Sprott	Equity Research	20 March 2023	
Ticker: RBW LN	Net cash: US\$4m	Project: Phalaborwa	
Market cap: £50m	Price: £0.10/sh	Country: South Africa	
REC. (unc.): BUY	PT (unc): £0.35/sh	RISK RATING (unc.): HIGH	

Today's Phalaborwa update shows good progress being made towards guided 2026 first production, with pilot plant commissioning expected in 2Q23, and a helpful MRE update which confirms tonnes and grade and now with 77% in M&I. Additional drilling is planned to reconfirm density and stack depth – we think the potential here is to add tonnes, given the very low (1.1 SG) density estimate used in the MRE. Given the largely confirmatory MRE update, we maintain our estimates today, but would expect to see LOM increase if the additional drilling results in a higher density estimate. **We maintain our BUY rating and 35p/sh price target based on 0.6x NAV**_{8%}. We think the upcoming pilot plant campaign could be a major catalyst for Rainbow with excellent risk reward: If Rainbow de-risks CIX-CIC as a separation methodology, the gypsum stacks could be a large addressable opportunity, a bottom cost-quartile source of rare earths (at surface, previously treated, in existing industrial sites), and with Rainbow the early mover. While critics understandably point to the fact that solvent extraction is currently the industry standard REE separation method, we like Rainbow's approach: building the pilot plant, focus on execution, and let the results speak for themselves.

Phalaborwa update: MRE upgrades 77% to M&I, pilot plant commissioning on track for 2Q23

Rainbow released a Phalaborwa (South Africa) project update. An <u>updated JORC MRE</u> sees total 30.4Mt at 0.44% TREO, of which 23.4Mt or 77% is in M&I categories against the 4Q22 30.7MT at 0.43% TREO inferred resource. <u>Additional drilling</u> is planned to evaluate density at depth of the stacks as advised by US-based gypsum experts, Ardaman and Associates (a Tetra Tech company). The <u>pilot plant</u> is on track for 2Q23 commissioning. Design and fabrication work on the front end (crack and leach) has commenced by Mintek (Johannesburg). The back end continuous ion-exchange (CIX) / continuous ion chromatography (CIC) units have been delivered to K-Tech in Lakeland, Florida for setup and testing.

	Tonnes	TREO	% of TREO					Th	U
	Mt	%	Nd	Pr	Dy	Tb	Other	ppm	ppm
Measured	7.3	0.5%	24%	5.9%	1.0%	0.3%	69	47	2
Indicated	16.1	0.4%	24%	5.6%	1.0%	0.3%	70	49	2
Inferred	7.0	0.4%	23%	5.5%	1.0%	0.3%	70	45	2
Total	30.4	0.4%	23%	5.6%	1.0%	0.3%	70	48	2
Oct 2022 PEA MRE	30.7	0.43%	23%	5.7%	1.0%	0.3%	70	48	2
Variance %	-0.3	-0.01%		0.10%			-0.10		

Table 1: Updated Phalaborwa JORC-compliant MRE

Source: Rainbow Rare Earths; Reported at a 0.2% TREO cut-off grade

Why we like Rainbow Rare Earths

- 1. Tailings project located on existing industrial facility results in low capex and opex
- 2. High per tonne value due to NdPr, Dy, Tb assemblage and ability to produce beneficiated product
- 3. Proven management team that has built numerous mines and tailings projects

Catalysts

- 2023: DFS and pilot plant (H1), construction decision in H2
- 2H24: SCPe build start
- 2026: First production



Research

Justin Chan (London) M: +44 7554 784 688 <u>jchan@sprott.com</u> Eleanor Magdzinski (Toronto) M: +1 705 669 7456 <u>emagdzinski@sprott.com</u> Konstantinos Kormpis (Toronto) M: +1 778-957-3623 <u>kkormpis@sprott.com</u>

Ticker: RBW LN Analyst: J Chan	Price / mkt cap: Rec / PT:		£0.10/sh, £50m BUY / £0.35			Market P/NAV: 1xNAV ₂₀₂₀ FD:	0.07x US\$1.07/sh		Assets: Country:	Phalaborwa South Africa	
Group-level SOTP valuation	4Q22	1Q23E				Resource / Reserve	Mt	% TREO	000t REO	000t NdPr	EV/t NdP
		US\$m	0/ship	NAVx	£/sh	Measured, ind. & inf.	32	0.43%	137	40	919
Phalaborwa NPV 1Q23E		552	70%	0.60x	0.76	SCPe Mine Inventory	31	0.43%	132	38	954
Central SG&A & fin costs 1Q23E		(77)	-	0.60x	(0.09)	Commodity price	Jun '22	Jun '23	Jun '24	Jun '25	Jun '26
Tonnes outside mine plan (5% insitu v	alue)	9	100%	0.60x	0.01	NdPr price (US\$/t)	71	86	110	110	110
Cash and restr. cash end June 22		4	-	0.60x	0.00	Share data					
Cash from options		0	-	0.60x	0.00	Basic shares (m): 522.7	FD +	options (m):	528.4	FD/FF	1,171.7
Debt 4Q22		0	_	0.60x	0.00	Ratio analysis	Jun '22	Jun '23	Jun '24	Jun '25	Jun '26
Gakara		75		0.50x	0.07	FD shares out (m)	523	1,087	1,087	1,087	1,087
	.		-	0.50X		EPS (US\$/sh)					
1xNAV8% spot fully diluted, pre-fun		564			0.76		(0.01)	(0.00)	(0.01)	(0.02)	0.05
Assumed equity raised to first produc	tion	120	-	0.54	0.10	CFPS before w/c (US\$/sh)	(0.01)	(0.00)	(0.00)	(0.02)	(0.01)
1xNAV8% spot fully funded	and doubles and	684	101/ multiple	0.6x	0.35	FCFPS pre growth (US\$/sh)	0.00	0.00	0.02	0.01	(0.05)
1x fully funded NAVPS sensitivity to			-		¢450/1+=	FCF/sh (US\$/sh)	(0.01)	(0.01)	(0.10)	(0.16)	(0.05)
Valuation (£/sh)	\$75/kg	\$100/kg	\$110/kg	\$125/kg	\$150/kg	FCF yield pre growth (US\$/sh)	4%	0%	22%	10%	(52%)
0.50xNAV	0.17	0.25	0.28	0.32	0.40	FCF yield (%)	(8%)	(7%)	(103%)	(168%)	(52%)
0.60xNAV	0.20	0.29	0.33	0.38	0.47	EBITDA margin (%)	-	-	-	-	72%
0.70xNAV	0.23	0.34	0.39	0.45	0.55	FCF margin (%)					(27%)
0.80xNAV	0.27	0.39	0.44	0.51	0.63	ROA (%)	(23%)	(2%)	(7%)	(7%)	12%
Phalaborwa NPV8% (US\$m)	\$75/kg	\$100/kg	\$110/kg	\$125/kg	\$150/kg	ROE (%)	(25%)	(9%)	(151%)	(25%)	37%
12% discount	188	305	351	419	536	ROCE (%)	(23%)	(3%)	(8%)	(7%)	27%
10% discount	245	379	432	510	644	PER (x)	(12x)	(38x)	(7x)	(4x)	2x
8% discount	315	470	530	621	776	P/CF (x)	(18x)	(52x)	(7x)	(4x)	1x
6% discount	401	582	652	758	939	EV/EBITDA (x)	(12x)	(48x)	(14x)	(11x)	2x
5% discount	451	647	724	838	1,034	Income statement	Jun '22	Jun '23	Jun '24	Jun '25	Jun '26
Phalaborwa 1xNAV sensitivity to rec	overy and paya	bility				Revenue (US\$m)					195
Phalaborwa NPV8% (US\$m)	Recov: 60.0%	62.5%	65.0%	67.5%	70.0%	COGS (US\$m)			(10)	(20)	(51)
Payability: 80%	321	353	385	415	445	Gross profit (US\$m)			(10)	(20)	144
Payability: 85%	369	402	433	465	497	Expenses (US\$m)	(3)	(4)	(2)	(3)	(4)
Payability: 90%	415	448	482	515	549	Impairment & other (US\$m)					
Payability: 95%	459	495	530	566	601	Net finance costs (US\$m)	(0)				(26)
Payability: 100%	504	542	579	616	654	Tax (US\$m)	(0)				(42)
Valuation over time	Jun '21	Jun '22	Jun '23	Jun '24	Jun '25	Minority interest (US\$m)	0				
Mines NPV (US\$m)	474.6	516.9	565.7	736.1	978.7	Net income attr. (US\$m)	(3)	(4)	(12)	(23)	73
Cntrl G&A & fin costs (US\$m)	(82.2)	(77.8)	(77.0)	(87.8)	(73.9)	EBITDA (US\$m)	(4)	(2)	(14)	(24)	140
Gakara & other	84.4	84.4	84.4	84.4	84.4	Cash flow	Jun '22	Jun '23	Jun '24	Jun '25	Jun '26
Net cash at 1Q (A\$m)	(1.3)	3.4	6.1	(100.7)	(164.3)	Profit/(loss) after tax (US\$m)	(4)	(2)	(14)	(24)	56
1xNAV (US\$m)	476	527	579	632	825	Add non-cash items (US\$m)	1			(0)	17
P/NAV (x):	0.11x	0.10x	0.09x	0.08x	0.06x	Less wkg cap / other (US\$m)	(0)	1	13	1	(84)
1xNAV share px FD (US\$/sh)	0.90	1.00	1.10	1.20	1.56	Cash flow ops (US\$m)	(3)	(1)	(1)	(23)	(12)
ROI to equity holder (% pa)	847%	224%	126%	88%	75%	PP&E (US\$m)	(0)	(6)	(106)	(151)	(42)
Sources and uses of cash						Other (US\$m)					
SCPe evaluation costs	US\$10m	SCP	e current cas	sh + options	US\$4m	Cash flow inv. (US\$m)	(1)	(6)	(106)	(151)	(42)
SCPe capex		501		ebt package	US\$220m	Debt draw (repayment) (US\$m)		56	120	77	50
SCPe contingency	US\$16m			quity Raised		Equity issuance (US\$m)	9	10		110	
SCPe G&A + fin. cost to revenue				pital finance	US\$50m	Other (US\$m)					
SCPe steady state working capital	US\$55m		working ca	pital illiance	0393011	Cash flow fin. (US\$m)	8	66	120	187	50
Total uses			Tei	tal proceeds	US\$394m	Net change post forex (US\$m)	4	58		13	
			10	tai proceeus	05\$594111	01	4 (4)		13		(3)
*Cash from options expiring pre first po	ur					FCF (US\$m)		(7)	(107)	(174)	(53)
Production profile						Balance sheet	Jun '22	Jun '23	Jun '24	Jun '25	Jun '26
Production (kt REO) 8.0				Rev / C	lost (US\$/t) — 40,000	Cash (US\$m)	4	63	76	89	85
6.0					30,000	Accounts receivable (US\$m)	0	0			16
4.0					20,000 10,000	Inventories (US\$m)	1	0			59
						PPE & exploration (US\$m)	12	18	124	274	299
2025 2026 2027 2028 Production (kt Nd+Pr. LHS)	2029 2030 Production (kt,	2031 20		2034 203 Production (kt, oth		Other (US\$m)	0	0	0	0	0
Revenue (\$/t REO)	AISC (US\$/t RE			. Judecion (Kt, UEA		Total assets (US\$m)	17	81	199	363	460
						Debt (US\$m)	1	56	176	253	303
Production (100%)	Jun '26	Jun '27	Jun '28	Jun '29	Jun '30	Other liabilities (US\$m)	1	1	14	15	6
Phalaborwa (kt TREO)	4,612	5,590	6,149	6,149	6,149	Shareholders equity (US\$m)	43	53	53	163	163
Phalaborwa (kt Nd+Pr)	1,344	1,629	1,792	1,792	1,792	Retained earnings (US\$m)	(27)	(29)	(43)	(67)	(11)
Phalaborwa cash cost (US\$/kg)	10.1	10.1	10.1	10.1	10.1	Minority int. & other (US\$m)	(1)	(1)	(1)	(1)	(1)
Phalaborwa AISC (US\$/kg)	14.2	14.2	14.2	14.2	14.2	Liabilities+equity (US\$m)	17	81	199	363	460
Group cash cost (US\$/t)	10,956	10.956	10,956	10,956	10,956	Net cash (US\$m)	3	6	(101)	(164)	(218)
Group cash cost (US\$/t) Group AISC (US\$/t)	10,956 12,173	10,956 12,048	10,956 11,995	10,956 11,995	10,956 11,995	Net cash (US\$m) Net debt to NTM EBITDA (x)	3 1.7x	6 0.4x	(101) (4.2x)	(164) 1.2x	(218) 1.3x



DISCLOSURES & DISCLAIMERS

This research report (as defined under IIROC Rule 3600, Part B) is issued and approved for distribution in Canada by Sprott Capital Partners LP ("SCP"), an investment dealer who is a member of the Investment Industry Regulatory Organization of Canada ("IIROC") and the Canadian Investor Protection Fund ("CIPF"). The general partner of SCP is Sprott Capital Partners GP Inc. and SCP is a wholly-owned subsidiary of Sprott Inc., which is a publicly listed company on the Toronto Stock Exchange under the symbol "SII". Sprott Asset Management LP ("SAM"), a registered investment manager to the Sprott Funds and is an affiliate of SCP. This research report is provided to retail clients and institutional investors for information purposes only. The opinions expressed in this report are the opinions of the author and readers should not assume they reflect the opinions or recommendations of SCP's research department. The information in this report is drawn from sources believed to be reliable but the accuracy or completeness of the information is not guaranteed, nor in providing it does SCP and/or affiliated companies or persons assume any responsibility or liability whatsoever. This report is not to be construed as an offer to sell or a solicitation of an offer to buy any securities. SCP accepts no liability whatsoever for any loss arising from any use or reliance on this research report or the information contained herein. Past performance is not a guarantee of future results, and no representation or warranty, expressed or implied, is made regarding future performance of any security mentioned in this research report. The price of the securities mentioned in this research report and the income they generate may fluctuate and/or be adversely affected by market factors or exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. Furthermore, the securities discussed in this research report may not be liquid investments, may have a high level of volatility or may be subject to additional and special risks associated with securities and investments in emerging markets and/or foreign countries that may give rise to substantial risk and are not suitable for all investors. SCP may participate in an underwriting of, have a position in, or make a market in, the securities mentioned herein, including options, futures or other derivatives instruments thereon, and may, as a principal or agent, buy or sell such products.

DISSEMINATION OF RESEARCH: SCP's research is distributed electronically through email or available in hard copy upon request. Research is disseminated concurrently to a pre-determined list of clients provided by SCP's Institutional Sales Representative and retail Investment Advisors. Should you wish to no longer receive electronic communications from us, please contact <u>unsubscribe@sprott.com</u> and indicate in the subject line your full name and/or corporate entity name and that you wish to unsubscribe from receiving research.

RESEARCH ANALYST CERTIFICATION: Each Research Analyst and/or Associate who is involved in the preparation of this research report hereby certifies that:

- The views and recommendations expressed herein accurately reflect his/her personal views about any and all of the securities or issuers that are the subject matter of this research report;
- His/her compensation is not and will not be directly related to the specific recommendations or view expressed by the Research analyst in this research report;
- They have not affected a trade in a security of any class of the issuer within the 30-day period prior to the publication of this research report;
- They have not distributed or discussed this Research Report to/with the issuer, investment banking group or any other third party except for the sole purpose of verifying factual information; and
- They are unaware of any other potential conflicts of interest.

UK RESIDENTS: Sprott Partners UK Limited ("Sprott") is an appointed representative of PillarFour Securities LLP which is authorized and regulated by the Financial Conduct Authority. This document has been approved under section 21(1) of the FMSA 2000 by PillarFour Securities LLP ("PillarFour") for communication only to eligible counterparties and professional clients as those terms are defined by the rules of the Financial Conduct Authority. Its contents are not directed at UK retail clients. PillarFour does not provide investment services to retail clients. PillarFour publishes this document as non-independent research which is a marketing communication under the Conduct of Business rules. It has not been prepared in accordance with the regulatory rules relating to independent research, nor is it subject to the prohibition on dealing ahead of the dissemination of investment research. It does not constitute a personal recommendation and does not constitute an offer or a solicitation to buy or sell any security. Sprott and PillarFour consider this note to be an acceptable minor non-monetary benefit as defined by the FCA which may be received without charge. This is because the content is either considered to be commissioned by Sprott's clients as part of their advisory services to them or is short term market commentary. Neither Sprott nor PillarFour nor any of its directors, officers, employees or agents shall have any liability, howsoever arising, for any error or incompleteness of fact or opinion in it or lack of care in its preparation or publication; provided that this shall not exclude liability to the extent that this is impermissible under the law relating to financial services. All statements and opinions are made as of the date on the face of this document and are not held out as applicable thereafter. This document is intended for distribution only in those jurisdictions where PillarFour is permitted to distribute its research.

IMPORTANT DISCLOSURES FOR U.S. PERSONS: This research report was prepared by Sprott Capital Partners LP ("SCP"), a company authorized to engage in securities activities in Canada. SCP is not a registered broker/dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Sprott Global Resource Investments Ltd. ("SGRIL"), a broker dealer in the United States registered with the Securities Exchange Commission ("SEC"), the Financial Industry Authority ("FINRA"), and a member of the Securities Investor Protection Corporation ("SIPC"). Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through SCP.

SGRIL accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor. The analyst whose name appears in this research report is not licensed, registered, or qualified as a research analyst with FINRA and may not be an associated person of SGRIL and, therefore, may not be subject to applicable restrictions under FINRA Rule 2241 regarding communications by a research analyst with a subject company, public appearances by the research analyst, and trading securities held by a research analyst account. To make further inquiries related to this report, United States residents should contact their SGRIL representative.



Equity Research

ANALYST CERTIFICATION / REGULATION AC: The analyst and associate certify that the views expressed in this research report accurately reflect their personal views about the subject securities or issuers. In addition, the analyst and associate certify that no part of their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

SPROTT CAPITAL PARTNERS EXPLANATION OF RECCOMENDATIONS: Should SCP issue research with recommendations, the research rating guidelines will be based on the following recommendations:

BUY: The stocks total returns are expected to be materially better than the overall market with higher return expectations needed for more risky securities markets

NEUTRAL: The stock's total returns are expected to be in line with the overall market

SELL: The stocks total returns are expected to be materially lower than the overall market

TENDER: The analyst recommends tendering shares to a formal tender offering

UNDER REVIEW: The stock will be placed under review when there is a significant material event with further information pending; and/or when the research analyst determines it is necessary to await adequate information that could potentially lead to a reevaluation of the rating, target price or forecast; and/or when coverage of a particular security is transferred from one analyst to another to give the new analyst time to reconfirm the rating, target price or forecast.

NOT RATED ((N/R): The stock is not currently rated

Research Disclosure							
1	SCP and its affiliates collectively beneficially owns 1% or more of any class of the issuer's equity securities ¹						
2	The analyst or any associate of the analyst responsible for the report or recommendation or any individual directly involved in the preparation of the report holds or is short any of the issuer's securities directly or through derivatives	NO					
3	An SCP partner, director, officer or analyst involved in the preparation of a report on the issuer, has during the preceding 12 months provided services to the issuer for remuneration other than normal course investment advisory or trading execution services	NO					
4	SCP has provided investment banking services for the issuer during the 12 months preceding the date of issuance of the research report or recommendation	NO					
5	Name of any director, officer, employee or agent of SCP who is an officer, director or employee of the issuer, or who serves in an advisory capacity to the issuer	NO					
6	SCP is making a market in an equity or equity related security of the issuer	NO					
7	The analyst preparing this report received compensation based upon SCP's investment banking revenue for the issuer	NO					
8	The analyst has conducted a site visit and has viewed a major facility or operation of the issuer	YES					
9	The analyst has been reimbursed for travel expenses for a site visit by the issuer	NO					

Sprott Capital Partners Equity Research Ratings:

Summary of Recommendations as of March 2023	
BUY:	52
HOLD:	1
SELL:	0
UNDER REVIEW:	1
TENDER:	1
NOT RATED:	0
TOTAL	55

¹ As at the end of the month immediately preceding the date of issuance of the research report or the end of the second most recent month if the issue date is less than 10 calendar days after the end of the most recent month

