Capital Inc [3]	**52**	**(1,061)**	**-**	237	(153)	1,009
Alexander Lowrie [4]	**-**	**-**	**-**	26	(26)	–
Atul Bali [4]	**-**	**-**	**-**	25	(25)	–
Robert Sinclair [4]	**-**	**-**	**-**	26	(26)	–
Shawn McCormick [4]	**-**	**-**	**-**	25	(25)	–
MPD Consulting Limited [5]	**13**	**(13)**	**-**	25	(25)	–
Total	**163**	**(1,172)**	**-**	422	(338)	1,009

1. Gilbert Midende formally retired as Director General of Rainbow Mining Burundi SM in May 2021. In the year ended 30 June 2021, in addition to salary, Gilbert Midende was paid US$35k in respect of property leases in Burundi. In the year ended 30 June 2022 Gilbert Midende received a retirement settlement of US$50k.
2. Benzu Minerals (Proprietary) Limited is connected to Cesare Morelli who is engaged as a geologist. In addition to the amounts disclosed, which relate to costs associated with the drilling programme at Phalaborwa, salary was paid to Cesare Morelli via Benzu Minerals (Proprietary) Limited and is included in remuneration disclosures in note 9.
3. Pipestone Capital Inc, in which George Bennett, the Company's CEO, has a beneficial interest, provided a bridging loan to the Group which totalled US$925k at 1 July 2020 on which Interest totalling US$52k accrued during the year ended 30 June 2022 (2021: US$84k). The loan was fully settled via a mixture of cash and shares in December 2021 as set out in note 18. In addition, Pipestone Capital Inc provided US$150k of the bridge loan received in October 2020, which was repaid in full, including US$3k interest, in December 2020.
4. Alexander Lowrie, Atul Bali, Robert Sinclair and Shawn McCormick, all Non-Executive Directors of the Company, provided an aggregate of US$100k of the bridge loan received in October 2020, which was repaid in full, including US$2k aggregate interest, in December 2020.
5. MPD Consulting Limited (connected with Peter Gardner, CFO) provided US$25k of the bridge loan received in October 2020, which was repaid in full, including interest, in December 2020. MPD Consulting Limited charged the company US$13k for providing UK office services to the CFO in the year ended 30 June 2022, which was settled in full.

27. INVESTMENT IN SUBSIDIARIES

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

			% Share Capital Held	
Name of Company	**Principal Activity**	**Country of Incorporation**	**2022**	2021
Rainbow International Resources Ltd	Rare earth exploration	British Virgin Islands	**100%**	100%
Rainbow Rare Earths UK Ltd	Service Company	United Kingdom	**-**	100%
Rainbow Burundi SPRL	Rare earth exploration	Republic of Burundi	**97%**	97%
Rainbow Mining Burundi SM	Rare earth mining	Republic of Burundi	**90%**	90%
Rainbow Rare Earths Zimbabwe (Private) Limited	Rare earth exploration	Zimbabwe	**100%**	100%
Rainbow Rare Earths (Proprietary) Limited	Group support services	South Africa	**100%**	-

a. Rainbow International Resources Limited is 100% owned by Rainbow Rare Earths Limited.
b. Rainbow Rare Earths UK Ltd was deregistered on 3 February 2022.
c. Gilbert Midende holds a 3% interest in Rainbow Burundi SPRL.
d. 97% of shares in Rainbow Burundi SPRL and 90% of shares in Rainbow Mining Burundi SM are held by Rainbow International Resources Limited
e. The government of Burundi has a 10% interest in Rainbow Mining Burundi SM granted in accordance with the Mining Code of Burundi
f. Rainbow Rare Earths Zimbabwe (Private) Limited is dormant and not trading.
g. Rainbow Rare Earths (Proprietary) Ltd was established on 7 March 2022 in South Africa to provide support services for the Group. It is owned 100% by Rainbow Rare Earths Ltd.

28. CONTINGENT LIABILITIES

There were no contingent liabilities at 30 June 2022 (30 June 2021: nil).

29. POST BALANCE SHEET EVENTS

No events after the reporting date were identified that would affect the group of companies significantly or cause its financial results to be materially misstated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30 JUNE 2022

30. FINANCIAL RISK MANAGEMENT

The Group's financial liabilities at each period end consist of bank borrowings, leases, unsecured loans and trade and other payables (including accrued expenses). The warrants issued in lieu of interest for the Pipestone Loan, as set out in note 18, are measured at fair value through profit or loss. All other liabilities are measured at amortised cost. These are detailed in notes 17, 18 and 19.

The Group has various financial assets, being trade and other receivables and cash, which arise directly from its operations. To the extent that these represent financial assets they are classified as assets held at amortised cost. These are detailed in notes 15 and 16.

The fair values of the Group's cash, trade and other receivables, borrowings, unsecured loans, leases, trade and other payables and financial liabilities at fair value through profit and loss 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 16. Credit risk is managed by ensuring that surplus funds are held in the UK with well-established financial institutions of high-quality credit standing. At 30 June 2022, 99% of funds were held with a bank with a long-term A- credit rating (2021: 90%).

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. 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 matching the currency profile of cash holdings to expected future cash outflows. Minimal cash is held in Burundian Francs. The table below shows the currency profiles of cash and cash equivalents:

Cash and cash equivalents	**30 June 2022 US$'000**	30 June 2021 US$'000
US Dollars	**1,623**	353
GB Pounds	**1,778**	183
SA Rands	**716**	–
Burundi Francs	**17**	37
Total	**4,134**	573

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

	30 June 2022 US$'000	30 June 2021 US$'000
US Dollars	**336**	1,662
GB Pounds	**187**	233
Burundi Francs	**1,040**	681
South African Rand	**189**	23
Australian Dollars	**22**	22
Total	**1,774**	2,621

The largest monetary liability exposure and the least stable currency is the Burundi Franc. A 10% movement in the US$:BIF rate would have resulted in a gain or loss of approximately US$0.1m (2021: approximately US$0.1m) in the income statement in relation to the cash and cash equivalents and trade payables as at 30 June 2021.

30. FINANCIAL RISK MANAGEMENT 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 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. The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities:

	As at 30 June 2022				As at 30 June 2021			
	Due within 1 years US$'000	Due in 1 to 2 years US$'000	Due in 2 to 5 years US$'000	Due in 5 to 10 years US$'000	Due within 1 years US$'000	Due in 1 to 2 years US$'000	Due in 2 to 5 years US$'000	Due in 5 to 10 years US$'000
Trade and other payables	909	-	-	-	646	–	–	–
Loans and borrowings	235	469	49	-	1,304	314	79	
Lease liabilities	32	34	46	-	17	12	36	39
Totall	**1,176**	**503**	**95**	**-**	1,967	326	115	39

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. This includes ensuring sufficient funds are available to service the Group's borrowings as they fall due. No funds are held in restricted or designated accounts for future debt servicing requirements. In making decisions to adjust its capital structure to achieve these aims the Group consider not only its short-term position but also its long term operational and strategic objectives.

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

Net debt/(net cash) to equity	**30 June 2022 US$'000**	30 June 2021 US$'000
Total borrowings (note 18)	**753**	1,892
Less: Cash and cash equivalents	**(4,134)**	(573)
Net (cash) / debt	**(3,381)**	1,319
Total equity	**15,345**	10,006
Ratio	**(22.03%)**	13.18%

31. NON-CASH TRANSACTIONS

Material non-cash transactions were as follows:

Year end 30 June 2022

- Settlement of the Pipestone Loan Balance in shares as set out in note 21.
- Recognition of a right of use asset under a lease agreement as set out in note 19.

Year end 30 June 2021

- Settlement of the second tranche of consideration for the Phalaborwa earn-in agreement in shares as set out in note 21.
- Recognition of right of use assets under lease agreements as set out in note 19.

32. ULTIMATE CONTROLLING PARTY

The Company does not have a single controlling party.

SHAREHOLDER INFORMATION

Executive director
George Bennett – Chief Executive Officer

Non-executive directors
Adonis Pouroulis – Chairman
Alex Lowrie
Shawn McCormick
Atul Bali
J Peter Pham

Company Secretary
Scorpio Secretarial Services Limited

Registered office
Connaught House, St Julian's Avenue
St Peter Port, Guernsey GY1 1GZ

Company website
www.rainbowrareearths.com

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

Bankers
Barclays Bank PLC (UK)
FinBank S.A (Burundi)
Standard Bank of South Africa Limited (South Africa)

Brokers
SP Angel

Independent Auditors
BDO LLP

Solicitors
Memery Crystal LLP (UK)
Legal Solutions Chambers (Burundi)
Malan Scholes Inc. (South Africa)

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