

RAINBOW RARE EARTHS LIMITED

EXCEPTIONAL REE GRADES AT GAKARA

TEST RESULTS SHOW HIGHER GRADES

Rainbow Rare Earths has announced independent testing results for the ore from the main vein from the Gasagwe zone at its 90% owned Gakara Rare Earth Elements (REE) project in Burundi. Testing returned an average Total Rare Earth Oxide (“TREO”) grade of 62.2%, which is higher than the previously stated average grade for Gakara of 57%. This shows us there is potential for even higher Gakara REE concentrate grade than the currently estimated 54%, which should in turn have a positive effect on the final concentrate sales price.

GEARING UP FOR FIRST SHIPMENT IN Q4

Rainbow Rare Earths has made significant progress in 2017 towards putting the Gakara project into production. Mining machinery has been delivered to site, processing plant earthworks have now been completed with first containers of plant equipment dispatched from South Africa. All the relevant environmental permits have been granted in preparation for trial mining with the Company on track for their first concentrate shipment towards the back end of 2017.

RARE EARTH MARKET STRONG IN 2017

After five years of price declines, the REE market has been buoyant in 2017. The key reasons behind this have been China eliminating some of its REE production from illegal factories as well as increasing global demand for electric vehicles (EVs), with the automotive sector being one of the key drivers for global REE demand. The average price of the most important REE product, Neodymium-Praseodymium oxide (NdPr), has increased over 50% in 2017, rising more than 35% in the past two months.

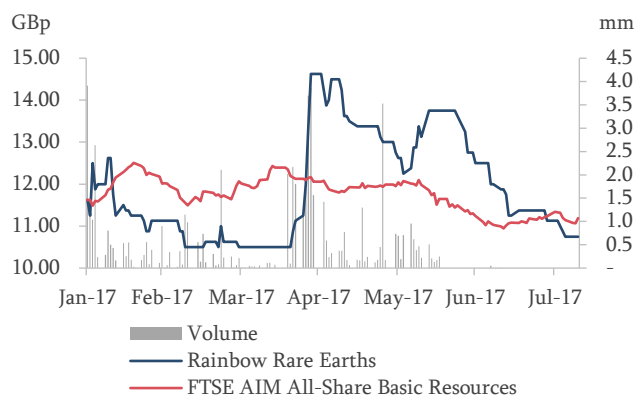
UPDATING OUR VALUATION

We have updated our DCF valuation for the Gakara project based on the recent set of Gasigwe ore test results. We increase our REE concentrate grade to 57% from 54% and also increase our base case price forecast for 2017-2019 to \$2,750/t REE and long-term price forecast to \$5,500/t REE. We arrive at a target price of GBP 13.3 per share, indicating 24% upside from the current share price.

NEAR PRODUCTION REE EXPOSURE

In our view, Rainbow Rare Earths provides investors with a unique exposure to fully funded near term REE production in a rising price environment. This is in contrast to the wider REE sector where projects require substantial start-up capital and are associated with significant technical risks, particularly with regards to ore processing.

GICS sector	Materials
Ticker	LSE:RBW
Rating	
Target price (12 month)	GBP 13.30
Price (as of 9 August 2017)	GBP 10.75
Market capitalisation	US\$21.7mm



Forecasts, valuation metrics and assumptions

		2017E	2018E	2019E	2020E	2021E
Current forecast						
EBITDA	£m	(0.5)	(0.2)	0.3	1.1	4.8
Net profit	£m	(0.9)	(0.5)	(0.2)	0.3	2.9
Production						
REE concentrate	t	-	1,755	2,241	3,735	5,229
Price assumption						
FOB price REE	\$/t	-	2,750	2,750	2,750	5,500
Multiples						
EV/EBITDA	x	NM	NM	32.2x	32.7x	35.8x

Source: Hannam & Partners Research

Note: All figures are as of the financial year-end

Andrei Kroupnik

+44-207-907-8500

andrei.kroupnik@hannamandpartners.com

Hannam & Partners (Advisory) LLP

2 Park Street

Mayfair

London W1K 2HX

FINANCIAL SUMMARY

		Share price GBP	11			Share price GBP	11	\$/£	0.77
		Market Cap \$m	21.7			Market Cap £m	16.7		
Fiscal year ended Jun 30, £m unless noted									
Income statement									
Year end June		2017E	2018E	2019E	2020E	2021E			
Revenue	£m	-	1.0	2.2	3.2	7.7			
COGS	£m	-	0.7	1.4	1.7	2.5			
Gross Profit	£m	-	0.3	0.7	1.5	5.3			
Depreciation	£m	-	0.2	0.5	0.5	0.4			
Admin expense	£m	0.5	0.4	0.4	0.4	0.4			
Net interest expense	£m	0.4	0.1	0.1	0.1	0.1			
Pre-tax profit	£m	-0.9	-0.5	-0.2	0.5	4.4			
Tax credit/(paid)	£m	-	-	0.0	0.3	1.4			
Net profit	£m	-0.9	-0.5	-0.2	0.3	2.9			
EBITDA		-0.5	-0.2	0.3	1.1	4.8			
Ratios and other data									
Year end June		2017E	2018E	2019E	2020E	2021E			
Yr end shares in issued	m	154.6	154.6	154.6	154.6	154.6			
Revenue growth	%	-	-	127.7%	49.5%	137.5%			
EBITDA growth	%	-	-	-	-	342%			
EBITDA margin	%	-	-	-	33.8%	62.9%			
Pre-tax ROIC	%	-	-	(1.8%)	6.2%	47.5%			
ROE	%	-	-	(3.1%)	4.0%	39.0%			
Free cash flow	\$m	-	-	(1.3)	0.1	1.3			
EV/EBITDA	x	NM	NM	32.2x	32.7x	35.8x			
EV/Sales	x	NM	NM	7.0x	4.6x	1.8x			
EV		16.6	13.8	15.1	15.0	13.7			
Market Cap (Yr end)	£m	16.7	16.7	16.7	16.7	16.7			
Metal price assumptions									
Year end June		2017E	2018E	2019E	2020E	2021E			
FOB price REE	\$/tonne	-	2,750	2,750	2,750	5,500			
Production volumes									
Year end June		2017E	2018E	2019E	2020E	2021E			
REE concentrate	tonnes	-	1,755	2,241	3,735	5,229			
Cash Costs									
Year end June		2017E	2018E	2019E	2020E	2021E			
Cost per tonne ore milled	\$/tonne	-	829	724	573	604			
Cost per tonne concentrate	\$/tonne	-	1,110	969	767	808			
Cash flow statement									
Year end June		2017E	2018E	2019E	2020E	2021E			
Operating profit	£m	-0.9	-0.5	-0.2	0.3	2.9			
Interest expense	£m	0.4	-	-	-	-			
Depreciation	£m	-	0.2	0.5	0.5	0.4			
Working capital change	£m	-0.0	-0.4	-0.5	-0.4	-1.8			
CFO	£m	-0.5	-0.7	-0.3	0.3	1.5			
Purchase of PPE	£m	-0.4	-0.9	-1.1	-0.3	-0.1			
CFI	£m	-0.4	-0.9	-1.1	-0.3	-0.1			
Net Borrowings	£m	1.0	-	-	-	-			
New equity issued	£m	-	4.5	-	-	-			
CFF	£m	1.0	4.5	-	-	-			
Net change in cash	£m	0.0	2.9	-1.3	0.1	1.3			
Beginning Cash	£m	0.0	0.1	2.9	1.6	1.7			
Ending Cash	£m	0.1	2.9	1.6	1.7	3.0			
Balance sheet									
Year end June		2017E	2018E	2019E	2020E	2021E			
Cash	£m	0.1	2.9	1.6	1.7	3.0			
Receivables	£m	-	0.4	0.9	1.3	3.2			
Inventory	£m	-	0.2	0.4	0.5	0.7			
Current Assets	£m	0.1	3.5	2.9	3.5	6.9			
PPE	£m	0.0	0.7	1.3	1.1	0.9			
Other	£m	2.9	2.9	2.9	2.9	2.9			
Fixed Assets	£m	2.9	3.7	4.3	4.1	3.8			
Payables	£m	0.6	0.2	0.4	0.5	0.7			
Short Term Debt	£m	1.3	1.3	1.3	1.3	1.3			
Current Liabilities	£m	1.9	1.5	1.7	1.8	1.9			
Long term debt	£m	-	-	-	-	-			
Non Current Liabilities	£m	-	-	-	-	-			
Total Equity	£m	3.0	7.2	7.2	7.6	10.7			
ESTIMATED NET ASSET VALUE (NAV)/SHARE									
		\$m	£m	p/sh					
Gakara		24.2	18.6	12.0					
Total NPV (12%)		24.2	18.6	12.0					
Working Capital		3.8	2.9	2.3					
G&A		-1.6	-1.2	-0.9					
Total		26.4	20.3	13.3					
Current P/NAV				0.81					

DISCLAIMER

This document has been prepared by Hannam & Partners (Advisory) LLP (“H&P”) and has been prepared for information purposes only and: (i) should not be regarded as an offer or solicitation to buy the securities or other instruments mentioned in it; and (ii) should not be considered as the giving of investment advice. This document or any part of this document does not form the basis of and should not be relied upon in connection with any contract. Under no circumstances should the information provided in this document be considered as investment advice, or as a sufficient basis on which to make investment decisions and is provided to you for information purposes only. Any decision to subscribe for or purchase securities in any offering must be made solely on the basis of the information contained in a prospectus (and supplements thereto) or other offering circular issued in connection with such offering and not on the basis of the contents of this document.

This document is being furnished to you solely for your information on a confidential basis and may not be reproduced, redistributed or passed on, in whole or in part, to any other person. In particular, neither this document nor any copy hereof may be taken or transmitted or distributed, directly or indirectly, into Japan, Canada, Australia, South Africa or to any resident thereof or into the United States as defined in rule 902 of regulation S under the U.S. Securities Act of 1933, as amended. The distribution of this document in other jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restriction. Any failure to comply with these restrictions may constitute a violation of the laws of any such other jurisdiction. By accepting this report, you agree to be bound by the limitations in this notice.

All statements of opinion and/or belief contained in this document and all views expressed herein represent H&P’s own assessment and interpretation of the information that it has reviewed in respect of such matters as at the date of this document. This document has been produced independently of Rainbow Rare Earths Limited and its shareholders, and any forecasts, opinions and expectations contained herein are entirely those of H&P and are given as part of its normal research activity and should not be relied upon as having been authorised or approved by any other person.

The information contained in this document is based on publicly available information and includes geographic and economic information and industry data information obtained from independent industry publications, market research and analyst reports, surveys and other publicly available sources. Although H&P believes these sources to be generally reliable, geographic and economic information and industry data information is subject to interpretation and cannot be verified with complete accuracy due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey. Accordingly, the accuracy and completeness of this data is not guaranteed and you should recognize, may not therefore be complete, up to date or entirely accurate and is subject to interpretation. H&P does not represent that such information or its interpretation of such information is accurate, timely, comprehensive or complete and it should not be relied upon as such, nor has it been independently verified, that therefore it is not guaranteed. No reliance may be placed for any purposes whatsoever on the information contained in this document. Any opinion or estimates constitute H&P’s best judgment as of the date of this document, and are subject to change without notice.

In addition, this document contains forward-looking statements and has been based upon a number of assumptions, forecasts and projections which by their nature are forward looking. These statements relate to the future prospects developments and business strategies of Rainbow Rare Earths Limited. The forward-looking statements contained in this document are based on current expectations and beliefs and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by those statements. Given these risks and uncertainties, readers of this document should not place any reliance on forward-looking statements and no responsibility is accepted by H&P or any of their respective directors, officers, employees, agents or advisers in respect thereof.

Whilst this document has been prepared in good faith, H&P and its group undertakings, members, partners, officers, consultants and employees from time to time (together referred to herein as its “Affiliates”) do not make and are not authorised to make any representation, warranty or undertaking, express or implied, with respect to the information or opinions contained in it and no responsibility or liability is accepted by any of them as to the accuracy, completeness or reasonableness of such information or opinions or any other written or oral information from H&P that may be made available to you. Without prejudice to the foregoing and to the fullest extent permitted by law, H&P and its Affiliates do not accept any liability whatsoever for

any loss howsoever arising, directly or indirectly, from use of this document or otherwise arising in connection therewith. Nothing herein shall not exclude any liability for, or remedy in respect of, fraud or fraudulent misrepresentation.

In the United Kingdom, this document is being distributed only to, and is directed at (i) persons who have professional experience in matters relating to investments falling within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (ii) high net worth entities falling within article 49(2)(a) to (d) of the Order or (iii) other persons to whom it may lawfully be communicated (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act on or rely on this document or any of its contents.

This document is being distributed to and is directed only at persons in member states of the European Economic Area ("EEA") who are "qualified investors" within the meaning of article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC and any amendments thereto (including Directive 2010/73/EU to the extent implemented in the relevant EEA member state) and any relevant implementing measures in each relevant EEA member state) ("qualified investors"). Any person in the EEA who receives this document will be deemed to have represented and agreed that it is a qualified investor. Any such recipient will also be deemed to have represented and agreed that it has not received this document on behalf of persons in the EEA other than qualified investors or persons in the United Kingdom and other EEA member States (where equivalent legislation exists) for whom the investor has authority to make decisions on a wholly discretionary basis. H&P and their affiliates, and others will rely upon the truth and accuracy of the foregoing representations and agreements. Any person in the EEA who is not a qualified investor should not act or rely on this document or any of its contents.

All logos, trademarks and service marks appearing herein are the property of H&P. H&P is authorised and regulated by the Financial Conduct Authority in the United Kingdom and its registered office is located at 2 Park Street, London W1K 2HX.

By accepting receipt of, attending any delivery of, or electronically accessing, this document, you agree to be bound by the above limitations and conditions and, in particular represents, warrants and undertake H&P that: (i) you will not forward this document to any other person, or reproduce or publish this document, in whole or in part, for any purpose; and (ii) you agree to comply with the contents of this notice.