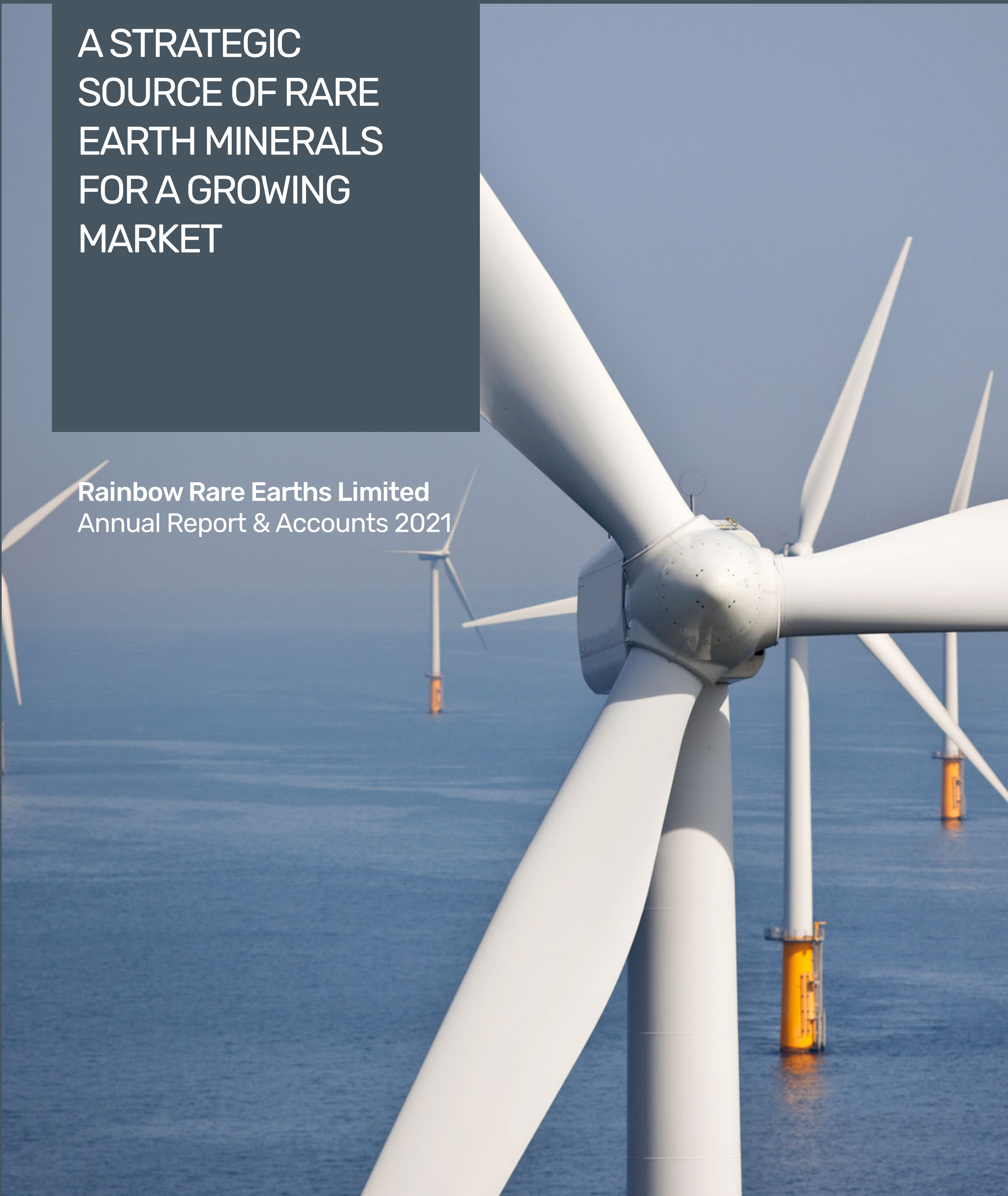
RAINBOW
RARE EARTHS

A STRATEGIC SOURCE OF RARE EARTH MINERALS FOR A GROWING MARKET



Rainbow Rare Earths Limited
Annual Report & Accounts 2021

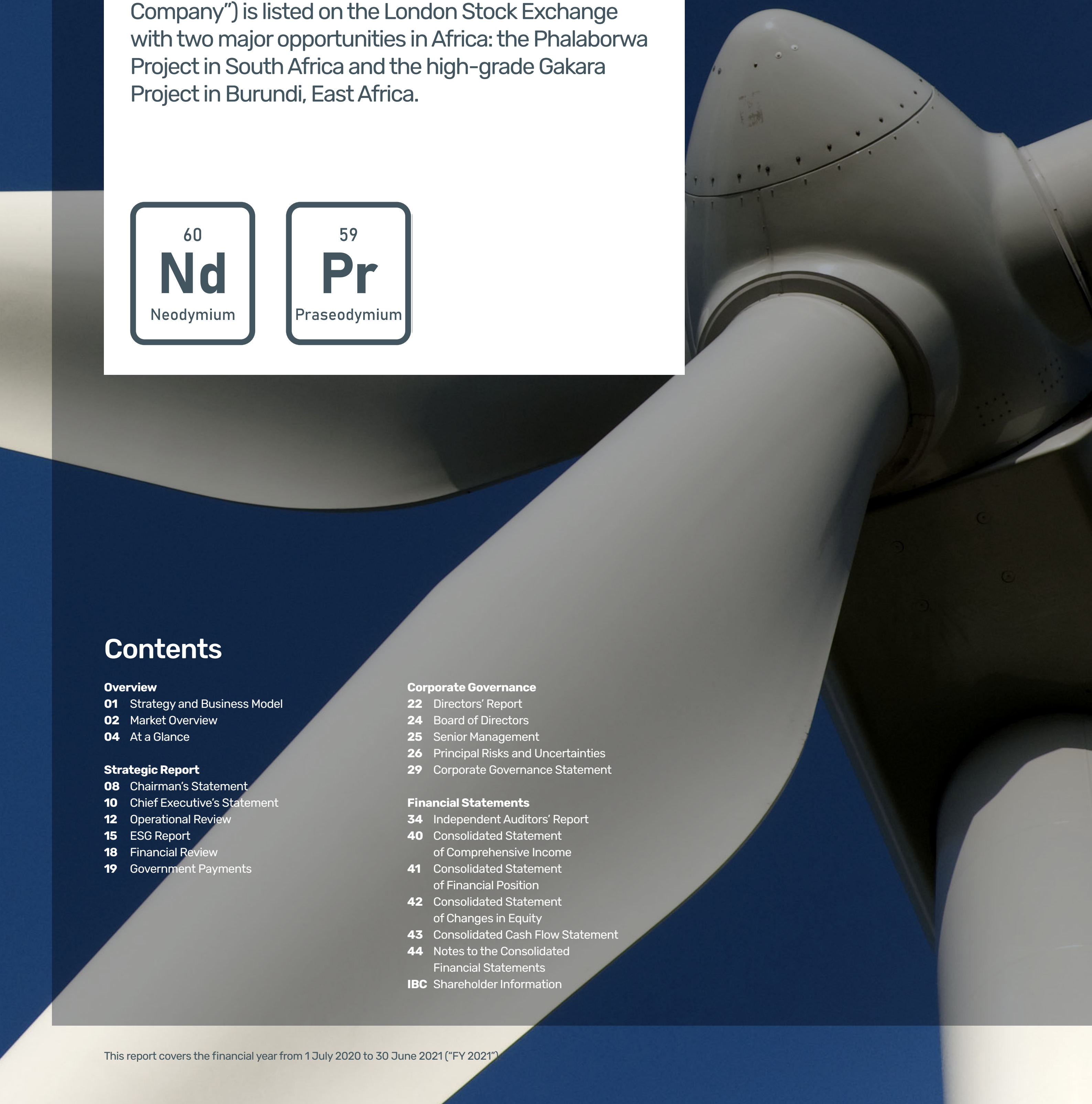
About Us

A STRATEGIC SOURCE OF RARE EARTH MINERALS FOR A GROWING MARKET

Rainbow Rare Earths Limited ("Rainbow" or "the Company") is listed on the London Stock Exchange with two major opportunities in Africa: the Phalaborwa Project in South Africa and the high-grade Gakara Project in Burundi, East Africa.

60
Nd
Neodymium

59
Pr
Praseodymium



Contents

This report covers the financial year from 1 July 2020 to 30 June 2021 ("FY 2021").

Strategy and Business Model

Strategy

Rainbow's strategy is to become a globally significant and responsible producer of rare earths, with a particular focus on Neodymium and Praseodymium ("NdPr") – the fundamental building blocks in the global green technology revolution. With its diversified portfolio, proven ability and strong operating experience, the Company is well positioned to take advantage of the demand for rare earth oxides, which analysts predict will grow substantially over the coming years.

Business Model

Responsible rare earths production:
developing an integrated mine-to-metal producer

PROJECT IDENTIFICATION

Assessing rare earths opportunities to identify those with the potential to create a responsible supply chain and generate shareholder and broader stakeholder value

ASSET APPRAISAL

Detailed technical work to deliver feasibility studies and determine the optimal route to rare earths production

PROJECT DEVELOPMENT

Capital investment to extract and upgrade in-situ resources to a saleable rare earth product in an environmentally responsible manner

DOWNSTREAM RARE EARTH OXIDE PRODUCTION

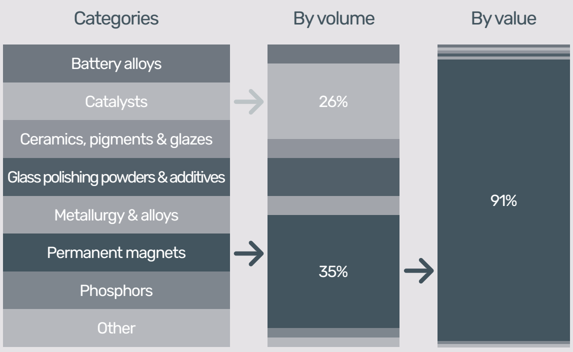
Investigating the potential to produce separated rare earths oxide for sale to industrial users, realising the full value of the underlying metals for our stakeholders and developing a responsible, independent, Western supply chain to power the green revolution

Market Overview

NdPr: DRIVING THE GREEN REVOLUTION

As a key component of permanent magnets, required for the construction of motors and turbines, analysts are predicting demand for Neodymium and Praseodymium oxides to grow substantially over the coming years, tipping the market into a supply deficit.

Permanent magnet production accounted for 91% of the total value of total rare earth oxide ("TREO") consumption in 2019[1]



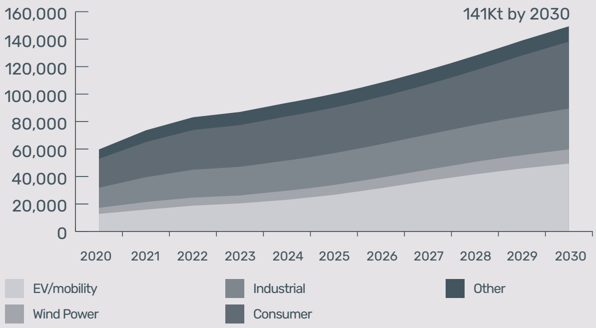
1 Source: Adamas Intelligence

Global trends and increasing legislation accelerate NdPr demand

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 of and global competition for resources.
- **Supply chain security:** Against a backdrop of heightened national protectionism.

NdPr demand accelerated by evolving global emissions legislation:
- Wind power will be a key contributor to meeting the Paris Climate Goals.
- The UK has pledged to ban new petrol and diesel car sales by 2030 and increase offshore wind capacity to a level sufficient to power every home by this date.
- Germany targets offshore wind power expansion targets of 20GW by 2030 and 40GW by 2040.
- France aims to produce 1 million electric vehicles ("EVs") annually by 2025.

Anticipated global rare earth oxides magnet demand growth[2]



2 Source: Adamas Intelligence

Market Overview
continued

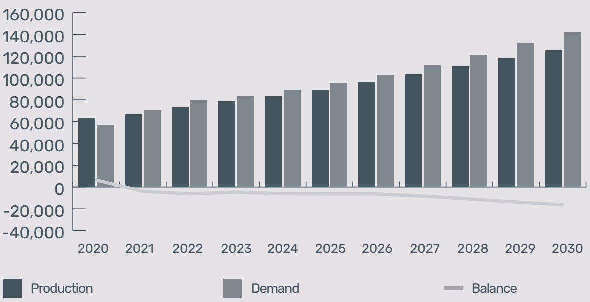
There are no existing acceptable substitutes for NdPr in permanent magnets used in EVs and wind turbines

The motor technology required across all EVs drives NdPr demand, regardless of battery chemistry:
- Global annual demand for NdPr is expected to substantially exceed global annual production by 2030[3].
- Each new EV requires between 1-2kg of NdPr.
- Average annual NdPr demand from EVs is forecast to increase by ~4,200 – 9,600 tonnes per annum from 2020-2025[4].
- The value of global magnet rare earth oxides consumption is expected to increase from US$2.98 billion to US$15.65 billion by 2030[5].

Permanent magnet electricity generators for wind turbines:
- Wind turbines consume ~600-830kg of rare earth oxides per megawatt[6].
- Estimated wind-capacity growth of 5.7% year-on-year to 2050[7].
- Growing to +1.9 terawatt of total wind capacity by 2050[8].

3 Adamas Intelligence
4 SP Angel
5 Adamas Intelligence
6 Curtin University
7 Bloomberg NEF New Energy Outlook 2020
8 NDRC-ERI "Aggressive Scenario"

NdPr Oxide: forecast supply/demand balance[9]



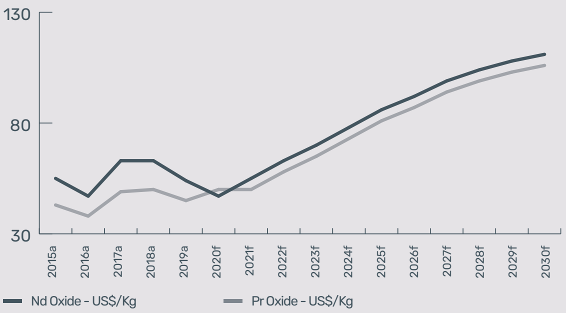
9 Source: Adamas Intelligence

Significant projected NdPr supply constraints

Securing an ethical and sustainable supply chain for strategic materials:
- China currently dominates global rare earths production, with an approximate 80% share.
- The EU's Action Plan on Critical Raw Materials aims to strengthen domestic sourcing of raw materials in the EU and diversify supply from both primary and secondary sources.
- The US has announced contracts with rare earths producers to strengthen its domestic supply chain.

A supply deficit is anticipated due to challenges in bringing new rare earth mines into production, which include:
- Many projects being low grade.
- Estimated high levels of capital for complex processing, ranging from US$200-700 million for major listed rare earths projects.
- A significant number of projects have high levels of radioactive elements, adding to complexity in processing.

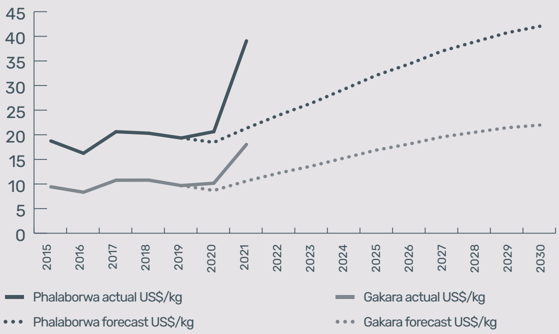
NdPr Price forecasts[10]
- According to the below Adamas Intelligence data, NdPr prices were forecast to increase significantly by 2030.
- Prices in 2020 rose faster than predicted due to supply-side constraints.
- Ongoing price strength is expected by analysts across the range of rare earths focused on by Rainbow.



10 Source: Adamas Intelligence

Rainbow basket prices
Rainbow's rare earths basket prices have risen 64% during FY 2021, significantly outstripping forecast price rises, reaching US$17.42/kg as at 30 June 2021 for the Gakara Project. Nd prices increased 75% from US$42.50/kg to US$74.50/kg and Pr rose 87% from US$44.05/kg to US$82.50/kg.

Phalaborwa has a considerably higher underlying basket price, containing 29.1% NdPr (compared to 20.0% for the average Gakara basket) together with higher proportions of high value Dysprosium ("Dy") and Terbium ("Tb"), and has enjoyed a 67% increase over the year due to the higher weighting towards NdPr.



At A Glance

PROJECT AND COUNTRY RISK DIVERSIFICATION FROM TWO SCALABLE PROJECTS IN SOUTH AFRICA AND BURUNDI

LTIs in FY 2021 and FY 2020

0

LTI-free hours worked since February 2019

1.1m

LTIFR in FY 2021 and FY 2020

0.0

At A Glance
continued

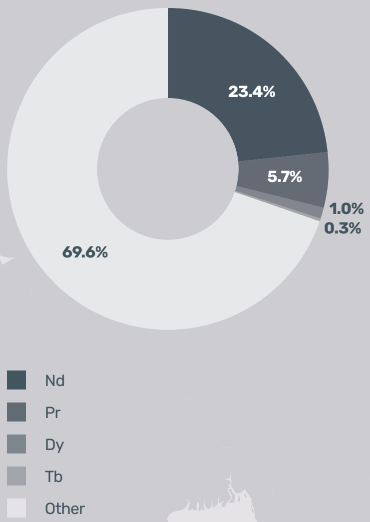
PHALABORWA
SOUTH AFRICA

LOW COST

SIMPLE PROCESSING

ENVIRONMENTAL RESPONSIBILITY

Contribution of TREO by oxide



Exciting near-term growth opportunity

- A co-development agreement was signed with Bosveld Phosphates in 2020 to process rare earth elements ("REE") from two gypsum stacks resulting from over 50 years of phosphate hard rock mining.
- Largely permitted and positioned in an established mining town, with:
  - associated skilled labour availability; and
  - supporting industry (i.e. local production of sulphuric acid, an expected key reagent in the processing circuit).

38Mt mineral resource with strong weighting towards NdPr

- Inferred mineral resource estimate of 38.3Mt at 0.43% TREO, of which 29.1% comprises high value NdPr, and with economic levels of Dy and Tb oxide credits.
- Phalaborwa is 6 – 10 times higher grade than a typical ionic clay style rare earth deposit.

Simple processing and high value carbonate product expected to drive strong project economics

- Rare earths are present in a chemical rather than mineral form thereby removing the need to firstly produce a mineral concentrate before undertaking a complex and energy intensive "cracking" process, which is required by the majority of global rare earth projects.
- Gypsum stacks are amenable to simple, direct leaching with low-cost sulphuric acid at ambient temperature and pressure.
- Investigating the potential for further downstream processing to separate and purify individual rare earth oxides as part of the Preliminary Economic Assessment ("PEA").

Responsible production of rare earths from waste

- By processing the existing gypsum stacks, Rainbow aims to deliver a "green" rare earths project, removing existing environmental liability and redepositing clean, benign gypsum on a new stack, which is expected to conform with IFC Standards.
- Very low levels of radioactive elements confirmed.

GAKARA
BURUNDI

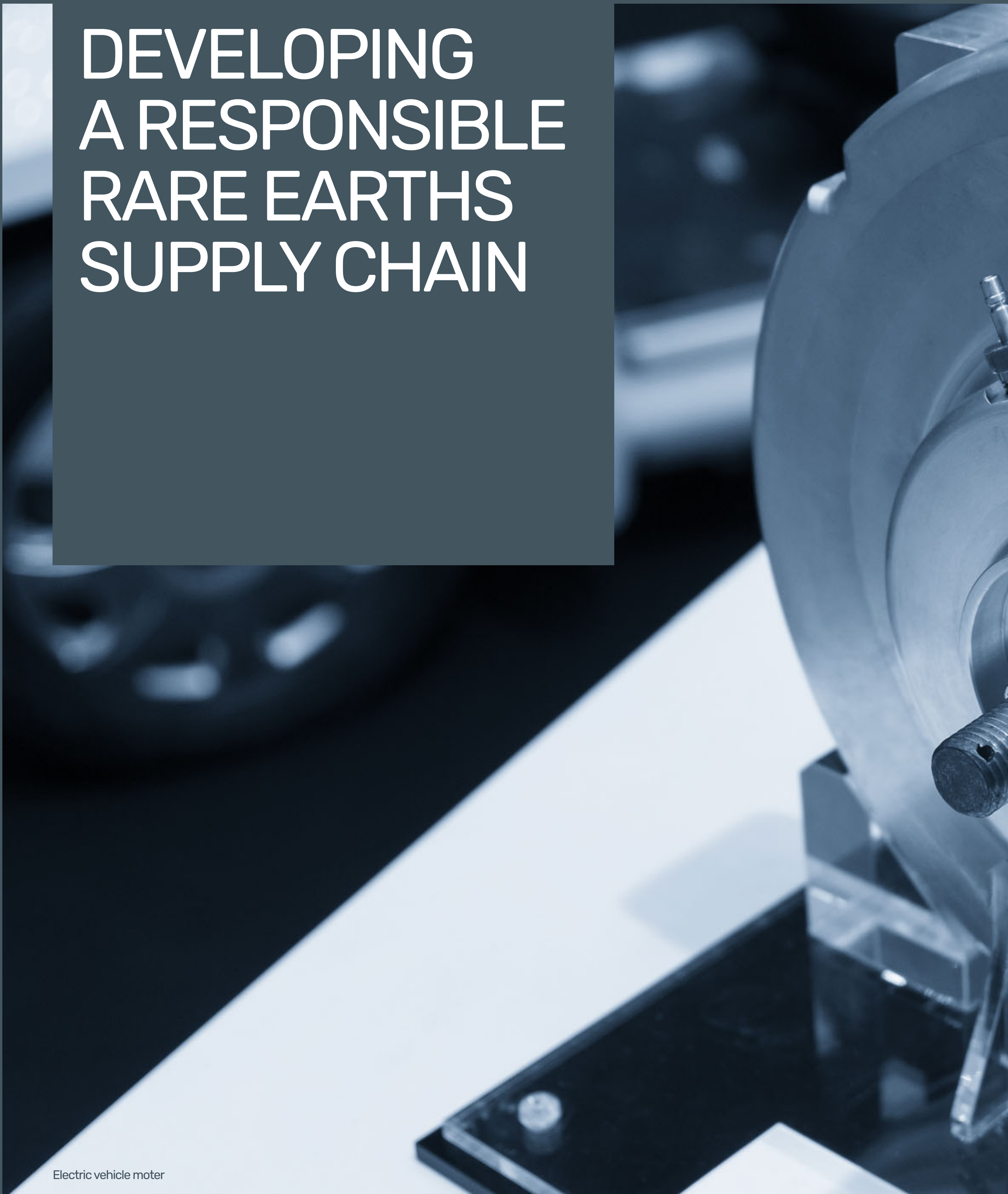
High-grade concentrate from a simple operation

- Located just south of Bujumbura in Burundi, Gakara has a large mining permit covering 39km², with over 1,500 occurrences of rare earths discovered in outcrop on surface demonstrating a large-scale mineralised system.
- A combination of breccia style mineralisation, suitable for open pit mining and bulk processing, and high-grade veins, amenable to selective open pit or underground mining.

Opportunity for high value concert, weighted towards NdPr

- Gakara has demonstrated the potential to produce a high value TREO concentrate of 52-56%, weighted towards NdPr, with low levels of radioactivity.
- Trial mining and processing since 2017 has demonstrated amenability for simple, low-cost gravity separation from ore sourced from across the licence area.
- Investment in 2020-21 allowed exploration and trial mining to progress towards targeted production of 100 tonnes of mineral concentrate per month using owner mining fleet with clear pathway to further growth utilising existing pilot plant infrastructure.
- Gakara is currently on care and maintenance with minimal holding costs pending discussions with the Government of Burundi.

DEVELOPING A RESPONSIBLE RARE EARTHS SUPPLY CHAIN

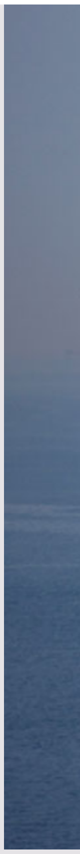


Electric vehicle moter

STRATEGIC REPORT

Chairman's Statement

"WE BELIEVE RAINBOW IS NOW WELL POSITIONED TO DEVELOP A RESPONSIBLE, INDEPENDENT, WESTERN RARE EARTHS SUPPLY CHAIN AND BECOME A SIGNIFICANT PRODUCER OF NEODYMIUM AND PRASEODYMIUM."



This has been a transformative year for Rainbow, in which we have introduced the exciting, near-term growth opportunity presented by Phalaborwa to our portfolio. The signing of the co-development agreement for this project in South Africa in FY 2021 represented a step change in Rainbow's business model. Not only did it add diversification, but most importantly it provided the potential for us to participate in the downstream stage of rare earth oxide production. As pressure continues to accelerate around the globe to reach the net-zero goals of the Paris Agreement, we believe Rainbow is now well positioned to develop a responsible, independent, Western rare earths supply chain and become a significant producer of Neodymium and Praseodymium. This will enable our business to bridge some of the substantial expected global gap between current supply and mounting demand and provide the building blocks which are essential to the success of the green energy revolution.

Integral to low carbon technologies, the demand for rare earths, and more specifically NdPr, is increasing and we are therefore heavily focused on rapidly bringing the Phalaborwa Project into production. FY 2021 has seen a 78% increase in the price of NdPr oxide, which has continued to rise since the year-end. As the automotive industry continues to shift to electric vehicles and the demand for clean energy further accelerates, the outlook for NdPr becomes ever more compelling, with analysts predicting a fivefold increase in the value of global magnet rare earth oxide consumption by 2030. With rare earth supply still dominated by China, we see significant opportunities to provide an alternative source and are committed to producing the metals in a responsible manner. We believe that our Phalaborwa Project demonstrates this commitment well - by processing the existing gypsum stacks, our aim is to deliver a "green" rare earths project, removing existing environmental liability and redepositing clean, benign gypsum on a new stack.

Chairman's Statement
continued

"WITH RARE EARTH SUPPLY STILL DOMINATED BY CHINA, WE SEE SIGNIFICANT OPPORTUNITIES TO PROVIDE AN ALTERNATIVE SOURCE AND ARE COMMITTED TO PRODUCING THE METALS IN A RESPONSIBLE MANNER."

The year has brought some challenges for the Company - both as a result of the ongoing global pandemic, but also more specifically, the interruptions we are experiencing in Burundi, with the Gakara exploration and trial mining operation on care and maintenance. However, we continue to engage effectively with Government stakeholders and are confident of reaching a resolution. Whilst the situation facing Rainbow in Burundi is disappointing, it has allowed our team to focus on the substantially larger opportunity presented for the near-term development of Phalaborwa, which we see as the immediate catalyst of Rainbow's business model. We remain committed to the positive contributions we are able to make as a Company within our countries of operation and communities through the payment of taxes and royalties, the provision of employment, local investment and the support of local supply chains.

Ensuring a strong governance framework for the business is a priority for Rainbow and we were delighted to further strengthen the Board during FY 2021 with the appointment of Ambassador J. Peter Pham. Peter brings a rich and detailed understanding of African political and economic issues, as well as insights and relationships across Africa and Washington. As the architect of efforts to reform and rebuild US relations with Burundi, Peter's insights will be invaluable to the Company.

On behalf of the Board of Directors, I would like to thank our management team, employees and contractors for their continued dedication to the Company, hard work and determination. I also wish to express gratitude to our shareholders, who have shown strong support for the business, as evidenced by two recent over subscribed placings - the first in November 2020 to raise £2.56 million and the second completed post year end in October 2021 to raise £6.435 million.

This is a very exciting time for Rainbow as we drive forward with the development of Phalaborwa and I look forward to updating shareholders on further developments as we continue to drive value through the business.

Adonis Pouroulis
Chairman

Chief Executive's Statement

"WE HAVE LONG BELIEVED THAT THE ESSENCE OF RAINBOW'S BUSINESS MODEL WOULD COME FROM PARTICIPATING FURTHER IN DOWNSTREAM PROCESSING TO REALISE THE FULL VALUE OF THE UNDERLYING RARE EARTH OXIDES FOR OUR STAKEHOLDERS."

We have made significant progress with our strategy in FY 2021, which is testament to the commitment of our team in the light of the challenges we are all facing as a result of Covid-19. We have continued to prioritise the health and safety of our employees throughout the global pandemic and adopt a zero-harm policy in our operations, remaining focused on ensuring a safe working environment at all times. I am pleased to report that zero lost time injuries ("LTIs") occurred at Gakara during 2021, leading to a lost time injury frequency rate ("LTIFR ") of 0.00 and a total period exceeding 1.1 million hours LTI-free pilot production since February 2019. This demonstrates our commitment to this fundamental aspect of the business, which we will aim to mirror at other operations going forward. Read more about health and safety on page 16 of this report.

We believe that Phalaborwa provides us with a relatively unique opportunity for the rapid development of a low-capital and -operating cost, high-value rare earths processing facility. We therefore see this asset as the cornerstone of Rainbow's business in the near term and continue to assess similar assets to complement the portfolio.

We have long believed that the essence of Rainbow's business model would come from participating further in downstream processing in order to realise the full value of the underlying rare earth oxides for our stakeholders. Therefore, we have enlarged the scope of the PEA at Phalaborwa to now include an additional downstream processing step. The original flowsheet already planned to produce a mixed rare earth carbonate (rather than simply a mineral concentrate), due to the gypsum stacks being in a "cracked" chemical rather than mineral form. This removes the requirement that most global rare earth projects have of firstly producing a mineral concentrate before undertaking a complex and energy intensive "cracking" process.

In June, Rainbow released a maiden JORC (2012) compliant mineral resource estimate for Phalaborwa of 38.3Mt at 0.43% TREO, which exceeded original expectations of 35Mt from the gypsum stacks. Importantly, 29% of the total contained rare earth oxides comprise high-value NdPr oxide, the essential metals for permanent magnets powering the green revolution. In addition to this, we were pleased to see economic Dysprosium and Terbium oxide credits, which enhance the overall value of the rare earth basket contained in the stacks.

Chief Executive's Statement
continued

"PHALABORWA REPRESENTS A VERY EXCITING, ENVIRONMENTALLY SOUND, FAST-TRACK DEVELOPMENT OPPORTUNITY FOR RAINBOW."

We were particularly excited by the highly positive initial test work results received from ANSTO Minerals, which were published in May and support our view that Phalaborwa can be developed as a low capital intensity project with operating costs near the bottom of the global rare earth cost curve. As this project entails the processing of gypsum waste residue resulting from historic phosphoric acid production, it carries significant environmental advantages, with anticipated lower energy and reagent requirements than a traditional rare earths project. As with Gakara, Phalaborwa benefits from the fact that the gypsum stacks contain low levels of radioactive elements, which are not expected to pose a problem in the processing circuit. All these factors combined confirm our belief that Phalaborwa represents a very exciting, environmentally sound, fast-track development opportunity for Rainbow.

The signing of our exclusive rare earths separation technology agreement with K-Technology in September represented another positive moment for the business. We believe that it provides Rainbow with a significant competitive advantage and that the intellectual property ("IP") is ideally suited to Phalaborwa, where it would enable us to focus on the separation of only the most valuable rare earth oxides within the basket. In addition to the anticipated capex and opex savings that could be achieved using this technology, when compared to a traditional separation circuit, it will enable Rainbow to participate efficiently in the downstream separation process, allowing us to capture the full rare earth oxide price for our material. We are also excited to be in a position to utilise the technology to secure an interest in other rare earth phosphogypsum opportunities in the region, where we believe tremendous value can be unlocked.

However, the year has not been without its complications. In April 2021, the Company received notification from the Government of Burundi of a temporary suspension on the export of concentrate from Gakara. Subsequently, shortly before year end, the Company received notification of a temporary suspension of exploration, trial mining and processing operations at Gakara. During this Government-mandated suspension, operating costs in Burundi have been minimised, with the vast majority of staff placed on suspension, such that the ongoing situation is not having a significant impact on the Company's cash flow forecasts. Whilst the exploration and trial mining operation remains on care and maintenance, we continue to take a steadfast approach to resolving these issues and recommencing the positive contributions we make in Burundi to the benefit of all our stakeholders.

We enhanced our senior project development team in 2021 through the appointments of Chris le Roux and Charles Graham who work closely with Rainbow's Technical Director, Dave Dodd. With their combined wealth of experience, they will be instrumental in the successful delivery of Phalaborwa.

Given its unique nature, it is our belief that Phalaborwa will be capable of reaching production of mixed rare earth carbonate faster than any other rare earth development project globally. Therefore, with continued strong progress being made at this project, coupled with the favourable supply/demand fundamentals in the rare earths market outlook, I remain confident that Rainbow is optimally positioned to become a globally-significant producer of rare earth metals, supplying the building blocks for the green revolution.

George Bennett
Chief Executive Officer

Operations Review

PHALABORWA
SOUTH AFRICA

EXCITING NEAR-TERM GROWTH OPPORTUNITY

Inferred mineral resource

38.3Mt

High value NdPr

29.1%

Operations Review
continued

Located in South Africa, Phalaborwa comprises two gypsum stacks which contain an inferred mineral resource estimate of 38.3Mt at 0.43% TREO derived from historic phosphate hard rock mining. High-value NdPr oxides represent 29.1% of the TREO, which is believed to represent one of the largest weightings of any project in the world. In addition to this, there are economic Dysprosium and Terbium oxide credits which enhance the overall value of the rare earth basket contained in the stacks.

The Company has made strong progress towards the delivery of the Phalaborwa Project since signing the Joint Venture agreement in November 2020 for a total consideration of US$750,000. This has included the publication of initial metallurgical test work results in May and the announcement of a maiden JORC mineral resource estimate in June 2021.

Contained in a "cracked" chemical form in the gypsum stacks, a mixed rare earth carbonate can be produced without the need to first produce a mineral concentrate and then "crack" it prior to separation of individual rare earth oxides. This removes a complex and costly stage in the standard process for a typical rare earth mineral project, enabling the Company to deliver a higher-value carbonate with lower operating costs. The expected cost benefits are also enhanced by the fact that the gypsum stacks will not require hard-rock mining (including waste stripping), or energy intensive crushing and grinding of the primary ore source.

Metallurgical test work results published, in May 2021, have confirmed that the gypsum stacks are amenable to simple, direct leaching with low-cost sulphuric or hydrochloric acid without pre-treatment, at ambient temperature and pressure. The mineral resource estimate and metallurgical test work results received to date have also confirmed that the gypsum stacks are homogenous in nature, with minimal geological uncertainty, substantially de-risking the project.

The low levels of radioactive elements present in the stacks reinforce the view that Phalaborwa will be well suited to a simplified processing flow sheet, with anticipated lower energy and reagent requirements than a traditional project. Further metallurgical test work continues at ANSTO Minerals in Australia, focused upon optimisation of leach recovery, acid consumption and initial selective recovery of the rare earths from the leach solution to design an optimised processing circuit for recovery of a mixed rare earth carbonate.

The Company plans to complete the PEA for Phalaborwa in H2 2021. This will compare a conventional route to produce a Cerium-depleted mixed rare earth carbonate versus an alternative flowsheet that bypasses the carbonate stage and delivers three higher value products, comprising NdPr oxide, Tb oxide and Dy oxide. The results will then guide the direction for development of a feasibility study.

Further downstream processing to separate and purify individual oxides is anticipated to deliver the following benefits compared to a traditional flowsheet:

- The enhanced flowsheet is expected to be capable of delivering a higher value product, delivering the full value of the separated rare earth metal oxides. By comparison, Rainbow's Gakara Project has produced a high-grade mineral concentrate, which has been sold to China for further downstream beneficiation/processing, realising approximately 30% of the contained rare earths metal oxide value. The traditional flowsheet at Phalaborwa would produce a mixed rare earth carbonate, realising approximately 60% - 65% of the contained metal oxide value.
  This compares to 100% of the metal oxide value we could achieve by going further downstream to produce separated individual oxides.
- Capital and operating expenditure cost savings are expected compared to the initial traditional flowsheet to produce a mixed rare earth carbonate for further processing in a dedicated separation facility.
- Only the high value rare earths will be separated and recovered (Nd, Pr, Tb and Dy, which represent 95% of the Phalaborwa rare earths basket value), thereby enabling the Company to capture the full benefit of additional value from downstream processing without superfluous capital and operating expenditure which would be needed to separate all the individual rare earth elements present in the stacks.

Located in an established mining town in the Limpopo province of South Africa, Phalaborwa benefits from all the associated skilled labour availability and supporting industry (such as the local production of sulphuric acid, which will likely be a key reagent for the project). Sasol's pilot plant remains on site, alongside the Phosphoric Acid Plant equipment. Existing infrastructure includes a high voltage switchyard (providing access to Eskom grid power), machine shops, workshops, laboratory buildings, administration offices, acid storage and ammonia tanks, boilers and rail sidings.

Rare earths separation technology agreement

Post year end, Rainbow entered into an exclusive IP licensing agreement with K-Technologies, Inc. ("K-Tech") in September 2021 to use its rare earths separation technology in the SADC[1] region.

- The IP is suitable for use in the downstream separation of REEs into separated REOs or carbonates in phosphogypsum applications.
- The process achieves the separation of REO in fewer stages with greater flexibility leading to capital and operating expenditure savings.
- The process eliminates the use of toxic and highly flammable solvents and diluents with significant environmental and safety advantages.
- Individual rare earths are targeted in solution, removing the requirement to separate a full spectrum of REOs, creating substantial efficiencies in a processing circuit.

In the case of Phalaborwa, K-Tech could develop the IP to target the specific REOs of value within the asset's gypsum stacks (NdPr, Dy and Tb), generating cost savings and simplifying the separation process.

1 Southern African Development Community

Inferred mineral resource estimate

Mineral resources have been individually estimated for the two separate gypsum stacks, labelled as Stack A and Stack B, as set out opposite:

			Contribution of TREO by oxide					Grade	
	Mt	TREO %	Nd %	Pr %	Dy %	Tb %	Other %	Th ppm	U ppm
Stack A	27.4	0.42	23.3	5.7	1.0	0.4	69.6	49.0	1.8
Stack B	10.9	0.46	23.6	5.7	1.0	0.3	69.4	44.1	2.0
Total	**38.3**	**0.43**	**23.4**	**5.7**	**1.0**	**0.3**	**69.6**	**47.6**	**1.8**

- All estimated mineral resources are classified as inferred.
- The inferred mineral resource estimate is reported above a cut-off grade of 0.2% TREO.
- No constraining pit shell is required for the inferred mineral resource estimate due to the gypsum stacks being entirely above ground level.
- Mineral resources are not mineral reserves and do not have demonstrated economic viability.

Operations Review
continued

GAKARA BURUNDI

HIGH-GRADE CONCENTRATE FROM A SIMPLE OPERATION

Gakara, which is located in Western Burundi, approximately 20km south-southeast of Bujumbura, has produced one of the highest-grade concentrates in the world at 54% TREO. Trial mining and processing, carried out at the operation since 2017, have demonstrated the deposit's amenability to simple open pit mining and low-cost gravity separation from ore sourced from high-grade stockwork vein systems across the licence area.

The Company received notification from the Government of Burundi in April 2021 of a temporary suspension on the export of concentrate, and subsequently the suspension of exploration, trial mining and processing operations in June 2021. Operations were therefore placed on care and maintenance, with the majority of local staff being placed on suspension and short-term cash requirements in Burundi minimised. Due to Gakara's stage of development, which remains in the exploration and trial mining phase, this development is not expected to have a material impact on the Company's short term cash flow projections, which envisage an ongoing investment programme in Burundi. Rainbow's operating subsidiary, Rainbow Mining Burundi SM ("RMB") holds approximately 420 tonnes of concentrate available for export which is expected to provide funding for the re-commencement of operations once permitted.

The Company understands that the primary concerns of the Government relate to the pricing of the rare earth mineral concentrate sold by RMB. Rainbow notes that this was addressed comprehensively in an independent report, dated 26 July 2019, commissioned by the World Bank at the request of the Government and compiled by SRK Consulting. This report, accepted by the Government in 2020, concluded that:

- The price paid by ThyssenKrupp, the multinational industrial group, for the Gakara rare earth mineral concentrate, which is established on the basis of internationally recognised pricing, is commercial and forms a reliable foundation for the computation of royalties payable to the Government.
- The export grades of each shipment are independently verified as accurate by two internationally recognised laboratories (ALS Laboratories in Canada and Baotou Research Institute of Rare Earths in China) and have been correctly reported to the Government for each shipment from Gakara to date.
- That Rainbow is a "model company for new market entrants".

Prior to the suspension of trial mining at the end of June, 641 tonnes of concentrate were produced at Gakara in FY 2021, representing a 77% increase on 363 tonnes produced in FY 2020. This growth was driven by additional trial mining areas to the east of the existing Murambi operations, opened up in early March 2021 following the commissioning of a new excavator and expanded fleet of haulage trucks.

The Company continues to engage constructively with the Ministry and other stakeholders to resolve this issue and allow exploration activities including trial mining operations and exports to recommence.

Environmental, Social and Governance ("ESG")

OUR CORE VALUES

We have demonstrated our commitment to responsible ESG practices, underpinned by Rainbow's core values, in our operations at Gakara. We will continue to uphold these practices at Phalaborwa and look to implement best practice at our operations wherever possible, producing rare earths from a responsible and independent, Western supply chain.

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 ("ESG") continued

HEALTH AND SAFETY

A steadfast approach to protecting health and safety
Rainbow adopts a zero-harm policy, meaning that we are committed to ensuring that our staff, as well as contractors and other visitors to our sites, are kept healthy and safe from harm.

Throughout the organisation, individuals are held responsible for their own and everyone else's safety and wellbeing, while managers and supervisors ensure that standards and relevant policies are adhered to. Our Board-level Safety, Health and Environment Committee ("SHEC") is ultimately responsible for making sure appropriate policies are in place, and that those policies are being enacted, although these matters have been considered in full Board meetings throughout FY 2021.

The Company operates a risk management strategy to avoid and/or manage risks, based on the hierarchy of controls, which involves the following steps:

1. Hazard elimination
2. Hazard substitution
3. Engineering controls
4. Administrative controls
5. PPE

We have an Operating Health and Safety ("OHS") system in place and safety training is a priority for the Company to facilitate safer, more efficient and effective working practices. All staff and contractors are required to undergo an induction programme, and in addition to this, workers hold routine "toolbox" meetings to discuss safety issues and are encouraged to consider risks of each activity for themselves.

All staff are made aware of the potential risks not only to themselves and colleagues but also to local communities. Potential risks and risk awareness training includes task-specific hazard identification and risk assessment, continuous risk assessments, undertaken by the responsible supervisor prior to the start of any work in a specific work area, and standard operating procedures applicable to a specific task or work.

All employees are provided with the necessary protective personal equipment ("PPE") to mitigate potential safety risks.

The Company has demonstrated its steadfast commitment to safety through its strong performance at Gakara over the years, which has continued in FY 2021, with 0 lost time injuries ("LTI"), leading to a LTIFR rate of 0.0, and 1.1 million LTI-free hours worked since February 2019.

Health
A number of illnesses have been identified as risks at Gakara under the Company's OHS system, including Covid-19, malaria, HIV/AIDS, and gastric infections. The OHS policies and guidelines provide guidance on how to reduce the risks from these and other illnesses.

Employees are offered medical and accident insurance which substantially covers the cost of medical care. In addition, supervisors have been provided with first aid training from a reputable international organisation.

Our operations at Gakara continued to be largely unaffected by Covid-19 throughout FY 2021, nonetheless we maintained a number of measures in place to protect the health of our employees, including social distancing and enhanced personal hygiene practices.

The Company aims to assist with the prevention of HIV infections through educational programmes, encouraging voluntary counselling and testing and supporting with procurement of necessary medication and healthcare.

Gastric illnesses remain an ongoing risk in Burundi, and hygiene standards are enforced in particular where food is prepared. Potable water was also identified as a priority, in view of the absence of reliable sources at operating locations. Accordingly, potable water is made available at all sites.

LTIs in FY 2021 and FY 2020

0

LTI-free hours worked since February 2019

1.1m

LTIFR in FY 2021 and FY 2020

0.0

Environmental, Social and Governance ("ESG") continued

SOCIAL

Partnering with our local communities
Rainbow is committed to the highest standards of Corporate Social Responsibility ("CSR") and strives to ensure that local stakeholders shares in the benefits of its projects. This will remain an important element of our strategy going forward through the provision of employment opportunities, local community investment, the support of local supply chains and the payment of taxes and royalties.

The majority of our 261 employees are local to our operations, with 98% of the workforce at Gakara coming from Burundi. The Company is committed to gender diversity with 8% female employees overall and a higher percentage of women in certain areas of the business, for example at the Bujumbura office, which comprises 29% women. Rainbow prioritises responsible and fair employment practices and minimises the use of temporary labour by offering permanent employment contracts at all levels of the Company.

We aim to provide local people with business opportunities, such as catering for the workforce, and purchase local produce wherever possible. Rainbow also supplies clean, fresh water to the community near Gakara from a tank outside its plant at Kabezi, fed from Rainbow's own borehole supply. Approximately 10,000 litres of water per week are drawn from this tank by the local community.

The state of Burundi has a non-dilutable 10% shareholding in Gakara and will benefit from any dividends generated, together with normal payroll taxes, corporation taxes and a royalty of 4% on net revenue received subject to a maximum discount for downstream processing equal to 67% of the published price of the underlying contained rare earth metal oxides.

As we progress towards on-site trial processing at Phalaborwa, we look forward to engaging the community around that project site, ensuring we bring benefits wherever possible to our host communities.

ENVIRONMENT

Rainbow produces rare earths, including Neodymium and Praseodymium, which are critical building blocks in advancing the green revolution. Used in permanent magnets for motors and turbines, these rare earth elements are fundamental to global decarbonisation. The Company is focused on producing these metals in an environmentally-responsible manner, ensuring that end consumers can rely upon the entire supply chain when purchasing green products.

Environmental management is a key element of Rainbow's OHS system and is overseen by the SHEC. The Company complies with applicable environmental laws and regulations. The Company has conducted Environmental and Social Impact Studies at Gakara, which were submitted to the Government in 2015 and new studies are undertaken prior to extending mining into new areas of the licence.

The pilot plant at Gakara employs simple gravity processing to deliver a high-grade concentrate with low levels of radioactivity suitable for export, thereby producing one of the "greenest" rare earth concentrates in the world, using no reagents in the circuit.

Generating rare earths from waste to power the green revolution
The planned re-processing of material at Phalaborwa carries significant environmental benefits, by producing rare earths for the green revolution and then redepositing clean, benign gypsum suitable for use in building and other industries. With anticipated lower energy and reagent requirements than a traditional rare earths project, the production of concentrate at Phalaborwa is expected to have fewer negative environmental impacts.

As the rare earths at Phalaborwa are contained within existing stacks of waste gypsum residue, the project does not carry the environmental challenges often associated with extracting rare earths from the ground.

Financial Review

Profit and loss

Despite the impact of the export ban limiting sales, revenue in FY 2021 was 51% higher than realised in FY 2020 with 350 tonnes of concentrate sold at an average realised price of US$1,825/t compared to 275 tonnes at US$1,535/t. With 420 tonnes of concentrate on hand at 30 June 2021, with an estimated sale value of US$3,000/t, the impact of strengthening production and rare earth prices is not fully reflected in the income statement for the year.

As the Company remains in an exploration and evaluation stage at Gakara, US$0.4 million of costs associated with trial mining and processing, net of associated revenue and movements in the stockpile of finished concentrate, have been capitalised to exploration and evaluation assets in the year (FY 2020: US$1.1 million). Depreciation charged in the year relating to the Gakara mining fleet totalling US$0.3 million (FY 2020: US$0.2 million) was also capitalised. In the prior year a gross loss was reported, reflecting the mining and processing costs incurred in July and August 2019, prior to a strategic review which recognised that the Gakara asset is not in commercial production. The reduction in losses both recognised in the income statement and capitalised in the year reflects the improved performance of the trial mining and processing activities at Gakara.

Administration expenses in FY 2021 totalled US$2.7 million compared to US$2.1 million in FY 2020. The increase in the current year relates primarily to share option charges of US$0.5 million, with options issued to the new executive management team and Non-executive Directors. Prior to the issue of options in January 2021, no options had been issued since 2017, with all costs associated with issued share options fully expensed at 30 June 2020. Depreciation included in the income statement in the year totalled US$37k mainly relating to right of use assets.

Finance income of US$0.4 million (FY 2020: US$0.9 million) relates primarily to foreign exchange gains on movements primarily between the Burundian Franc ("BIF") and US dollars, the functional currency of the Group. Finance costs of US$0.5 million (FY 2020 US$0.2 million) include US$0.4 million of costs associated with the US$0.9 million bridge loan from Pipestone Capital Inc, in which George Bennett, CEO, has a beneficial interest, together with costs of a loan with the Group's bank in Burundi, FinBank.

The corporation tax rate in Burundi is 30%, however no taxable profits were earned during the period. In the absence of taxable profit, a minimum tax is charged calculated as 1% of revenue, totalling US$2k in the year (FY 2020: US$9k).

Balance sheet

At 30 June 2021, a total of US$9.8 million of exploration and evaluation assets were included on the balance sheet (at 30 June 2020: US$7.6 million). Exploration and evaluation assets totalling US$2.2 million were capitalised during the year including:

- US$0.75 million consideration for the Phalaborwa earn-in agreement, of which US$0.25 million was settled in cash, US$0.25 million settled in shares and US$0.25 million (to be settled in cash or shares at the election of Bosveld Phosphates (Pty) Limited, remains in creditors at the year end);
- US$0.4 million of other costs relating to the Phalaborwa asset, principally relating to the costs of resource definition and metallurgical test work for the material in the gypsum stacks;
- US$0.7 million of costs related to the trial mining and processing operations at Gakara, including US$0.3 million of associated depreciation for the mining fleet, as explained above; and
- US$0.4 million of other costs relating to Gakara including regional exploration work and costs associated with the mining licence.

Further investment for property, plant and equipment was also made at Gakara, with US$0.7 million of additions to expand capacity of the mining fleet and improve performance at the pilot plant, including dealing with known bottlenecks to allow for further growth in trial mining production.

Inventory at 30 June 2021 totalled US$0.9 million (at 30 June 2020: US$0.2 million). The significant growth in available for sale concentrate in Burundi from US$0.1 million to US$0.7 million resulted from the build up in concentrate resulting from the export ban imposed by the Government of Burundi in April 2021. In addition, consumables representing spare parts for the mining fleet and plant were in transit from South Africa to Burundi at the year-end and are included in stock.

Trade and other receivables totalled US$0.4 million at 30 June 2021 (30 June 2020: US$0.9 million). A total of US$0.6 million receivables from a placing undertaken in June 2020 were received in July 2020, driving down the overall balance at the current year-end. The remainder of trade and other receivables primarily relates to tax receivables in Burundi. The US$0.3 million royalty receivable was impaired to US$0.2 million at 30 June 2021, as set out in note 15 to the financial statements, to reflect uncertainty in the recovery of this balance. In addition, following a tax audit in Burundi, an amount of reverse VAT was found not to have been paid from the period between 2017 and 2019, and has been provided for at 30 June 2021, of which US$0.2 million will be recoverable.

Trade and other payables totalled US$1.0 million at 30 June 2021 (30 June 2020: US$0.7 million). Trade payables were US$0.2 million lower than at 30 June 2020, reflecting standard trading terms for all suppliers. The increase includes US$0.3 million accrued for the results of the Burundi tax audit for 2017-19 noted above, which is set out in more detail in note 17 to the financial statements, and US$0.25 million for the final consideration payment due for the Phalaborwa earn-in agreement noted above.

The Company had borrowings of US$1.9 million at 30 June 2021 (30 June 2020: US$1.7 million). The movement reflects monthly repayments against the FinBank loan in Burundi, off-set by interest accrued on the Pipestone loan noted above and a revaluation of the warrants initially issued in lieu of interest on the original loan in February 2020.

Financial Review
continued

Cashflow
Net cash in the 12 months to 30 June 2021 decreased by US$0.2 million (FY 2020: increase of US$0.7 million). Financing inflows totalled US$4.3 million (FY 2020: US$5.9 million), as set out below. These were invested US$2.7 million (FY 2020: US$2.4 million) in tangible and intangible assets associated with the Phalaborwa and Gakara Projects and US$1.9 million (FY 2020: US$2.8 million) to fund operating activities.

Financing
In order to fund ongoing capital and operating cost requirements, the Company raised a net US$4.6 million (FY 2020 US$5.1 million) via the issue of new equity during the year as set out below:
- In November 2020 an equity placing raised net proceeds of US$3.4 million with new and existing shareholders at a price of 6 pence per share via the issue of 42.7 million shares.
- 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.

In addition, during the year the Company drew and repaid a short-term bridge loan from related parties totalling US$0.3 million and settled US$0.3 million of interest and capital against the FinBank loan in Burundi, as set out in note 18 to the financial statements.

In February 2020 Pipestone Capital Inc, in which George Bennett, the Company's CEO, has a beneficial interest, provided a US$1 million bridging loan to the Group. In June 2020 the loan was refinanced with US$75k settled via the issue of ordinary shares. From December 2020 the loan has been further refinanced, bearing interest as set out in note 18 to the financial statements, with US$84k interest accruing in the year.

At 30 June 2021, the Group had US$0.6 million of available cash. Subsequent to the year end, in October 2021, the Company has raised a further US$8.8 million via the issue of 42.9 million shares at a price of 15 pence per share (including US$2.0 million representing 10 million shares to be issued subject to shareholder approval at the AGM). The Group's reasonably plausible downside scenario cash flow forecasts demonstrate that the Group will have US$2.2 million available at 31 December 2022, excluding the conditional US$2.0 million funds raised and before any discretionary expenditure.

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 2021			FY 2020		
US$'000	**UK**	**Burundi**	**Total**	UK	Burundi	Total
Royalties	-	**36**	**36**	-	59	59
Permit and land taxes	-	-	-	-	20	20
Corporation tax	-	-	-	-	41	41
Duties & other	-	**22**	**22**	-	23	23
Total tax borne	-	**58**	**58**	-	143	143
Payroll tax	**91**	**154**	**245**	228	89	317
Withholding tax	-	**13**	**13**	-	92	92
Net VAT	-	**(12)**	**(12)**	2	(77)	(75)
Total net payments to government	**91**	**213**	**304**	230	247	477

Royalty payments relate to the government royalty of 4% charged on the value of exports, which has been charged in the year ended 30 June 2021 on the discounted price received for the sale of a mineral concentrate to third party customers. During the year ended 30 June 2020 (and in previous periods) the Burundian authorities applied the 4% royalty rate to the gross value of rare earth oxides contained in the concentrate exported, with only part of the US$59k paid relating to the actual realised price of the mineral concentrate. The discounted price received was independently adjudged to be fair and reasonable in a third-party report commissioned on behalf of the Government of Burundi by the World Bank. The discount arises due to the high-cost downstream processing required to deliver the underlying separate rare earth oxides from the mineral concentrate exported. At 30 June 2021, a total of US$306k has been overpaid in royalties. An impaired value of US$178k is included within trade and other receivables in respect of the historic royalty overpayment, as set out in note 15 to the financial statements, 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, full recovery in the short term and no recovery.

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 cost is expected to be off-set against the royalty receivable noted above, with the cost of US$20k 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 taxes were paid due to prior year payments on account being in excess of the cumulative tax charge. Payroll taxes, withholding tax, 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

Inspection of offshore wind farm

CORPORATE GOVERNANCE

Directors' Report

The Directors present their annual report and the financial statements of the Group for the year ended 30 June 2021.

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. Work is ongoing to define a preliminary economic assessment on the Phalaborwa development opportunity. The Gakara Project in Burundi is currently on care and maintenance as set out in the Operations Review on page 14.

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 28.

Advisers

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

Financial results

During the 12 months ended 30 June 2021, the Company reported a net loss of US$2,742k (year ended 30 June 2020: net loss of US$2,234k).

No dividends have been declared in respect of the years ending 30 June 2021 or 2020.

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.

Directors' remuneration

	Salary/fees (US$'000)		Benefits (US$'000)		Pension (US$'000)		Compensation for loss of office (US$'000)		Total (US$'000)	
	June 2021	June 2020	**June 2021**	June 2020	**June 2021**	June 2020	**June 2021**	June 2020	**June 2021**	June 2020
Executive Directors										
George Bennett[1]	**269**	229	**-**	–	**-**	–	**-**	–	**269**	229
Martin Eales	**-**	13	**-**	7	**-**	1	**-**	164	**-**	185
Non-Executive Chairman										
Adonis Pouroulis	**68**	53	**-**	–	**-**	–	**-**	–	**68**	53
Non-Executive Directors										
Alexander Lowrie	**42**	35	**-**	–	**-**	–	**-**	–	**42**	35
Atul Bali	**40**	35	**-**	–	**-**	–	**-**	–	**40**	35
J Peter Pham	**6**	–	**-**	–	**-**	–	**-**	–	**6**	–
Shawn McCormick	**42**	35	**-**	–	**-**	–	**-**	–	**42**	35
Robert Sinclair	**42**	35	**-**	–	**-**	–	**-**	–	**42**	35
Total	**509**	435	**-**	7	**-**	1	**-**	164	**509**	607

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 US$84k interest on an unsecured US$925k bridge loan from 1 December 2020 to 30 June 2021.

George Bennett was appointed on 27 August 2019, replacing Martin Eales as Chief Executive Officer. 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 Bennett was paid for services provided as part of the preparation for his role for the period from 1 August 2019 to his appointment and those fees are included in the amounts disclosed above.

Martin Eales stood down on 27 August 2019. On departure, Martin Eales received a termination payment totalling £130k. His benefits, including healthcare and life insurance, continued until the expiration of the annual policies in place. All other payments ceased on the date of termination. In accordance with the scheme rules, 2,916,666 share options with an exercise price of 10p per share became immediately exercisable on 27 August 2019 and, having not been exercised, lapsed after a period of 90 days.

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 31.

Half of all Non-executive Director fees for the year ended 30 June 2020 were settled by the issuance of a combined total of 2,534,604 shares at a value of 3 pence per share as part of the placing announced in June 2020.

Directors' Report
continued

Directors' responsibility statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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 confirm that, to the best of their knowledge:

(a) the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and

(b) the management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that they face.

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.

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.

Principal shareholders

A list of shareholders who beneficially hold more than 5% of the Company's shares at 25 October 2021 is as follows:

Name of shareholder	Number of ordinary shares	% of share capital
Pella Group (beneficially owned by Adonis Pouroulis)	76,478,864	14.9%
Pipestone Capital Inc (beneficially owned by George Bennett)	34,726,294	6.8%
Robert Kampf	28,753,578	5.6%

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 25 October 2021 are as follows:

Position	Number of ordinary shares	% of share capital
Adonis Pouroulis Non-executive Chairman	76,478,864	14.9%
George Bennett Chief Executive Officer	34,726,294	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%
Robert Sinclair Non-executive Director	5,026,757	1.0%
Shawn McCormick Non-executive Director	9,316,571	1.8%
Pete Gardner Senior manager	200,000	0.0%
Cesare Morelli Senior manager	1,249,680	0.2%
Total	**136,981,282**	**26.8%**

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 taking into account available cash, loan facilities anticipated to remain available and forecast cash flows, the Directors consider that the Group will have adequate resources to continue its operational existence for the foreseeable future and, accordingly, 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 27 October 2021

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 of Petra Diamonds (LSE: PDL), founder and director of Chariot (AIM: CHAR) and founder and chairman of the Pella Resources Group. 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.

Robert Sinclair
Non-executive Director

Robert has over 50 years' experience in finance and accountancy of which 40 years have been spent in the Guernsey financial services industry. He is a director and chairman of the Audit Committee of Chariot Limited, a fellow of the Institute of Chartered Accountants in England & Wales, and a member of the Institute of Chartered Accountants of Scotland. Robert is a resident of Guernsey.

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") along with Gilbert Midende, the previous General Manager in Burundi, who retired in May 2021.

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 is finalising a preliminary economic assessment which is expected to define 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. However, this is dependent on the results of future test work, which may not meet management's expectations. 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 have 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 FY 2021 ongoing 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 exploration activities re-starting, the Company expects to further improve confidence in the Gakara mineralisation. The current trial mining exploration and evaluation activity is to target a larger scale mining operation, initially focused on producing 5,000tpa rare earth concentrate with modular growth envisaged to an ultimate 20,000tpa scale, rather than the previous small scale mining by hand of high grade veins. Current exploration work is aimed at understanding and defining the orebody, together with trial mining and processing work to provide data on the mineralised portions of the stockwork vein systems across the licence and determine the optimal mining and processing methods for a larger operation. Such activities are intended to support an eventual JORC Resource Statement and feasibility study for the commercial scale operation.
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 Government mandated suspension of all trial mining and exploration activity. All operations remain on care and maintenance at 27 October 2021. There has been no attempt to remove the mining licence for the Gakara Project.	**High**	Management understand 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 expect operations at Gakara to resume in the near term.

Principal Risks and Uncertainties
continued

Risk	Comment	Business impact	Mitigation
Financing risk	The Company has recently completed an equity fundraising to predominantly finance the next phase of project definition for the Phalaborwa Project in South Africa, which is expected to allow a feasibility study to be completed. The Company currently forecasts that additional funding will be required in order to deliver its project development plans as well as for general working capital requirements. At Phalaborwa in South Africa, additional finance is expected to be required for on-site pilot test-work ahead of a larger fundraising for commercial scale project development. At Gakara in Burundi, additional financing would be required to fund commercial scale development beyond the current trial mining and processing operations.	**High**	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 expect to be able to secure additional funding as required.
Rare earth prices	Rainbow's strategy is to become a globally-significant and responsible producer of rare earth metals, with a particular focus on NdPr – the fundamental building blocks for the permanent magnets driving the global green technology revolution. 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**	Rainbow is focused on delivering a preliminary economic assessment for the Phalaborwa Project in South Africa, which is expected to be 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. At Gakara the Company expects to re-commence trial mining and processing 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. The Company will aim to negotiate off-take arrangements if required to ensure a commercial development is viable in the interests of all stakeholders.

Principal Risks and Uncertainties
continued

Risk	Comment	Business impact	Mitigation
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 receives proceeds in US dollars, which, are repatriated to an account in the Burundi Central Bank. Burundi has experienced shortages of foreign currency reserves in the past, and it is therefore possible that access to US dollars held in country might be difficult. This would affect the Company's ability to meet ongoing foreign currency obligations 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.
Covid-19	The Covid-19 pandemic could disrupt the Company's operations, delaying project definition works.	**Low**	Activity remains largely unaffected beyond increased travel restrictions for international visitors. The Company is increasing the use of digital meetings and adapting expatriate workers rotation cycles to maintain operational efficiency.

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 10 times in the year to 30 June 2021. 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 mining company in more than one jurisdiction are managed appropriately. These controls include the following:

- Budgets and forecasts are prepared by finance staff in conjunction with operating teams and are reviewed and approved by senior management (and in the case of the Budget, by the Board).
- Actual results are reported against budget and forecast, and variances examined.
- 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 Covid-19 pandemic, with international travel reduced, reviews have primarily been conducted in an online environment.
- The Group uses a central financial reporting system (Xero) which records all transactions, capturing third party documents (eg invoices) which are reviewed by head office on a monthly basis.
- Senior management regularly discuss material developments (normally weekly) and consider financial and reporting implications of any matters arising.

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

Corporate Governance statement
continued

Board of Directors

The Company had one Executive Director and six Non-executive Directors at 30 June 2021. 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	Age[1]	Position	Appointed	Audit	Remuneration	Nomination	SHEC
Adonis Pouroulis	51	Chairman	5 Aug 2011	–	Member	Chair	–
George Bennett	60	CEO	27 Aug 2019	–	–	–	Member
Alexander Lowrie	46	Non-exec	16 Nov 2016	Member	Chair	–	Member
Atul Bali	50	Non-exec	29 Mar 2017	Member	–	Member	–
J. Peter Pham	50	Non-exec	17 May 2021	–	–	Member	–
Robert Sinclair	71	Non-exec	5 Aug 2011	Chair	Member	–	–
Shawn McCormick	54	Non-exec	4 Feb 2016	–	–	–	Chair

1 Ages at 30 June 2021

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 2021 (see Note 22 for details).

The table below shows the attendance at Board and committee meetings during the year to 30 June 2021:

Name	Board	Audit	Remuneration	Nomination	SHEC
Adonis Pouroulis	10/10	N/A	3/3	2/2	N/A
George Bennett	8/10	N/A	N/A	N/A	0/0
Alexander Lowrie	10/10	3/3	1/1	2/2	0/0
Atul Bali	9/10	3/3	N/A	2/2	N/A
J. Peter Pham	0/10	N/A	N/A	0/0	N/A
Robert Sinclair	10/10	3/3	3/3	N/A	N/A
Shawn McCormick	10/10	N/A	2/2	N/A	0/0

The membership of Board committees was updated in the year following the appointment of J. Peter Pham to the board in May 2021. The table of Board committee attendance is based on the Board committee appointments at the time of the relevant meeting. There were no formal Board meetings after the formal appointment of J. Peter Pham. 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 Robert Sinclair and its other members Alexander Lowrie and Atul Bali.

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

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

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

The Audit Committee was formally established in January 2017 and met three times during 2020/21. During these meetings, the following matters were considered:

- The audit of the year ended 30 June 2020 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 2020, and the interim financial statements for the six months ended 31 December 2020, were reviewed. Following due consideration, the Audit Committee recommended to the Board that these Financial Statements be approved

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

The Audit Committee also considered the independence and objectivity of BDO LLP. The Committee considered the composition of the BDO audit team, together with the duration of service of the partner and senior audit team members on the Company's audit and concluded that BDO LLP was sufficiently independent to conduct the audit. The only non-audit service during the year was the review of the interim financial statements for the six months to 31 December 2020.

Nomination Committee
The Nomination Committee is chaired by Adonis Pouroulis. Atul Bali is a member of the nomination committee and, following his appointment, J. Peter Pham replaced Alexander Lowrie as a committee member. 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 met twice during FY 2021 to consider the appointment of J. Peter Pham to the Board as Non-executive Director.

Remuneration Committee
Shawn McCormick was replaced by Alexander Lowrie as chair of the Remuneration Committee during the year. The other members, Adonis Pouroulis and Robert Sinclair, served throughout the year. 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 three times during 2020/21 to discuss a new short-term and long-term incentive plan for senior management, the remuneration package of the CEO, CFO and Chairman, and the issue of share options to members of the wider management team.

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

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

No formal meetings were held in the year, with safety considered by the full Board at each formal meeting. A number of informal discussions were also held between the committee members to discuss SHEC matters.

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

Anti-bribery policy
The Company has adopted an anti-bribery policy and procedures, which 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 27 October 2021

George Bennett
Chief Executive Officer

OPPORTUNITY TO ACHIEVE ADDITIONAL VALUE FROM FURTHER DOWNSTREAM PROCESSING

Electric Car Battery Pack

FINANCIAL STATEMENTS

Independent Auditors' 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 2021 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 2021 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 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
We remain independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Group or the Parent Company.

Conclusions relating to going concern
In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

We considered going concern to be a key audit matter having considered the uncertainty over the timing of when trial mining operations at Gakara will restart given the temporary suspension of trial mining operations and export ban put in place by the Burundian Government.

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.

- We obtained the Directors' cash flow forecast and critically assessed the underlying assumptions it included, which have been approved by the Board. This forecast indicates the Group has sufficient cash resources at December 2022 to continue as a going concern.
- We agreed the opening cash balance to bank statements following the equity placement conducted in October 2021.
- We agreed future cash outflows in respect of loans to underlying agreements. This included cash outflows to settle the unsecured loan to Pipestone Capital and interest and capital repayments to Finbank.
- We assessed the reasonableness of the cash outflows for the corporate overhead, which included some contingency, and assessed 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.
- We reviewed contracts and minutes to ensure non-discretionary capital expenditure at Phalaborwa were appropriately included in the cash flow forecast. We noted the Directors' model included no discretionary cash outflows for Phalaborwa.

  We reviewed the adequacy and completeness of disclosures in the financial statements in respect of going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

Independent Auditors' Report
To the members of Rainbow Rare Earths Limited continued

Overview

Coverage	98.56% (2020: 97.56%) of Group profit before tax 100% (2020: 100%) of Group revenue 99.97% (2020: 99.35%) of Group total assets		
Key audit matters		2021	2020
	1. Carrying value of Burundi assets	✓	✓
	2. Going concern	✓	✓
Materiality	Group financial statements as a whole US$130k (2020: US$120k) based on 1% (2020: 1.1%) of total assets.		

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 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 99% of total assets and were subject to full scope audits conducted by BDO LLP 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 BDO LLP, with the exception of the inventory count work carried out by BDO Rwanda.

Independent Auditors' Report
To the members of Rainbow Rare Earths Limited continued

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 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 2021, the Group's capitalised exploration costs amounted to US$9,751k (30 June 2020: US$7,572k), of which US$8,635k (2020: US$ 7,572k) relates to the Gakara asset in Burundi. In addition, the Group holds rare earths inventory produced during the year and unsold as at 30 June 2021 from the Gakara asset of US$717k (2020: US$142k), and has a royalty receivable from the Burundian Government arising from overpayment of royalties on exported rare earths sales of US$178k as at 30 June 2021 (2020: US$306k). In June 2021, the Burundian Government put a temporary 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. Should the temporary 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.

Independent Auditors' Report
To the members of Rainbow Rare Earths Limited continued

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 temporary 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. In doing so we:
- Confirmed the Group continues to hold valid title to the Gakara Project by inspecting the licence agreements, while noting that the Burundian Government has implemented a temporary suspension of trial mining operations and banned the Group from exporting ore produced from trial mining activities;
- Reviewed budgets and strategic plans to confirm that further expenditure on exploration to evaluate mineral resources in the specific area is budgeted and planned;
- Obtained the 2020 Competent Person's Exploration Target Report that indicated the project has a commercial exploration target. In addition, we assessed the expert's objectivity and independence, and considered the scope and findings of their report;
- Assessed 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 temporary suspension from trial mining operations and export ban being lifted;
- We considered the application of management's accounting policy to capitalise additions and losses arising from trial mining activities against the relevant accounting standards;
- We tested additions by agreeing costs to supporting documents including contracts and invoices and assessed the nature of the capitalised costs. 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 contributed to the exploration and evaluation activities; and
- We assessed the financial statement disclosures, specifically including the uncertainty of the project given the temporary suspension of operations and the export ban imposed by the Government of Burundi.

Inventory:
- BDO Rwanda attended an inventory count at the year-end where the number of bags of inventory were counted.
- A second inventory count was attended after the year end when the contents of the bags were verified as being rare earths by taking plunge samples using a handheld X-Ray Fluorescence scanner.
- As a second inventory count was performed after the year end, we inspected the mining records post year end to confirm no further mining activities had been carried out and that the inventory existed at year end.
- We reviewed Management's calculation to support the inventory's cost was supported by its net realisable value by agreeing a sample of inventory costs to underlying supporting documents and considering the appropriateness of the cost allocation, and comparing the cost to the year-end rare earth prices, assuming the export ban would be lifted.
- 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:
- For sales made in the year, a royalty payment of 4% of the net basket price of rare earths sold was made. We recalculated the royalties paid and agreed payments made to bank statements.
- 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: receipt of the balance in full, 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 temporary suspension of operations and the current export ban.

Key observations:
Based on procedures performed, we consider that there is significant uncertainty over when the temporary 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 Auditors' Report
To the members of Rainbow Rare Earths Limited continued

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	
		2021 US$'000	2020 US$'000
Materiality		**130,000**	120,000
Basis for determining materiality		**1% total assets**	1.1% total assets
Rationale for the benchmark applied	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. The decrease in the threshold for 2021 was due to the uncertainty associated to the value of the total assets, specifically relating to Gakara operations.		
Performance materiality		**91,000**	90,000
Basis for determining performance materiality	Performance materiality was set at 70% (2020: 75%) 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. The decrease in the threshold for 2021 was due to the higher risk of the Group with regards to the export ban in Burundi.		

Component materiality

We set materiality for each component of the Group based on a percentage of 70% (2020: 75%) of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component; this was capped due to aggregation risk in line with the ISAs (UK). Component materiality ranged from US$86,600 to US$97,500 (2020: US$50,000 to US$67,500). In the audit of each component, we further applied performance materiality levels of 70% (2020: 75%) of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of US$2,600 (2020: US$6,000). 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 Parent Company; or
- the Parent Company 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 Auditors' Report
To the members of Rainbow Rare Earths Limited continued

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

Auditor's responsibilities for the audit of the financial statements
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:

In addition, 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.
- 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.
- Holding calls with employees in a management position who are not part of the finance team, to confirm that no instances of fraud had taken place.
- 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, for example capitalisation to property plant and equipment or exploration assets with the opposite entry going to codes other than payables.
- Reviewing bank statements, expenses and petty cash around the period when Management visited the Government in Burundi to identify potential facilitation payments made by the Group.

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 Parent 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 Parent 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 Parent Company and the Parent 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
Recognised Auditor, London, United Kingdom

27 October 2021

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 2021

	Notes	30 June 2021 US$'000	30 June 2020 US$'000
Revenue		**639**	422
Production and sales costs		**(639)**	(905)
Gross loss		**-**	(483)
Administration expenses		**(2,707)**	(2,389)
Loss from operating activities	4	**(2,707)**	(2,872)
Finance income	6	**433**	856
Finance costs	7	**(466)**	(209)
Loss before tax		**(2,740)**	(2,225)
Income tax expense	10	**(2)**	(9)
Total loss after tax and comprehensive expense for the year		**(2,742)**	(2,234)
Total loss after tax and comprehensive expense for the year is attributable to:			
Non-controlling interest	24	**(52)**	(60)
Owners of parent		**(2,690)**	(2,174)
		(2,742)	(2,234)
The results of each year are derived from continuing operations			
Loss per share (cents)			
Basic	11	**(0.60)**	(0.58)
Diluted	11	**(0.60)**	(0.58)

Notes on pages 44 to 67 form part of these financial statements.

Consolidated Statement of Financial Position
As at 30 June 2021

	Notes	30 June 2021 US$'000	30 June 2020 US$'000
Non-current assets			
Exploration and evaluation assets	12	**9,751**	7,572
Property, plant, and equipment	13	**1,354**	942
Right of use assets	25	**70**	104
Total non-current assets		**11,175**	8,618
Current assets			
Inventory	14	**863**	167
Trade and other receivables	15	**441**	938
Cash and cash equivalents	16	**573**	788
Total current assets		**1,877**	1,893
Total assets		**13,052**	10,511
Current liabilities			
Trade and other payables	17	**(1,009)**	(698)
Borrowings	18	**(1,231)**	(1,093)
Lease liabilities	19	**(14)**	(33)
Total current liabilities		**(2,254)**	(1,824)
Non-current liabilities			
Borrowings	18	**(662)**	(587)
Lease liabilities	19	**(69)**	(95)
Provisions	20	**(61)**	(100)
Total non-current liabilities		**(792)**	(782)
Total liabilities		**(3,046)**	(2,606)
Net assets		**10,006**	7,905
Equity			
Share capital	21	**32,465**	28,132
Share-based payment reserve	23	**1,295**	1,099
Share warrant reserve	23	**-**	40
Other reserves	23	**60**	60
Retained loss		**(22,878)**	(20,542)
Equity attributable to the parent		**10,942**	8,789
Non-controlling interest	24	**(936)**	(884)
Total equity		**10,006**	7,905

These financial statements were approved and authorised for issue by the Board of Directors on 27 October 2021 and signed on its behalf by:

George Bennett
Director

Notes on pages 44 to 67 form part of these financial statements.

Consolidated Statement of Changes in Equity
For the year ended 30 June 2021

	Note	Share capital US$'000	Shares to be issued US$'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 2019		**20,056**	**1,375**	**1,764**	**40**	**-**	**(19,040)**	**4,195**	**(824)**	**3,371**
Total comprehensive expense										
Loss and total comprehensive loss for year		-	-	-	-	-	(2,174)	(2,174)	(60)	(2,234)
Transactions with owners										
Issue of shares during the year	21	8,385	(1,375)	-	-	-	-	7,010	-	7,010
Share placing transaction costs	21	(309)	-	-	-	-	-	(309)	-	(309)
Discount on interest free bridge loan provided by shareholder	18	-	-	-	-	60	-	60	-	60
Fair value of employee share options in year	22	-	-	7	-	-	-	7	-	7
Employee share options exercised, lapsed or cancelled following vesting	22	-	-	(672)	-	-	672	-	-	-
Balance at 30 June 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	22	-	-	-	(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**

Notes on pages 44 to 67 form part of these financial statements.

Consolidated Cash Flow Statement
For the year ended 30 June 2021

	Notes	**30 June 2021 US$'000**	30 June 2020 US$'000
Cash flow from operating activities			
Loss from operating activities		**(2,707)**	(2,872)
Adjustments for:			
Depreciation		**37**	279
Profit on disposal of fixed assets	13	**-**	4
Share-based payment charge	22	**510**	7
Directors fees settled in shares		**-**	96
Operating loss before working capital changes		**(2,160)**	(2,486)
Net increase in inventory	14	**(121)**	(22)
Net (increase)/decrease in trade and other receivables	15	**(62)**	126
Net increase/(decrease) in trade and other payables	17	**136**	(1,188)
Cash used by operations		**(2,207)**	(3,570)
Realised foreign exchange gains		**359**	855
Finance income	6	**-**	2
Finance costs	7	**(23)**	(5)
Taxes paid	10	**-**	(41)
Net cash used in operating activities		**(1,871)**	(2,759)
Cash flow from investing activities			
Purchase of property, plant & equipment	13	**(690)**	(378)
Exploration and evaluation costs	12	**(2,024)**	(2,045)
Proceeds from sale of property, plant & equipment	13	**-**	3
Net cash used in investing activities		**(2,714)**	(2,420)
Cash flow from financing activities			
Proceeds of new borrowings	18	**275**	1,000
Repayment of borrowings	18	**(438)**	(74)
Interest payments on borrowings	18	**(104)**	(137)
Payment of lease liabilities	19	**(56)**	(22)
Proceeds from the issuance of ordinary shares	21	**4,727**	5,390
Transaction costs of issuing new equity	21	**(85)**	(309)
Net cash generated by financing activities		**4,319**	5,848
Net increase/(decrease) in cash and cash equivalents		**(266)**	669
Cash & cash equivalents at the beginning of the year		**788**	119
Foreign exchange gains on cash and cash equivalents		**51**	-
Cash & cash equivalents at the end of the year	16	**573**	788

Notes on pages 44 to 67 form part of these financial statements.

Notes to the Financial Statements
For the year ended 30 June 2021

1. GENERAL INFORMATION

Reporting entity
Rainbow Rare Earths Limited ("the Company" or "Rainbow") is a company domiciled in Guernsey and incorporated on 5 August 2011, with company registration number 53831, and is a company limited by shares. The Company's registered office is Trafalgar Court, Admiral Park, St Peter Port, Guernsey. The consolidated financial statements of the Company for the years ended 30 June 2021 and 30 June 2020 comprise the Company and its subsidiaries together referred to as the "Group".

2. ACCOUNTING POLICIES

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

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 26 October 2021, the last practicable date before the publication of these accounts, the Company had total cash of US$6.3 million having received £4.9 million (US$6.7 million) from an equity fundraise announced on 13 October 2021 as set out in note 30. The equity fundraise includes a further £1.5 million (US$2.0 million) of expected gross proceeds subject to shareholder approval, which is expected to be received by 22 November 2021.

The Board have reviewed a range of potential cash flow forecasts for the period to 31 December 2022, 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 2021 to 31 December 2022, based on the current administrative costs of the Group.

At 30 June 2021 the Group has US$1.6 million of undiscounted financing liabilities including:
- US$1.0 million, including accrued interest, in an unsecured loan from Pipestone Capital, a Company associated with George Bennett, CEO, which is expected to be repaid from the proceeds of the post year end equity fundraise.
- US$0.6 million in a term loan from FinBank in Burundi. Capital repayment of this loan is suspended until 31 December 2021 subject to the Gakara operation remaining suspended in Burundi. From 1 January 2022 repayments will recommence at a rate of US$21k per month (including interest), which is included in the Group's cash flow forecasts within the care and maintenance costs for the Gakara project.

Management's reasonably plausible downside scenario includes repayment of the above liabilities together with the settlement in cash of:
- US$2.7 million for ongoing general and administrative costs of the Group, inclusive of a 10% contingency for unexpected costs.
- US$0.25m for the final balance due in December 2022 under the Phalaborwa earn-in agreement, which can be settled in cash or shares at the election of Bosveld Phosphates (Pty) Limited.

The reasonably plausible downside scenario also excludes the final US$2.0 million placing proceeds expected to be received by 22 November 2021 as these are subject to approval of shareholders for the disapplication of pre-emption rights at the Annual General Meeting to be held on 17 November 2022.

Phalaborwa:
This forecast assumes the completion of the Phalaborwa PEA in H2 2021 at a total cost of US$0.5 million. As there are no other committed costs for Phalaborwa, with the estimated US$3.0 million costs required to complete the bankable feasibility study being discretionary, management's reasonably plausible downside scenario includes no further expenditure for the Phalaborwa project.

Gakara:
The cash flow forecasts assumes ongoing care and maintenance costs totalling US$1.0 million for the forecast period. In the event that the Gakara Project returns to operations, stock of rare earth concentrate with an estimated gross sales value of US$1.3 million would be sold to provide the funds to re-commence trial mining and processing operations. The forecasts show that, with the current productive capacity of the trial mining operations, the Gakara project would not require additional financial support from Rainbow Rare Earths Limited at current rare earth prices.

Conclusion
Based on Management's reasonably plausible downside scenario outlined above the Group will have US$2.2 million available at the end of the forecast period before any discretionary expenditure such as the US$3.0m estimated costs required to complete the Phalaborwa bankable feasibility study.

Accordingly, the Board are satisfied that the Group has sufficient cash resources to continue its operations and meet its commitments for the foreseeable future and have concluded that it is appropriate for the financial statements to be prepared on a going concern basis.

Notes to the Financial Statements
For the year ended 30 June 2021
continued

2. ACCOUNTING POLICIES CONTINUED

New and amended standards and interpretations adopted by the Group
The Group has adopted the following standards and amendments for the first time for their annual reporting period commencing 1 July 2020:
- The definition of material has been amended for IAS 1 and IAS 8 to align the definition across standards and is effective for reporting periods commencing on or after 1 January 2020. The new definition clarifies the definition of material whereby if omitting, misstating or obscuring it could reasonably be expected to influence decisions of the primary users of financial statements. The amendments to the definition of material will not have a significant impact on the financial statements.
- The definition of a business per IFRS 3 has also been amended to determine when an entity acquires a business or a group of assets. This amendment is effective for reporting periods commencing on or after 1 January 2020 and will therefore affect all future business combinations however there is no impact on the current reporting period.
- Interest Rate Benchmark Reform – IBOR "phase 1" (Amendments to IFRS 9, IAS 39 and IFRS 7) that is the first part to a two-phase project which considers relief to hedge accounting in the period before the IBOR reform. These amendments are mandatorily effective for periods commencing on or after 1 January 2020 and must be applied retrospectively however there is no impact on the current reporting period.

New standards, interpretations, and amendments not yet effective
Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. These standards include:
- Interest Rate Benchmark Reform – IBOR "phase 2" (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) that addresses issues that might affect financial reporting after the reform of an interest rate benchmark including its replacement with an alternative benchmark rate. These amendments are mandatorily effective for periods beginning on or after 1 January 2021.
- 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.
- 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.
- 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.

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 its subsidiaries (with the exception of Rainbow Rare Earths UK Limited, whose functional currency is GBP). The Group's strategy is focused on developing a rare earth project in the Republic of Burundi which generates revenues in United States Dollars and is funded by shareholder equity and other financial liabilities which are principally denominated in United States Dollars.

Transactions in foreign currencies are translated to the functional currency of the Group entity at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated to the functional currency at the rates prevailing on the reporting date. Exchange differences on all transactions are recognised in the consolidated statement of comprehensive income in the year in which they arise.

Notes to the Financial Statements
For the year ended 30 June 2021
continued

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.

During the year the Company also sold some production to a separate customer with title passing at the mine gate, after which all risks and costs associated with the relevant shipment passed to the customer. Revenue was booked on the basis of a fixed price contract on the day of collection from the processing facility in Burundi.

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. An adjustment is recorded to cost of sales to eliminate the margin generated on revenue during the period with a corresponding reduction in capitalised costs for profits generated or increase in capitalised costs for losses incurred.

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.

In November 2020 the Company announced the signing of an agreement with Bosveld Phosphates (Pty) Limited for the co-development of the Phalaborwa rare earths project in South Africa. The agreement requires Rainbow to fund work to deliver a pre-feasibility study for the Phalaborwa development, at which point a formal joint venture company will be formed of which Rainbow will own a stake of between 60% and 85%. Under the terms of the agreement Rainbow will transfer into the joint venture company the intellectual property rights relating to the pre-feasibility study and will gain control of the joint venture company. Accordingly:
- The joint venture company on incorporation will be a subsidiary of the Company and will not be a joint venture as defined in IFRS11.
- The costs incurred by the Group prior to incorporation of the joint venture company are being accounted for as costs relating to an exploration and evaluation asset under IFRS 6.

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.

Notes to the Financial Statements
For the year ended 30 June 2021
continued

2. ACCOUNTING POLICIES CONTINUED

Property, plant and equipment continued
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.

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 intangible assets ahead of tangible assets.

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.

Notes to the Financial Statements
For the year ended 30 June 2021
continued

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

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

Notes to the Financial Statements
For the year ended 30 June 2021
continued

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 statements 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 21.

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

The fair values of share options are measured 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 the 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 are 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.

Notes to the Financial Statements
For the year ended 30 June 2021
continued

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:

Impairment indicator assessment for exploration and evaluation assets (note 12)
Significant accounting judgement
Judgment was required in determining whether indicators of impairment existed at 30 June 2021 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 noted the JORC compliant inferred mineral resource was defined in June 2021 and positive initial metallurgical test work results have been reported. 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 occurred, 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 are 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.**
   Significant investment was made at the Gakara project in the financial year, which had been expected to allow increased production from trial mining and processing activities. The budget for 2021-22 originally set out included a continuation of trial mining and processing activities. It was expected that any positive cash flow generated would 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 2022.

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 39km2 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.

Accordingly, management do not consider there to be any indicators of impairment for the Gakara asset.

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, full recovery in the short term and no recovery. The impairment is recognised in administrative expenses 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.

Notes to the Financial Statements
For the year ended 30 June 2021
continued

3. ACCOUNTING JUDGMENTS AND ESTIMATIONS CONTINUED

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 2021 the operation has 421t of available for sale mineral concentrate with an estimated sale value of US$1.3 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.

Transfer of mine development costs to exploration and evaluation assets (note 12 and 13)
Significant accounting judgement
A review of the Group's strategy in July and August 2019 resulted in a strategic change in the business, to focus on exploration and evaluation of the wider Gakara licence to target a larger scale mining operation, initially focused on producing 5,000tpa rare earth concentrate with modular growth envisaged to an ultimate 20,000tpa scale, rather than the previous small scale mining by hand of high grade veins. The strategic review concluded that, while the deposit has considerable potential, more extensive exploration work aimed at understanding and defining the orebody, together with trial mining and processing work to provide data on the mineralised portions of the stockwork vein systems across the licence and determine the optimal mining and processing methods for a larger operation, was required. Such activities are intended to support an eventual JORC Resource Statement and feasibility study for the scale operation.

Management determined that it was appropriate to transfer US$5.4m of mine development costs to exploration and evaluation assets with effect from 1 September 2019 as the assets would contribute to the exploration activities being undertaken on the wider licence area under the revised strategy. In doing so, management applied judgment based on the specific facts and circumstances and considered the underlying nature of the assets which included data and knowledge from historical exploration activities that would be integral to the exploration program under the revised strategy.

Costs associated with the trial mining and processing operations, net of margin on associated revenue earned, have been capitalised as part of the exploration and evaluation assets with effect from 1 September 2019 along with costs associated with the ongoing exploration activity across the licence in accordance with the Group accounting policy. Judgment was required in determining the date at which such cost capitalisation commenced considering the timing of the strategic review being sufficiently concluded. In concluding that the costs met the cost capitalisation criteria under the Group's accounting policy for exploration and evaluation assets management considered the nature of the trial mining and processing activities, its objective and contribution to the exploration and evaluation activities.

Pipestone loan (note 18)
Key sources of estimation uncertainty
Warrants were issued by the Company in lieu of interest on the original Pipestone loan as set out in note 18. The fair value of the warrants was calculated using a Black-Scholes model whose input assumptions are derived from market and other internal estimates. The key estimates included volatility rates and the expected life of the warrants. The warrants are classified as financial liabilities at fair value through profit and loss and revalued at each 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 is 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 for options with no market based vesting conditions and a Monte Carlo simulation for options with market based vesting conditions. The inputs to both models 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. For the share options with market based vesting conditions an independent specialist consultant was engaged to simulate the impact on the market-based conditions on the fair value of the options issued.

Notes to the Financial Statements
For the year ended 30 June 2021
continued

4. LOSS FROM OPERATING ACTIVITIES

Operating loss includes:

	30 June 2021 US$'000	30 June 2020 US$'000
Employee benefit expense	**(1,025)**	(1,150)
Share-based payment charge	**(510)**	(7)
Audit of the Group financial statements	**(136)**	(101)
Non-audit service fees paid to Company auditor	**(2)**	(2)
Depreciation	**(37)**	(279)
Taxes and duties	**(175)**	(98)
Loss on disposal of fixed assets	**-**	(5)

The non-audit services provided by the Company's auditors BDO LLP during the year related to a review of the unaudited interim results for the six months to 31 December 2020.

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.

The segmental information for the year ended 30 June 2021 is set out below:

	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
Segmental liabilities	-	(1,209)	(1,837)	(3,046)
Capital expenditure	1,116	1,484	-	2,600

In the year ended 30 June 2020 the Group had only one reportable segment, the Gakara project. As a result comparative data is not reported for the year ended 30 June 2020.

6. FINANCE INCOME

	30 June 2021 US$'000	30 June 2020 US$'000
Interest received	**-**	2
Foreign exchange gains	**433**	854
Total	**433**	856

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.

Notes to the Financial Statements
For the year ended 30 June 2021
continued

7. FINANCE COSTS

	30 June 2021 US$'000	30 June 2020 US$'000
Change in fair value of warrant liability (notes 18 and 22)	**256**	-
Interest on Pipestone bridge loan (note 18)	**140**	53
Interest on bank borrowing (note 18)	**99**	118
Interest on short term bridge loan (note 18)	**5**	-
Bank charges	**24**	19
Reversal of accrued finance costs associated with Lind facility	**(75)**	-
Interest on lease liabilities	**17**	19
Total	**466**	209

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.

Their remuneration for the 12 months ended 30 June 2021 and 30 June 2020 is summarised as follows:

	30 June 2021 US$'000	30 June 2020 US$'000
Wages and salaries	**1,110**	1,129
Benefits	**16**	22
Share- based payments	**510**	7
Total remuneration of key management personnel	**1,636**	1,158

Benefits paid to key management personnel include pension contributions.

9. TOTAL EMPLOYEE REMUNERATION (INCLUDING KEY MANAGEMENT PERSONNEL)

	30 June 2021 US$'000	30 June 2020 US$'000
Wages and salaries	**2,048**	1,865
Benefits	**69**	82
Share-based payments	**510**	7
Total employee remuneration	**2,627**	1,954

Benefits paid to employees include healthcare and pension contributions.

Staff costs include US$1,048k capitalised within Exploration and Evaluation assets in the year (2020: US$1,067k).

Staff costs include US$95k paid to Non-executive Directors for H1 2020 fees settled via the issue of 2,534,604 ordinary shares at a price of £0.03 per share in June 2020.

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

	30 June 2021	30 June 2020
Directors	**6**	6
Management and administration	**20**	16
Mining, processing and exploration staff	**235**	251
Total	**261**	273

Notes to the Financial Statements
For the year ended 30 June 2021
continued

10. INCOME TAX EXPENSE

	30 June 2021 US$'000	30 June 2020 US$'000
Current tax expense	2	9
Total tax expense for the year	**2**	9

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 (2020: 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 2021 US$'000	30 June 2020 US$'000
Loss for the year before tax	(2,740)	(1,517)
Income tax using the Guernsey rate of 0%:	-	-
Effects of:		
Differences in tax rates	(215)	(5)
Differences in tax capital allowances	42	-
Differences in treatment of exploration and evaluation costs	(178)	-
Tax losses carried forwards	351	5
Minimum income tax based on revenue in Burundi	2	9
Total	**2**	9

Rainbow Rare Earths Limited and Rainbow International Resources Limited are subject to 0% income tax in Guernsey and the British Virgin Islands respectively. Costs for the Phalaborwa asset are being incurred by Rainbow International Resources Limited ahead of incorporation of a subsidiary company in South Africa. Rainbow Rare Earths UK Limited, which was established on 1 April 2017, is subject to an income tax rate in United Kingdom of 19%. In Burundi, Rainbow Burundi SPRL and Rainbow Mining Burundi SM are subject to corporation tax at 30%.

No deferred tax asset has been recognised in respect of the tax losses carried forward as the recoverability of this benefit is dependent on the future profitability of the individual entities within the Group, the timing of which is considered insufficiently certain. The total unrecognised potential deferred tax assets in respect of losses carried forward in Rainbow Rare Earths UK Limited are US$71k (30 June 2020: US$29k), Rainbow Burundi SPRL US$1k (30 June 2020: US$98k), and Rainbow Mining Burundi SM US$3,127k (30 June 2020: US$1,371k).

The tax losses for Rainbow Burundi SPRL and Rainbow Mining Burundi SM expire after five accounting periods. The tax losses for Rainbow Rare Earths UK Limited have no expiry. The unrecognised deferred tax asset for Rainbow Mining Burundi SM expires as follows: US$1,104k on 31 December 2022; US$631k on 31 December 2023; US$853k on 31 December 2024; US$359k on 31 December 2025.

The unrecognised deferred tax asset for Rainbow Burundi SPRL and Rainbow Mining Burundi SM have been impacted in the year due to the expiration of previously available tax losses and the impact of a recent tax audit in Burundi as follows:

	Rainbow Burundi SPRL US$'000	Rainbow Mining Burundi SM US$'000
Unrecognised deferred tax asset at 1 July 2020	98	1,371
Deferred tax asset arising in year	-	315
Tax losses expiring in year	(97)	-
Impact of Burundi tax audit:		
- Differences in treatment of exploration and evaluation costs	-	1,898
- Disallowed expenses	-	(156)
- Differences in capital allowances	-	(344)
Exchange rate differences arising	-	43
Unrecognised deferred tax asset at 30 June 2021	**1**	**3,127**

Notes to the Financial Statements
For the year ended 30 June 2021
continued

11. LOSS PER SHARE

The earnings per share calculations for 30 June 2021 reflect the changes to the number of ordinary shares during the period.

At the start of the year, 421,981,551 shares were in issue. During the year, a total of 54,429,883 new shares were allotted (see note 21 Share Capital) and on 30 June 2021, 476,411,434 shares were in issue. The weighted average of shares in issue in the year was 450,749,572.

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

	Basic and diluted	
	2021	2020
Loss for the year (US$'000) attributable to ordinary equity holders	**(2,690)**	(2,174)
Weighted average number of ordinary shares in issue during the year	**450,749,572**	373,141,644
Loss per share (cents)	**(0.60)**	(0.58)

12. EXPLORATION AND EVALUATION ASSETS

	Gakara US$'000	Phalaborwa US$'000	Total US$'000
At 1 July 2019	-	-	-
Transferred from Property Plant & Equipment	5,417	-	5,417
Additions	2,155	-	2,155
At 30 June 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**

During the year the Company entered into an agreement to earn up to an 85% interest in the Phalaborwa rare earths project in South Africa. The 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 US$750k consideration payable under the earn-in agreement of which US$500k was settled during the year: US$250k in cash and US$250k by the issue of 1,229,883 new Ordinary Shares of no par value in the Company on 25 June 2021. The remaining US$250k will be settled in December 2021 in cash or shares at the election of the joint venture partner, Bosveld Phosphates (Pty) Ltd. The remaining additions of US$366k represent cost associated with the definition of the inferred mineral resource, ongoing metallurgical test work and technical support costs associated with defining the optimal processing flow sheet for the project.

Included within Gakara additions is US$989k related to gross losses earned during the exploration phase which represent a contribution towards exploration costs incurred. Gakara additions also include US$269k of depreciation on assets used in trial mining and processing operations at the project.

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.

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 temporarily suspending all trial mining and processing operations pending negotiations on the terms of the Gakara mining convention signed in 2015.

Following various face to face meetings in Burundi in April, June and July 2021 the Company understands that the primary concerns of the Government relate to the pricing of the rare earth mineral concentrate sold by RMB. This was addressed comprehensively in an independent report, dated 26 July 2019, that was commissioned by the World Bank at the request of the Government of Burundi and compiled by SRK Consulting. This report, accepted by the Government in 2020, concluded that:

- The price paid by ThyssenKrupp, the multinational industrial group, for the Gakara rare earth mineral concentrate, which is established on the basis of internationally recognised pricing, is commercial and forms a reliable foundation for the computation of royalties payable to the Government.
- The export grades of each shipment are independently verified as accurate by two internationally recognised laboratories (ALS Laboratories in Canada and Baotou Research Institute of Rare Earths in China) and have been correctly reported to the Government for each shipment from Gakara to date.
- That Rainbow is a "model company for new market entrants".

Notes to the Financial Statements
For the year ended 30 June 2021
continued

12. EXPLORATION AND EVALUATION ASSETS CONTINUED

RMB continues to engage positively with the Government of Burundi to arrange discussions to allow export of rare earth concentrate to resume along with trial mining and processing activities. The Directors have also confirmed 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. 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.

13. PROPERTY, PLANT AND EQUIPMENT

US$'000	Mine development costs	Plant & machinery	Vehicles	Office equipment	Mine restoration	Total
Cost						
At 1 July 2019	9,317	2,665	709	41	100	12,832
Additions	–	–	370	8	–	378
Disposals	–	–	(5)	(4)	–	(9)
Transfer to Intangible Fixed assets	(9,134)	–	–	–	(100)	(9,234)
At 30 June 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**
Depreciation						
At 1 July 2019	3,510	2,665	142	7	100	6,424
Charge for year	254	–	157	9	–	420
Eliminated on disposals/transfers		–	(1)	(1)	–	(2)
Transfer to Intangible Fixed assets	(3,717)	–	–	–	(100)	(3,817)
At 30 June 2020	**47**	**2,665**	**298**	**15**	**-**	**3,025**
Charge for the year	26	2	241	9	–	278
At 30 June 2021	**73**	**2,667**	**539**	**24**	**-**	**3,303**
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
Net Book Value at 30 June 2019	5,807	–	567	34	–	6,408

Depreciation of US$269k (2020: US$157k) relating to mining vehicles, plant & 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$1,353k (2020: US$941k) 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$1,353k of the net book value at the balance sheet date.

14. INVENTORY

	30 June 2021 US$'000	30 June 2020 US$'000
Finished goods	**717**	142
Consumables	**146**	25
Total inventory	**863**	167

Finished goods represents 421 tonnes (2020: 132 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 2021 (2020: $147k).

Movements in the value of finished goods are recognised within exploration and evaluation cost additions in the year. For the year ended 30 June 2020 these movements are recognised within exploration and evaluation cost additions to the extent they arose after 1 September 2019 as explained in note 3.

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 Financial Statements
For the year ended 30 June 2021
continued

15. TRADE AND OTHER RECEIVABLES

	30 June 2021 US$'000	30 June 2020 US$'000
Accrued income	**-**	15
VAT recoverable	**189**	24
Prepayments	**66**	18
Royalty receivables	**178**	306
Deposits paid	**5**	16
Sundry debtors	**3**	559
Total trade and other receivables	**441**	938

VAT recoverable relates to the input VAT recoverable in Burundi. 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 a number of 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 have been recognised at 30 June 2021.

The US$178k (2020: US$306k) in respect of royalty receivables arises due to an overpayment of 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, full recovery in the short term and no recovery. The impairment is recognised in administrative expenses in the year.

Sundry debtors at 30 June 2020 represent proceeds from the placement announced on 22nd June 2020, set out in note 21, which was received in the year ended 30 June 2021.

Expected credit losses were assessed at 30 June 2020 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.

16. CASH AND CASH EQUIVALENTS

	30 June 2021 US$'000	30 June 2020 US$'000
Cash at bank and in hand	**573**	788
Total cash at bank and in hand	**573**	788

No cash amounts were restricted at 30 June 2021 (30 June 2020: nil).

17. TRADE AND OTHER PAYABLES

	30 June 2021 US$'000	30 June 2020 US$'000
Trade payables	**71**	261
Accrued expenses	**233**	233
Taxes and social security	**363**	22
Burundi land taxes payable	**60**	40
Amounts due to staff and management	**32**	133
Pension contributions	**-**	3
Other payables	**250**	6
Total trade and other payables	**1,009**	698

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 H1 2021.

Other payables include the final US$250k consideration payable under the Phalaborwa earn-in agreement, which is due to be settled in cash or shares (at the election of Bosveld Phosphates (Pty) Ltd) in December 2021.

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

Notes to the Financial Statements
For the year ended 30 June 2021
continued

18. BORROWINGS

	30 June 2021 US$'000	30 June 2020 US$'000
Finbank Loan	**579**	762
Pipestone Loan	**1,008**	868
Warrant liability	**306**	50
Total borrowings	**1,893**	1,680
Borrowings fall due:		
Due within one year	**1,231**	1,093
Due between 2 to 5 years	**662**	587
Total	**1,893**	1,680

The following table analyses the movement in borrowings:

	30 June 2021		30 June 2020	
	US$'000	US$'000	US$'000	US$'000
Borrowings brought forward		**1,680**		1,562
Cash flows from borrowings				
Drawdown of borrowings	**275**		1,000	
Repayment of borrowings	**(438)**		(74)	
Interest paid	**(104)**		(118)	
		(267)		808
Non-cash movement in borrowings				
Interest charge on borrowings	**244**		171	
Settlement of borrowings in shares	**-**		(779)	
Valuation of warrant liability	**256**		50	
Settlement of interest via issue of warrants	**-**		(50)	
Extinguishment of Pipestone bridge loan	**(925)**		(925)	
Drawn down of renewed Pipestone bridge loan	**925**		925	
Discount for deemed interest on related party loan	**-**		(60)	
Other	**(20)**		(22)	
		480		(690)
Borrowings carried forward		**1,893**		1,680

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 (2020: US$118k).

Bridge Loan
A US$275k short term bridge loan was received from certain Directors and senior managers in October 2020 and repaid in full in December 2020 after a successful equity fundraising. Interest totalling US$5k was paid on the loan.

Pipestone Bridge Loan
On 21st February 2020 Pipestone Capital Inc, in which George Bennett, the Company's CEO, has a beneficial interest, 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 with a 4 year life over the Company's shares at a strike price of 4.55p/share (a 30% premium to the 20 day VWAP and a 1.25p premium to the 3.3p/share closing mid-market price on the date of the loan). Further detail on the warrants are 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 as part of the equity placing announced on 22nd June 2020 at a price of £0.03 per share. The remaining US$925k was extinguished and replaced with a new, interest free, unsecured bridging loan of US$925k pending a larger capital raise. No further warrants were issued.

The loan was further refinanced following an equity raise in November 2020, which triggered a repayment obligation for the loan. 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. The loan is repayable on the earlier of 31 December 2021 or the date of a future equity fundraise of at least US$5 million.

Notes to the Financial Statements
For the year ended 30 June 2021
continued

19. LEASE LIABILITIES

	30 June 2021 US$'000	30 June 2020 US$'000
Lease liabilities fall due:		
Due within one year	**14**	33
Due between 2 to 5 years	**37**	56
After 5 years	**32**	39
Total	**83**	128

The following table analyses the movement in lease liabilities:

	30 June 2021		30 June 2020	
	US$'000	**US$'000**	US$'000	US$'000
Lease liabilities brought forward		**128**		31
Cash flows from leases				
Payment of lease liabilities	**(39)**		(22)	
Interest paid	**(17)**		(19)	
		(56)		(41)
Non-cash movement in leases				
Recognition of right of use lease liabilities	**27**		119	
Interest charge on leases	**17**		19	
Change in lease term	**(33)**		–	
		11		138
Lease liabilities carried forward		**83**		128

20. PROVISIONS

	Rehabilitation provision US$'000
At 1 July 2019 and 30 June 2020	100
Discount	(39)
At 30 June 2021	**61**

Rehabilitation provisions relate to the anticipated cost of restoring the operating sites at the Gakara project in Burundi. The rehabilitation provision has been discounted to reflect management's best estimates of the timing of future estimated cashflows. The environmental provision for the year ended 30 June 2020 was not discounted. No adjustment of the prior year has been made as the impact is not material.

Notes to the Financial Statements
For the year ended 30 June 2021
continued

21. SHARE CAPITAL

	30 June 2021 US$'000	30 June 2020 US$'000
Share Capital	**32,465**	28,132
Issued Share Capital (nil par value)	**32,465**	28,132

The table below shows a reconciliation of share capital movements:

	Number of shares	US$'000
At 1 July 2019	**216,339,000**	**20,056**
July 2019 – share placing – cash receipts net of costs	121,207,779	4,275
July 2019 – share placing – employee bonuses and fees	4,859,603	185
July 2019 – Pella Convertible	18,636,040	704
July 2019 - Lind Convertible	19,272,462	1,376
June 2020 – share placing – cash receipts net of costs	37,138,284	1,366
June 2020 – share placing – Non-executive Director fees	2,534,604	95
June 2020 – partial repayment of Pipestone loan	1,993,779	75
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**

On 3 July 2019 the Company issued 121.2 million new ordinary shares at a price of 3 pence per share, raising gross cash proceeds of US$4.6 million (before costs of US$0.3 million). At the same time the Company issued:
- 4.9 million new ordinary shares at a price of 3 pence per share as settlement of employee bonuses and non-executive director fees.
- 18.6 million new ordinary shares at a price of 3 pence per share representing the settlement of an unsecured bridge loan of US$0.7 million originally drawn in June 2019 from Pella Ventures Limited (an entity in which the Company's chairman has a beneficial interest).
- 19.3 million new ordinary shares representing the conversion of the Lind facility announced on 10th June at a conversion price of 2.69 pence per share.

On 22 June 2020 the Company issued 37.1 million new ordinary shares at a price of 3 pence per share, raising gross cash proceeds of US$1.4 million (before costs of US$38k). At the same time the Company issued:
- 2.5 million new ordinary shares at a price of 3 pence per share as settlement of non-executive director fees.
- 2.0 million new ordinary shares at a price of 3 pence per share representing the partial settlement of the Pipestone loan.

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).

These allotments included the following related parties:

	Placing June 2020		**Placing November 2020**	
	No of shares	US$'000	**No of shares**	**US$'000**
Adonis Pouroulis (Director)	3,359,648	126	–	-
George Bennett (Director)	1,993,779	75	-	-
Alex Lowrie (Director)	458,332	17	-	-
Atul Bali (Director)	1,783,332	67	-	-
Robert Sinclair (Director)	458,332	17	–	-
Shawn McCormick (Director)	1,787,518	67	–	-
Others (not related parties)	31,825,726	1,167	**42,700,000**	**3,338**
Total	41,666,667	1,536	**42,700,000**	**3,338**

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.

Notes to the Financial Statements
For the year ended 30 June 2021
continued

22. SHARE OPTIONS AND WARRANTS

The total share-based payment charge for the year was US$510k, US$227k relating to the initial tranche of 1,236,001 options issued under a new Long Term Incentive Plan and US$283k relating to 2,500,000 options issued under the existing share option plan as set out in more detail below (2020: US$7k).

Employee share options
At 30 June 2021, the following employee share options were exercisable and outstanding:

	30 June 2021		30 June 2020	
	Number	**Average weighted exercise price (pence)**	Number	Average weighted exercise price (pence)
Share option plan				
Outstanding as at 1 July	**5,491,400**	**12.28**	10,975,066	11.77
Granted in the year	**2,500,000**	**12.00**	–	–
Lapsed in the year	–	**-**	(5,483,666)	11.25
Outstanding as at 30 June	**7,991,400**	**12.19**	7,991,400	12.28
Exercisable as at 30 June	**7,991,400**	**12.19**	7,991,400	12.28
Long Term Incentive Plan				
Outstanding as at 1 July	**-**	**-**	–	–
Granted in the year	**3,708,000**	**-**	–	–
Outstanding as at 30 June	**3,708,000**	**-**	–	–
Exercisable as at 30 June	**-**	**-**	–	–

No employee share options were exercised or lapsed in the year. The options outstanding at 30 June 2021 across both the share option plan and long term incentive plan had a weighted average remaining contractual life of 7.8 years (2020: 6.8 years).

During the year 6.2 million options were issued on 18 January 2021 as follows:

- 2,500,000 being issued to the Non-executive Directors. The options have an exercise price of 12 pence per share and vest upon the 30-day volume weight share price being above 12 pence per share. The options have been valued using a Black and Scholes model using the inputs as detailed below.

- 3,708,000 issued under a new Long Term Incentive Plan ("LTIP"). The options have a nil exercise price and vest over a period of three years based subject to achieving specific targets. The options will vest in three equal tranches: one third after 12 months, one third after 24 months and one third after 36 months subject to the following performance conditions.
  - The 30 day volume weighted average share price being above 12 pence per share.
  - The total shareholder return in the financial years ending 30 June 2021, 2022 and 2023 being above average compared to a basket of comparable investments comprising the FTSE 350 Mining Index, the FTSE SmallCap Index, and the specific rare earth stocks: Pensana plc, Lynas Rare Earths Limited, Mkango Resources Ltd, Hastings Technology Metals Ltd and Peak Resources Limited.

The above conditions represent market conditions and a Monte Carlo simulation model was used to estimate the fair value.

The inputs into the Black Scholes valuation model for the 2.5 million options with an exercise price of 12 pence per share were:

	Options granted 18 January 2021
Share price (GBP pence)	14.25
Exercise price (GBP pence)	12 .00
Expected volatility	90%
Risk free rate	0.10%
Rate of Exchange	1.32
Time to exercise (years)	3

The inputs into the Monte Carlo simulation for the 3.7 million options issued under the new LTIP were:

	Nil price options granted 18 January 2021
Share price (GBP pence)	14.25
Exercise price (GBP pence)	0.0
Expected volatility	90%
Expected volatility peer companies	51%-153%
Rate of Exchange	1.32
Time to exercise (years)	7

Expected volatility was determined by reference to the annual volatility of the Company's closing mid-market share price on the London Stock Exchange or the peer companies as noted in the option conditions.

Notes to the Financial Statements
For the year ended 30 June 2021
continued

22. SHARE OPTIONS AND WARRANTS CONTINUED

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 year, 10,500,000 of the above options were exercised for gross proceeds of US$763k. On 14 July 2021, a further 2,500,000 options were exercised.

Warrants

	Number	Exercise price
Outstanding and exercisable at 1 July 2019	427,924	US$0.21
Issued during the year	2,000,000	£0.0455
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	**2,000,000**	**£0.0455**

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

During the year the 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 and Scholes model. The inputs into the Black Scholes were:

	At 30 June 2021	At 30 June 2020
Share price (GBP pence)	**14.5**	3.3
Exercise price (GBP pence)	**4.55**	4.55
Expected volatility	**106.7%**	105.9%
Risk free rate	**0.18%**	0.45%
Rate of Exchange	**1.383**	1.296
Time to exercise (years)	**1.7**	3.0

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.

Notes to the Financial Statements
For the year ended 30 June 2021
continued

23. RESERVES

Reserve	Purpose
Share capital	Value of shares issued less costs of issuance
Shares to be issued	Shares to be allotted in respect of equity commitments
Share-based payment reserve	Fair value of share options issued
Warrant reserve	Includes fair value of warrants 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 2020. 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.

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**
Country	**Burundi**	**Burundi**
	US$'000	**US$'000**
Effective non-controlling interest	3%	10%
Interest of non-controlling interest		
As at 1 July 2019	6	818
Minority share of loss for year	1	59
At 30 June 2020	7	877
Minority share of loss for year	–	52
At 30 June 2021	**7**	**929**
Assets at year-end:		
30 June 2020	1	8,964
30 June 2021	**1**	**10,019**
Liabilities at year-end:		
30 June 2020	295	17,069
30 June 2021	**295**	**19,298**
Loss for the year to:		
30 June 2020	(18)	(595)
30 June 2021	**-**	**(524)**

No dividends have been paid to minority interests in the year (2020: nil).

Notes to the Financial Statements
For the year ended 30 June 2021
continued

25. LEASES

The Group leases three properties in Burundi. Two were recognised in the year ended 30 June 2020 as right of use assets in accordance with the requirements of IFRS 16 with a further property recognised in the year ended 30 June 2021. The 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. The lessor for one of the buildings is Gilbert Midende, who was a PDMR and related party (see note 27) prior to formally retiring as Director. General of Rainbow Mining Burundi SM in May 2021. During the year, the Group decided to terminate the lease relating to the related party property and the right of use asset and lease liability have been revised to the level of the remaining lease payments.

Right of use assets	**Land and buildings US$'000**
Right of use assets recognised in year	119
Depreciation in year	(15)
Balance as at 30 June 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**

In addition, the Group acquired land situated in Kabezi at the site of the processing plant under a lease arrangement, the final payments under which were made during the year ended 30 June 2021. The land ownership is being transferred to the Group. The asset is included within Property, Plant and Equipment in note 11. The lessor, Gilbert Midende, was a PDMR and a related party prior to his retirement in May 2021.

The Group has also leased a number of pieces of mining equipment on a week to week basis. The majority of these arrangements were terminated during the year ended 30 June 2020 as the Group acquired its own vehicles. The lease for the final rented bulldozer was terminated in the year ended 30 June 2021 and there are no further short-term lease commitments. Payments under short term leases in the year ended 30 June 2021 totalled US$107k (30 June 2020: US$579k).

26. CAPITAL COMMITMENTS

There were no capital commitments at 30 June 2021 (2020: nil). Under the terms of the Gakara Mining Convention there are no minimum expenditure commitments in respect of exploration and evaluation activities.

27. RELATED PARTY TRANSACTIONS

	Year to 30 June 2021			Year to 30 June 2020		
	Charged in year US$'000	**Settled in year US$'000**	**Balance as at 30 June 2021 US$'000**	Charged in year US$'000	Settled in year US$'000	Balance as at 30 June 2020 US$'000
Gilbert Midende [1]	**35**	**(35)**	**-**	38	(53)	35
Pella Ventures Limited [2]	**-**	**-**	**-**	–	(704)	–
Benzu Minerals (Pty) Limited [3]	**23**	**(23)**	**-**	56	(91)	–
Pipestone Capital Inc [4]	**237**	**(153)**	**1,009**	1,000	(75)	925
Alexander Lowrie [5]	**26**	**(26)**	**-**			
Atul Bali [5]	**25**	**(25)**	**-**			
Robert Sinclair [5]	**26**	**(26)**	**-**			
Shawn McCormick [5]	**25**	**(25)**	**-**			
MPD Consulting Limited [6]	**25**	**(25)**	**-**			
Total	**422**	**(338)**	**1,009**	1,094	(923)	960

Notes

1. Gilbert Midende formally retired as Director General of Rainbow Mining Burundi SM in May 2021. In addition to his salary, US$35k was charged by Gilbert Midende in the year ended 30 June 2021 (2020: US$38k) in respect of leases as set out in note 25.
2. Pella Ventures Limited, of which Adonis Pouroulis is the ultimate beneficial owner, provided a US$0.7 million bridge loan in June 2019 that was settled by the issue of shares in July 2019.
3. Benzu Minerals (Pty) Limited is connected to Cesare Morelli, the Group's Chief Geologist, through which exploration services are provided to the Group. 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 (Pty) Limited and is included in remuneration disclosures in note 9.
4. Pipestone Capital Inc, in which George Bennett, the Company's CEO, has a beneficial interest, provided a US$1 million bridging loan to the Group in February 2020 of which US$75k was settled via the issue of ordinary shares in June 2020. From December 2020 the loan has been interest bearing as set out in note 18, with US$84k interest accruing in the year. In addition, Pipestone Capital provided US$150k of the bridge loan received in October 2020, which was repaid in full, including US$3k interest, in December 2020 as set out in note 18.
5. 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 as set out in note 18.
6. 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 as set out in note 18.

Notes to the Financial Statements
For the year ended 30 June 2021
continued

28. INVESTMENT IN SUBSIDIARIES

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

Name of Company	Principal Activity	Country of Incorporation	% Share Capital Held 2021	% Share Capital Held 2020
Rainbow International Resources Ltd	Rare earth exploration	British Virgin Islands	100%	100%
Rainbow Rare Earths UK Ltd	Service Company	United Kingdom	100%	100%
Rainbow Burundi SPRL	Rare earth exploration	Republic of Burundi	97%	97%
Rainbow Mining Burundi SM	Rare earth mining	Republic of Burundi	90%	90%
Rainbow Rare Earths Zimbabwe (Private) Limited	Rare earth exploration	Zimbabwe	100%	N/A

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

29. CONTINGENT LIABILITIES

There were no contingent liabilities at 30 June 2021 (30 June 2020: nil).

30. POST BALANCE SHEET EVENTS

On 14 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 19 October 2021 the Company issued 32.9 million new ordinary shares at a price of 15 pence per share, raising gross cash proceeds of £4.9 million (US$6.7 million) (before costs of US$0.2 million) by way of a placing, with a further 10 million shares to be issued raising a further £1.5 million (US$2.0 million) subject to shareholder approval at the Company's AGM.

31. 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 2021, 90% of funds were held with a bank with a long term A- credit rating (2020: 83%).

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).

Notes to the Financial Statements
For the year ended 30 June 2021
continued

31. FINANCIAL RISK MANAGEMENT CONTINUED

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 minimising balances held in currencies other than US dollars, particularly Burundian Francs. The table below shows the currency profiles of cash and cash equivalents:

Cash and cash equivalents	**30 June 2021 US$'000**	30 June 2020 US$'000
US Dollars	**353**	245
GB Pounds	**183**	471
Burundi Francs	**37**	72
Total	**573**	788

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

	30 June 2021 US$'000	30 June 2020 US$'000
US Dollars	**1,662**	1,229
GB Pounds	**233**	218
Burundi Francs	**681**	1,023
South African Rand	**23**	7
Australian Dollars	**22**	-
Total	**2,621**	2,477

The largest 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 (2020: approximately US$0.1m) in the income statement in relation to the cash and cash equivalents and trade payables as at 30 June 2020. Movements in the exchange rates between the US dollar and the South African Rand, Australian dollar or GB Pound do not have a significant impact on the Group's financial position.

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 2021				As at 30 June 2020			
	Due within 1 year 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 year 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	**646**	**-**	**-**	**-**	698	-	-	-
Loans and borrowings	**1,304**	**314**	**79**	**-**	324	1,249	297	-
Lease liabilities	**17**	**12**	**36**	**39**	49	31	60	51
Total	**1,967**	**326**	**115**	**39**	1,071	1,280	357	51

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.

Notes to the Financial Statements
For the year ended 30 June 2021
continued

31. FINANCIAL RISK MANAGEMENT CONTINUED

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 2021 US$'000**	30 June 2020 US$'000
Total borrowings (note 18)	**1,892**	1,808
Less: Cash and cash equivalents	**(573)**	(788)
Net debt	**1,319**	1,020
Total equity	**10,006**	7,905
Ratio	**13%**	13%

32. NON-CASH TRANSACTIONS

Material non-cash transactions were as follows:

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 25.

Year end 30 June 2020
- Staff costs and Non-executive Director fees settled in shares in July 2019 and June 2020 as set out in note 21.
- Settlement of the Pella convertible in shares in July 2019 as set out in note 21.
- Settlement of the final balance of the Lind convertible in shares as set out in note 21.
- Settlement of US$75k from the Pipestone bridge loan in shares in June 2020 and interest paid on the Pipestone loan in the form of warrants as set out in note 18.
- Recognition of right of use assets under lease agreements as set out in note 25.

33. ULTIMATE CONTROLLING PARTY

The Company does not have a single controlling party.

Notes

Shareholder Information

Executive director
George Bennett – Chief Executive Officer

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

Company Secretary
Artemis Secretaries Limited

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Finbank Burundi

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SP Angel

Independent Auditors
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