# RARE EARTH MINERALS PLC

ANNUAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 2014

Company No 0523426

**RARE EARTH MINERALS PLC**

COMPANY INFORMATION

For the year ended 31 December 2014

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|---|---|
| Company registration number: | 05234262 |
| Registered office: | Suite 3B Princes House<br>38 Jermyn Street<br>London<br>SW1Y 6DN |
| Directors: | David Lenigas (Executive Chairman)<br>Don Strang (Executive Director)<br>Adrian Fairbourn (Non-executive Director)<br>Andrew Suckling (Non-executive Director) |
| Secretary: | Don Strang |
| Nominated adviser and<br>Nominated broker: | W. H. Ireland Limited<br>24 Martin Lane<br>London EC4R 0DR |
| Registrars: | Neville Registrars Limited<br>Neville House<br>18 Laurel Lane<br>Halesowen<br>West Midlands<br>B63 3DA |
| Bankers: | Bank of Scotland<br>33 Old Broad Street<br>London<br>EC2N 1HW |
| Solicitors: | Kerman & Co<br>200 Strand<br>London<br>WC2R 1DJ |
| Auditors: | Chapman Davis<br>Registered Auditor<br>Chartered Accountants<br>2 Chapel Court<br>London<br>SE1 1HH |

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For the year ended 31 December 2014

CHAIRMAN'S STATEMENT

For the year ended 31 December 2014

It has been a year of strong and positive progress at the Company.

The Company ("REM") continues to pursue its strategy of investing in direct and indirect stakes in the Lithium and Rare Earth Minerals resource sector, and has acquired significant stakes in a diverse set of projects, which potentially represent world-class assets in these sectors.

Our two key main investments, the Sonora Lithium Project ("Sonora") in Mexico – which include the La Ventana, Megalit, El Sauz / Fleur group of concessions - and the Yangibana Rare Earth Project in Australia have advanced rapidly over the period, developing resources that are respectively 226% and 230% larger than previously reported. Both these projects continue to make good progress towards full commercialisation.

Corporately, REM continued to increase its strategic holdings in its Mexican joint venture partner, Bacanora Minerals Limited ("Bacanora"), where the board sees exceptional future potential value as Sonora continues to expand. REM will seek to increase its direct shareholding in Bacanora further from the current 16.41% as opportunities arise. REM has also taken a 3.05% stake in Western Lithium USA Corporation to gain exposure to the other main clay-based lithium deposit in the Americas.

Global demand for both lithium and rare earth elements continues to rise and the Company will continue to pursue further investments in this sector.

**Corporate Activity since the year end**

Key points:

- The Sonora projects now show a combined indicated and inferred LCE resource of 7.42m tonnes and is advancing its fully funded Pre-Feasibility Study
- Further encouraging drilling results have been produced at La Ventana and El Sauz / Fleur portion of Sonora
- £2.5m was raised via a share placing with an institutional investor
- REM's direct equity stake in Bacanora Minerals has been increased from 12% to 16.41%
- The board of Bacanora now includes two REM directors and Andrew Suckling, a highly experienced commodity fund manager, has been appointed to the REM board
- The Yangibana project in Australia, in which REM has a 30% free carry, has been progressed rapidly with several updates
- Western Lithium, in which REM has a 3.05% stake, has produced its first high purity lithium from its demonstration plant
- REM acquired a 6.65% equity interest in the Cinovec project in the Czech Republic, which is one of the largest lithium deposits in Europe.

**Sonora Lithium Project ("Sonora") – resource expansion and scoping study**

Within our investment portfolio, most notable is the progress made by Bacanora on the Sonora project. REM currently has an equity interest in Bacanora of 16.41% and a total economic interest, through direct project equity participation, of 41.49%.

During the year Kiran Morzaria, the CEO of REM was appointed as a non-executive director to the board of Bacanora and, subsequent to the year-end, I was also appointed as a non- executive director of Bacanora. We are working closely with the board of Bacanora to continue to add value for all shareholders.

Continued exploration and development has yielded some excellent results which, subsequent to the year-end, has resulted in Sonora reporting a NI43-101 compliant mineral resource estimated ("MRE") of 1.12m tonnes (of Lithium Carbonate Equivalent ("LCE") in the indicated portion and a further 6.3m tonnes of LCE in the inferred portion.

In addition, the MRE identified additional exploration targets that, if successfully converted to Mineral Resources via further exploration, could represent a further 2.4m and 4.6m tonnes of LCE at Sonora. Given the drilling activities planned over the next 6 months we anticipate that we may see a material increase in the mineral resource as well as upgrades in current resources.

REM announced in late December 2014 the successful completion of its scoping study on the Fleur & El Sauz properties which yielded a pre-tax Net Present Value ("NPV") of over US$2 billion million based on a discount rate of 8% and a LCE price of US$6,500 per tonne. The NPV was achieved with a constrained optimised pit shell of an average of 69,800 tonnes of LCE per annum over an initial 20-year mine life.

These results coupled with the Preliminary Economic Assessment ("PEA") in 2013 on the La Ventana portion of Sonora represent a combined NPV of some US$ 2.8 billion. This underpins our belief that Sonora has the potential to be one of the largest LCE producers in the world, supplying a significant percentage of the expected increase in global lithium demand, and generating strong returns for all of its stakeholders.

**Sonora Lithium Project ("Sonora") – high purity LCE**

In addition to the increase in size of the LCE resource, during the period the metallurgical test work confirmed that we can achieve high purity grade of LCE (+99.5% LCE).

This is a critical to the commercialisation of the project and over the coming year Bacanora plans to produce marketing samples for a number of global lithium end user groups and potential off-take partners.

Optimisation of the pilot plant and the finalisation of plant design is now nearing completion for a project designed to produce up to 50,000 tonnes of LCE per annum.

**Lithium – a continued growth story**

We have seen strong growth in lithium demand across all uses. Industry analysts are forecasting compound annual growth rates ("CAGR") in LCE demand of 7.8% from 2013 to 2025, with battery lithium compounds leading the way with a CAGR over the same period of 12.6%. These growth figures suggest that by 2025 demand is projected to be around 410,000 tonnes of LCE per annum.

Given that other junior developers and producers are talking about plant sizes of 20,000 tonnes per annum of LCE, and without additional production from the incumbent producers of today, the industry could require as many as 10 of these new plants in the next 10 years.

The continued demand growth and insufficient current supply growth has meant that analysts have forecasted continued increases in prices on LCE. Lithium has been one of the few commodities to enjoy price appreciation over the last five to six years and we believe that this will continue. In particular, we should see strong price increases in battery grade lithium carbonate and lithium hydroxide.

Given the rapid pace of development in the market, REM and Bacanora have been working together to identify and engage with potential customers for the planned LCE production from Sonora.

**Lithium producer consolidation**

In July this year Albermarle Corporation ("Albermarle") and Rockwood Holdings ("Rockwood"), announced that they had reached a definitive agreement under which Albermarle would acquire all outstanding shares of Rockwood for approximately US$6.2bn in cash and shares. This transaction occurred only a few months after Rockwood acquired 49% of Tailson Lithium, owner of one of the largest hard rock lithium mines in the world, for US$512m.

**Yangibana Australia – growing resource and strong scoping study**

REM has a 30% free carried interest in the Yangibana Rare Earth Project ("Yangibana") up to the commencement of bankable feasibility study. The operators of the project have progressed rapidly over the year with a maiden resource declared in August 2014 which was then increased by 230% in November 2014.

Activities culminated in the publication of a scoping study on the project in December 2014 which had indicative pre-tax NPV of AU$900m to AU$1.2bn based on open pit mining at 1.0 million tonnes per annum over a 15-year period. The scoping study was based on Yangibana production of approximately 2,700 tonnes per annum of neodymium oxide, 750 tonnes per annum of praseodymium oxide, 40 tonnes per annum of dysprosium oxide and 70 tonnes per annum of europium oxide. Currently the project is undergoing a Preliminary Economic Assessment ("PEA") with drilling commenced on the asset in May 2015.

We are particularly pleased with the envisaged production quantities of Neodymium oxide which is critical for the manufacturing of Permanent Magnets (wind and power turbines), electronic components (heat resistant ceramics) and rechargeable consumer batteries.

**Greenland – targets identified**

During the year we completed our initial exploration activities on our 100% owned licenses in Greenland. This work yielded several prospective targets for rare earth elements as well as other elements. Subsequent to the year-end we have not carried out further work as we have focused our capital on other assets with lower risk profiles such as Sonora.

**Outlook**

The investments made by the Company have made notably very good progress over the last year.

The rapid growth and development of the Sonora deposits has been a particular highlight over the last two to three years. It has been painstaking work, but also a story of continuous improvement as the results from the drilling campaigns have come in and the other associated development work has been undertaken. We have now reached the stage at which we are able to accelerate our discussions with potential off-take partners and we will update shareholders further on this aspect in due course.

Investment in the minerals sector carries inherent risks not always associated with other industries. However, based on detailed analysis, successful drilling campaigns and prudent investment, the board of REM has consistently taken the view - on Sonora in particular - that we are meaningful participants in a potentially world class lithium resource. My executive and non-executive colleagues deserve much credit for their work to bring these investments to their current state of development. I would also like to take this opportunity to thank our shareholders, suppliers and consultants for their valuable and continued support.

**David Lenigas**
Executive Chairman
24 June 2015

**Investment Strategy**

The Company's investing policy, which was approved at a General Meeting on 29 November 2010, is to acquire a diverse portfolio of direct and indirect interests in exploration and producing rare earth minerals and/or other metals projects and assets ('Investing Policy'). In light of the nature of the assets and projects that will be the focus of the Investing Policy, the Company will consider investment opportunities anywhere in the world.

The Directors have considerable investment experience, both in structuring and executing deals and in raising funds. Further details of the Directors' expertise are set out on this website. The Directors will use this experience to identify and investigate investment opportunities, and to negotiate acquisitions. Wherever necessary, the Company will engage suitably qualified technical personnel to carry out specialist due diligence prior to making an acquisition or an investment. For the acquisitions that they expect the Company to make, the Directors may adopt earn-out structures with specific performance targets being set for the sellers of the businesses acquired and with suitable metrics applied.

The Company may invest by way of outright acquisition or by the acquisition of assets – including the intellectual property – of a relevant business, partnership or joint venture arrangement. Such investments may result in the Company acquiring the whole or part of a company or project (which, in the case of an investment in a company, may be private or listed on a stock exchange, and which may be pre-revenue), and such investments may constitute a minority stake in the company or project in question. The Company's investments may take the form of equity, joint venture, debt, convertible documents, licence rights, or other financial instruments such as the Directors deem appropriate.

The Company may be both an active and a passive investor depending on the nature of the individual investments in its portfolio. Although the Company intends to be a long-term investor, the Directors will place no minimum or maximum limit on the length of time that any investment may be held.

There is no limit on the number of projects into which the Company may invest, or on the proportion of the Company's gross assets that any investment may represent at any time, and the Company will consider possible opportunities anywhere in the world.

The Directors may offer new ordinary shares in the capital of the Company by way of consideration as well as cash, thereby helping to preserve the Company's cash for working capital and as a reserve against unforeseen contingencies including, by way of example and without limit, delays in collecting accounts receivable, unexpected changes in the economic environment and unforeseen operational problems. The Company may, in appropriate circumstances, issue debt securities or otherwise borrow money to complete an investment. There are no borrowing limits in the Articles of Association of the Company. The Directors do not intend to acquire any cross-holdings in other corporate entities that have an interest in the ordinary shares.

**Sonora Lithium Project**

Sonora is a large clay hosted Lithium deposit in the Sonora State some 190 kilometres northeast of Hermosillo and 200 kilometres south of the border with the USA.

Sonora is underlain by Oligocene to Miocene age rhyolitic tuffs, ignimbrites and breccias of the upper volcanic complex of the Sierra Madre Occidental. This succession was subjected to Basin and Range extensional normal faulting during Miocene times that resulted in the development of a series of half-grabens. The half-grabens are locally filled with fluvial-lacustrine sediments and intercalated tuffs. Alkaline volcanism around this time is thought to have contributed lithium and other alkali metals into these basins. Quaternary basalt flows cover the basinal sediment-volcaniclastic succession, except where later faulting and uplift have exposed the basin infill. Mineralization on the concessions consists of lithium-bearing clays localized in lacustrine basins.

Sonora consists of ten contiguous concessions covering 94,186 hectares. Two of the concessions (La Ventana, La Ventana 1) are owned 100% by Bacanora. The El Sauz, El Sauz 1, El Sauz 2, Fleur and Fleur 1 concessions are owned by Bacanora's subsidiary Mexilit SA de CV (which is owned 70% by Bacanora and 30% by REM) ("Fleur & El Sauz"). The San Gabriel, Buenavista, and Megalit concessions are owned by Bacanora's subsidiary, Megalit SA de CV (which is owned 70% by Bacanora and 30% by REM) ("Megalit"). REM has the option to negotiate an increase to its interest of up to 49.9% of Megalit under terms and consideration yet to be agreed upon. This option expires on January 12, 2016.

When REM's ownership of 16.41% (June 2015) of Bacanora is aggregated with REM's 30% direct interest of the companies that hold the ten mining concessions, REM has a 41.49% economic interest in these assets.

Subsequent to the year end (May 2015) Bacanora announced a revised MRE for Sonora. Highlights from the increased MRE Include:

- Indicated portion of the MRE is gross 1.12m tonnes LCE contained in 95m tonnes of clay, at lithium ("Li") grade of 2,200 ppm.
- Inferred portion of the MRE is gross 6.3m tonnes LCE contained in 500m tonnes of clay at a Li grade of 2,300 ppm.
- Conceptual extensions within current pit shell have the potential to add 2.4 to 4.6m tonnes LCE contained in 300 to 250m tonnes of clay at a Li grade of approximately 1,500 to 2,500 ppm.
- This MRE (which has been prepared in accordance with National Instrument 43-101 - Standards of Disclosure for Mineral Projects ("NI 43-101")) does not include identified grade and tonnages contained within the Beunavista concession, as further metallurgical testing is required on this deposit; and
- This updated MRE has been developed using a 3D geological model and Kriged grade estimates. The indicated portion of the MRE will be used for initial open pit mine design while we further develop the inferred portion of the MRE.

Progress on each of the major concessions (and REM's economic interest) is detailed below:

*La Ventana - (16.5% economic interest REM – 11 June 2015)*

During the last 12 months progress at La Ventana has continued as we had anticipated. Drilling and development work continued throughout the year cumulating in an expanded and updated MRE published in May 2015.

The updated MRE of La Ventana, using a cut off of 450 ppm lithium is comprised of an Indicated portion estimated at 70m tonnes, averaging 2,400 ppm Li, for 0.89m tonnes of LCE, in addition to an Inferred portion estimated at 135m tonnes averaging 1,800 ppm Li, for 1.30m tonnes of LCE. These resources were prepared in accordance with National Instrument 43-101 - Standards of Disclosure for Mineral Projects ("NI 43-101").

Work is ongoing in relation to the completion of a pre-feasibility study for the whole of Sonora. This is scheduled for completion in Q 2016. Currently La Ventana has a PEA which was published in January 2013. This PEA estimated a NPV for the project at $US848m, discounted at 8%. This estimate is based on a potential annual mining rate of 2.735m tonnes of ore averaging 0.3% Li, yielding 35,000 tonnes of battery grade lithium carbonate per annum over 20 year mine life. Based on estimated average lithium carbonate sales price of $US6,000 per tonne, and average operating costs of $US1,958 per tonne, the Company stands to realise estimated revenue of $US210m per year for an IRR of 138% and a payback period of 1.9 years. Capital costs for the lithium mine are estimated at $US114m. It should be noted that the PEA is preliminary in nature as it includes mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorised as mineral reserves, and there is no certainty that the preliminary assessment will be realised.

*Fleur & El Sauz- (41.55% economic interest REM – 11 June 2015)*

The contiguous El Sauz, El Sauz 1, El Sauz 2, Fleur and Fleur 1 concessions cover the 34 square adjacent to and along strike from the La Ventana concessions.

The geology represents a strike extension of La Ventana, and has very similar geology and structural controls. Excellent progress has been made in the development of these concessions. This cumulated in an expanded and updated MRE published in May 2015.

The updated MRE of Fleur & El Sauz using a cut off of 450 ppm lithium is comprised of an Indicated portion estimated at 25m tonnes, averaging 1,600 ppm Li, for 0.23m tonnes of LCE, in addition to an Inferred portion estimated at 375m tonnes averaging 2,500 ppm Li, for 5m tonnes of LCE. These resources were prepared in accordance with National Instrument 43-101 - Standards of Disclosure for Mineral Projects ("NI 43-101").

In December 2014 REM published the results of its' scoping study on the Fleur and El Sauz concessions. Highlights of the study are summarised below:

- Pre-tax NPV of US$2,023m based on a discount rate of 8% and a Lithium Carbonate Equivalent (LCE) price of US$6,500 per tonne.

- Average total cash cost of US$2,525 per tonne of LCE over life of mine, with an average operational cash flow of US$233m per year.
- The NPV is achieved with a constrained optimised pit shell of an average of 69,800 tonnes of lithium carbonate per annum over an initial 20-year mine life, with an average of 75,600 tonnes of lithium carbonate per annum between years 2-19.
- Mined from a single open pit, 2.75 km long, 1.4 km wide and 400 metres deep containing 1.39m tonnes of lithium carbonate (recoverable).
- Plant and infrastructure capital cost of US$422m for a plant with a rated maximum capacity of 11.7m tonnes per annum.
- Payback period of 3.3 years, after taxes and royalties.

It should be noted that the scoping study is preliminary in nature as it includes mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorised as mineral reserves, and there is no certainty that the scoping study will be realised.

Subsequent to the year-end, one hole was drilling on Fleur. The hole drilled on the Fleur concession intersected 7.16 metres of the Upper Clay unit, which averaged 3,107 ppm Li (1.7% LCE) and 25.30 metres of the Lower Clay, which averaged 4,242 ppm Li (2.3% LCE). The intercepts from this hole represent an additional mineral resource target area, which Bacanora intends to pursue through further drilling.

The proximity of this new discovery to the current mineral resource on La Ventana may allow it to be included as part of the mine planning and mine design work currently being carried out. Further exploration drilling on this target is scheduled over the coming six months.

*Megalit - (41.55% economic interest REM – 11 June 2015)*

In December 2013 we announced that the Lithium bearing units identified in the La Ventana and El Sauz/Fleur deposit had been identified on the areas surrounding these projects and had been traced along strike as 4 parallel and arcuate north-westerly trending sequences that are estimated to extend for at least 40 kilometres.

As a result of this REM acquired 30% of Megalit SA de CV (70% owned by Bacanora) the Company that owns The San Gabriel, Beunavista, and Megalit concessions which surround the La Ventana and El Sauz/Fleur group of concessions.

Subsequent to the year-end we announced the results of the successful drilling campaign on the southern 3 km of an estimated 6 km strike extent of lithium bearing clays on Megalit. The exploration programme targeted a new and previously untested deposit type in Sonora, which is thought to be of fluvial origin and eroded from a primary lithium source, as opposed to the types of deposits previously drilled at Sonora in northern Mexico. The results confirm significant thicknesses of lithium bearing clays, very close to surface, at greater than 1,000 ppm Lithium values.

*Sonora Lithium Pilot Plant Work & Project Development Work*

During the year Bacanora constructed a batch processing plant and in April 2014 we announced the results of bench and pilot plant scale metallurgical and mineral process testing. The pilot plant used a roast-leach process to take lithium into solution from the clays and the resulting solution is reduced in volume by evaporation in order to concentrate lithium. After duplicating this process in its independent laboratory, Inspectorate concluded that lithium carbonate product with over 99% purity was achieved from condensed leach solutions in laboratory scale test work. XRD ("x-ray diffraction") performed on products from two test samples confirmed over 99.5% lithium carbonate purity. Other key developments over the year and after the year end include:

- Hatch Pty Ltd. ("Hatch"), Bacanora' s engineering consultant, completed their initial work and provided Bacanora with several optimisation and process engineering recommendations for the production of Lithium Carbonate and Lithium Hydroxide.
- Ore-to-product metallurgical test work continues on one tonne bulk ore samples taken from surface exposures on Sonora. This test work is part of the optimization work on lithium carbonate recovery and is required to provide design criteria.

- Process optimisation studies at the Company's pilot plant in Hermosillo have been aided by the addition of a gas-fired rotary calcining unit for roasting lithium-bearing samples as well as resin columns in the lithium carbonate recovery circuit.

Over the next six months there will be continued optimisation of the lithium pilot plant operations and finalisation of the process flow sheet designs and mass balances. The plant will also produce lithium marketing samples in order to continue discussions with a number of global lithium end user groups and potential off-take partners.

**Yangibana Project, Australia (REM-30% free carry)**

Since December 2011 REM has owned a 30% interest in the Yangibana rare earth project situated in the Gascoyne region of Western Australia. REM's interest is free carried up to the commencement of the bankable feasibility study on Yangibana.

Yangibana is centred on narrow, discontinuously outcropping ironstone dykes that have been shown to carry anomalous rare earths associated with monazite mineralisation. The rare earths comprise 15 elements with atomic numbers between 57 and 71, plus scandium and yttrium. The heavy rare earth oxides comprise the oxides of europium, gadolinium, terbium, dysprosium, holmium, erbium, thulium, ytterbium, lutetium and yttrium. The light rare earth oxides comprise the oxides of lanthium, cerium, praseodymium, neodymium and samarium.

Hastings Rare Metals Limited is the manager of the Project and holds a 60% interest. The Project has progressed rapidly over the year with drilling commenced in April 2014 with a maiden JORC resource declared in August 2014. Further drilling during stage two exploration returned neodymium-rich rare earth from each prospect within the Yangibana Project.

In November 2014 the total resource significantly increased by 230% from 45,000 contained tonnes of Total Rare Earth Oxides ("TREO") to 103,000 contained tonnes. In addition geological understanding allows increase in grade at Yangibana North from 1.34% TREO to 1.73% TREO.

Following on from the revised resource statement, Snowden Mining, consultants to the project, published an independent scoping study. It reported an indicative pre-tax NPV of AU$900m to AU$1.2bn based on open pit mining at 1.0m tonnes per annum over a 15-year period. The internal rate of return of the project is estimated at 62.5%, with an estimated Capex of approximately $390m and a payback within 1.6 years of start of production. The scoping study was based on Yangibana production of approximately 2,700tpa of neodymium oxide, 750tpa of praseodymium oxide, 40 tonnes per annum of dysprosium oxide and 70 tonnes per annum of europium oxide.

These positive results has allowed the project to advance to prefeasibility studies. Subsequent to the year end the project has continued to advance with the prefeasibility study drilling commencing in May 20, 2015.

**Western Lithium USA Corp (3.05% owned by REM)**

Western Lithium USA Corp ("Western Lithium") is developing a major lithium deposit in Northwest Nevada. The Kings Valley deposit, as it is known, contains a total proven and probable resource of totalling 27.135m tonnes, averaging 3,950 ppm Li at a 3,270 ppm cut-off. Based on its NI 43-101 Prefeasibility Study, the Kings Valley project is forecast to have a comparably low first-quartile cost structure against new and incumbent lithium producers, and to generate a NPV of US$552m at a discount rate of 8%.

In February 2014 Western Lithium announced that a lithium demonstration plant is expected to be operational in the fourth quarter of 2014. Western Lithium intends to use the plant to collect design data for a definitive feasibility study and to demonstrate the viability of producing low cost lithium carbonate from its Kings Valley Project. In September 2014 Western Lithium stated that it will now include a lithium hydroxide circuit to its planned production of lithium carbonate, to meet potential new industry requirements, it also is planning for annual production of up to 26,000 tonnes per year of lithium carbonate equivalent.

In addition to the development of its Kings Valley project for lithium carbonate equivalent, Western Lithium has developed clay based products for the oilfield industry and in September 2014 signed a distribution agreement with Raw Materials Corporation of Houston, Texas to sell Western Lithium's oilfield clay products in five US states.

**Narsaq, Southern Greenland (100% owned by REM)**

REM has four Exploration Licenses covering an area of approximately 460km2. Two of these licences about the northern and eastern boundaries of Greenland Minerals and Energy Limited's ("GMEL") (ASX: GGG) licences that encompass the world class Kvanefjeld, Sørenson, Zone 3 and Steenstrupfjeld REE deposits.

During the twelve month period REM embarked on it first field exploration programme of its licences in Greenland. REM commissioned SRK Exploration Services Ltd. ("SRK ES") to undertake a structural interpretation in order to generate exploration targets within the exploration licences in South Greenland. Following this structural study, SRK ES concluded that a range of targets were worthy of exploration.

These targets included a micro-kakortokite dyke of significant width (10-30 m) that has REE potential, and other targets in some way to the Saarloq Shear Zone that cuts through the licence areas. This major crustal-thickness was under-explored and there were no records of previous commercial exploration in this area.

The results from the micro-kakortokite dyke that lies immediately south of the ilimaussaq complex which contains two of the largest REE element deposits in the world (Tanbreez and Kvanefjeld) were encouraging with four out of the ten samples exceeding 2,000 ppm of Total Rare Earth Oxides ("TREO") with the highest being 2,887 ppm TREO. These grades are similar to those found at the 4.3 billion tonne Tanbreez ore deposit owned by TANBREEZ Mining Greenland A/S which lies approximately 2 kilometres to the south west of REM's concessions.

In addition to the above, REM carried out the sampling of the other targets identified by the SRK ES. This sampling programme identified the presence of previously unidentified gold, silver, and other mineralisation located in several areas. In particular one area that straddles the contact of the Julianehåb Granite and the Eriksfjord Sandstone and initially showed anomalous zinc in pan concentrates to 1,580 ppm Zn. Lithological sampling in the Eriksfjord Sandstone located samples to 0.38% Zn in float, results that indicated more work was required in the area. Follow up sampling located significant gold anomalism in veined sandstone with a sample grading 2.59g/t Au

Although these findings are very encouraging, they represent early stage targets for REM and we believe that investment in other of our more advanced project could deliver larger shareholder returns. Accordingly, we do not intend in the current year to carry out any exploration work on the Greenland assets.

**Financial Results**

During the period the group had an operating loss of £3.17m (2013: loss of £0.77m). The increase in the loss for 2014 was driven mainly by the non-cash charge associated with share-based payments to directors, staff and consultants for 2014: £1.85m, (2013: £ 0.05m). Other costs reflected the significant increase in corporate and investment activity.

**Outlook**

Your Company is confident that the investments made since it changed its strategy are both encouraging and potentially very rewarding. We intend to maximise the potential for these strategic holdings while continuing to review and make further investments in rare earth growth assets.

**Kiran Morzaria**
Chief Executive Officer
24 June 2015

**Qualified Person**

Kiran Morzaria B.Eng. (ACSM), MBA, has reviewed and approved the information contained in this document. Kiran holds a Bachelor of Engineering (Industrial Geology) from the Camborne School of Mines and an MBA (Finance) from CASS Business School.

The Directors present their annual report together with the audited consolidated financial statements of the Group for the Year Ended 31 December 2014.

**Principal activity**

The principal activity of the Group and the Company is that of the identification, development and mining of rare earth minerals. The Group is also exploring other mining related opportunities.

**Domicile and principal place of business**

Rare Earth Minerals plc is domiciled in the United Kingdom, which is also its principal place of business.

**Business review**

The results of the Group are shown on page 23. The directors do not recommend the payment of a dividend.

A review of the performance of the Group and its future prospects is included in the Chairman's Statement on pages 1 to 3.

**Key Performance Indicators**

Due to the current status of the Group, the Board has not identified any performance indicators as key.

**Principal risks and uncertainties**

The principal risks and uncertainties facing the Group involve the ability to raise funding in order to finance the acquisition and exploitation of mining opportunities and the exposure to fluctuating commodity prices.

In addition, the amount and quality of minerals available and the related costs of extraction and production represent a significant risk to the group.

**Financial risk management objectives and policies**

The Group's principal financial instruments are available for sale assets, trade receivables, trade payables and cash at bank, although the Company has entered into an equity swap arrangement, in conjunction with a placing, this is not considered a principle funding activity long term. The main purpose of these financial instruments are to fund the Group's operations.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken, with the exception of the equity swap arrangement entered into, based on the Company's own share price. The main risks arising from the Group's financial instruments are liquidity risk and interest rate risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

*Liquidity risk*
The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of equity and its cash resources. Further details of this are provided in the principal accounting policies, headed 'going concern' and note 15 to the financial statements.

*Interest rate risk*
The Group has no loans and therefore the only interest rate risk is that on its cash balances. The Group seeks the highest rate of interest receivable on its cash deposits whilst minimising risk.

*Market risk*
The Group is subject to the risk of movement in its own share price as a result of the equity swap arrangement. To minimise this risk, settlement terms of the equity swap can be deferred once during the settlement period.

**Directors**

The membership of the Board is set out below. All directors served throughout the period unless otherwise stated.

David Lenigas
Don Strang
Adrian Fairbourn
Andrew Suckling (appointed 22 April 2015)

**Substantial shareholdings**

Interests in excess of 3% of the issued share capital of the Company which had been notified as at 11 May 2014 were as follows:

| | Ordinary shares of 1p each Number | Percentage of capital % |
|---|---|---|
| JIM Nominees Limited | 715,560,904 | 10.50 |
| Barclayshare Nominees Ltd | 715,124,231 | 10.49 |
| Hargreaves Lansdown (Nominees) Ltd | 496,066,188 | 7.28 |
| TD Direct Investing Nominees (Europe) Ltd | 402,961,977 | 5.91 |
| HSDL Nominees Ltd | 395,204,973 | 5.80 |
| Hargreaves Lansdown (Nominees) Ltd | 342,918,649 | 5.03 |
| Forest Nominees Ltd | 281,026,000 | 4.12 |
| HSBC Client Holdings Nominee (UK) Ltd | 261,170,498 | 3.83 |
| TD Direct Investing Nominees (Europe) Ltd | 258,364,082 | 3.79 |
| HSDL Nominees Ltd | 257,430,526 | 3.78 |
| Hargreaves Lansdown (Nominees) Ltd | 231,213,548 | 3.39 |
| Investor Nominees Ltd | 213,574,049 | 3.13 |

**Payment to suppliers**

It is the Group's policy to agree appropriate terms and conditions for its transactions with suppliers by means ranging from standard terms and conditions to individually negotiated contracts and to pay suppliers according to agreed terms and conditions, provided that the supplier meets those terms and conditions. The Group does not have a standard or code dealing specifically with the payment of suppliers.

Trade payables at the year end all relate to sundry administrative overheads and disclosure of the number of days purchases represented by year end payables is therefore not meaningful.

**Events after the Reporting Period**

Events after the Reporting Period are outlined in Note 19 to the Financial Statements.

**Going concern**

The Directors note the substantial losses that the Group has made for the year ended 31 December 2014. The Directors have prepared cash flow forecasts for the period ending 30 June 2016 which take account of the current cost and operational structure of the Group.

The cost structure of the Group comprises a high proportion of discretionary spend and therefore in the event that cash flows become constrained, costs can be quickly reduced to enable the Group to operate within its available funding.

These forecasts demonstrate that the Group has sufficient cash funds available to allow it to continue in business for a period of at least twelve months from the date of approval of these financial statements. Accordingly, the financial statements have been prepared on a going concern basis.

**Directors' responsibilities statement**

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

In so far as each of the Directors are aware:

- there is no relevant audit information of which the Group's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Auditors**

Chapman Davis LLP, offer themselves for re-appointment as auditor in accordance with Section 489 of the Companies Act 2006.

ON BEHALF OF THE BOARD

**David Lenigas**
Director
Date: 24 June 2015

**Directors**

The Group supports the concept of an effective board leading and controlling the Group. The Board is responsible for approving Group policy and strategy. It meets on a regular basis and has a schedule of matters specifically reserved to it for decision. Management supply the Board with appropriate and timely information and the Directors are free to seek any further information they consider necessary. All Directors have access to advice from the Company Secretary and independent professional advice at the Group's expense.

The Board consists of three Directors, who hold the key operational positions in the Company. The Chairman of the Board is David Lenigas and the Group's business is run by David Lenigas and the Chief Executive, Kiran Morzaria.

**Relations with shareholders**

The Company values the views of its shareholders and recognises their interest in the Group's strategy and performance. The Annual General Meeting will be used to communicate with private investors and they are encouraged to participate. The Directors will be available to answer questions. Separate resolutions will be proposed on each issue so that they can be given proper consideration and there will be a resolution to approve the annual report and financial statements.

**Internal control**

The Board is responsible for maintaining a strong system of internal control to safeguard shareholders' investments and the Group's assets. The system of internal financial control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board has considered the need for an internal audit function but has decided the size of the Group does not justify it at present. However, it will keep the decision under annual review.

**Board Committees**

Audit and Remuneration Committees have been established and in each case comprise three directors, David Lenigas, Donald Strang and Adrian Fairbourn (Chairman).

The role of the Remuneration Committee is to review the performance of the executive Directors and to set the scale and structure of their remuneration, including bonus arrangements. The Remuneration Committee also administers and establishes performance targets for the Group's employee share schemes and executive incentive schemes for key management. In exercising this role, the terms of reference of the Remuneration Committee require it to comply with the Code of Best Practice published in the Combined Code.

The Audit Committee is responsible for making recommendations to the Board on the appointment of the auditors and the audit fee, and received and reviews reports from management and the Company's auditors on the internal control systems in use throughout the Group and its accounting policies.

**Directors' remuneration**

The Board recognises that Directors' remuneration is of legitimate concern to the shareholders. The Group operates within a competitive environment, performance depends on the individual contributions of the Directors and employees and it believes in rewarding vision and innovation.

**Policy on executive Directors' remuneration**

The policy of the Board is to provide executive remuneration packages designed to attract, motivate and retain Directors of the calibre necessary to maintain the Group's position and to reward them for enhancing shareholder value and return. It aims to provide sufficient levels of remuneration to do this, but to avoid paying more than is necessary. The remuneration will also reflect the Directors' responsibilities and contain incentives to deliver the Group's objectives.

The remuneration of the Directors was as follows:

| | A Fairbourn | R Griffiths | D Lenigas | D Strang | Total |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| **Short-term employment benefits:** | | | | | |
| **Year to 31 December 2014** | | | | | |
| Salary and fees | 100,000 | - | 180,000 | 180,000 | 460,000 |
| Share based payments | 188,453 | - | - | 282,680 | 471,133 |
| Total | **288,453** | **-** | **180,000** | **462,680** | **931,133** |
| Year to 31 December 2013 | | | | | |
| Salary and fees | 24,000 | 32,000 | 92,000 | 60,000 | 208,000 |
| Share based payments | - | 4,208 | 4,208 | - | 8,416 |
| Total | 24,000 | 36,208 | 96,208 | 60,000 | 216,416 |

At 31 December 2014, £Nil of the £100,000 paid to A Fairbourn was still outstanding (2013: £18,000).

At 31 December 2014, £195,000 was outstanding to D Strang (2013: £8,000).

At 31 December 2014, £45,000 was outstanding to D Lenigas (2013: £nil).

***Pensions***
The company does not operate a pension scheme for its directors.

***Benefits in kind***
No benefits in kind were paid during the year to 31 December 2014 or the year ended 31 December 2013.

***Bonuses***
No amounts were payable for bonuses in respect of the year ended 31 December 2014 or the year ended 31 December 2013.

***Notice periods***

David Lenigas, Don Strang and Adrian Fairbourn, each have a 12 months rolling notice period.

***Share option incentives***

At 31 December 2014 the following options were held by the Directors:

| | Date of grant | Exercise price | Number of options |
|---|---|---|---|
| D Lenigas | 28 January 2010 (amended 14 December 2012) | 0.06p | 14,000,000 |
| D Lenigas | 30 November 2010 (amended 14 December 2012) | 0.06p | 30,000,000 |
| | | | 44,000,000 |
| A Fairbourn | 13 December 2012 | 0.06p | 20,000,000 |
| A Fairbourn | 21 May 2014 | 0.48p | 40,000,000 |
| | | | 60,000,000 |
| D Strang | 21 May 2014 | 0.48p | 60,000,000 |
| | | | 60,000,000 |

All options are exercisable between three and ten years from the date of grant.

The high and low share price for the year were 1.95p and 0.41p respectively (year ended 31 December 2013: 1.25p and 0.04p). The share price at 31 December 2014 was 0.94p (31 December 2013: 0.58p).

## REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF RARE EARTH MINERALS PLC

We have audited the Group financial statements of Rare Earth Minerals plc for the Year ended 31 December 2014 which comprise the principal accounting policies, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of financial position, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of the Directors and auditor**
As explained more fully in the Directors' Responsibilities Statement set out on page 11, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

**Scope of the audit of the financial statements**
A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.ork.uk/apb/scope/private.cfm.

**Opinion on financial statements**
In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2014 and its loss for the period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**
In our opinion the information given in the Report of the Directors for the financial period for which the financial statements are prepared is consistent with the group financial statements.

**Matters on which we are required to report by exception**
We have nothing to report in respect of the following:

**Under the Companies Act 2006 we are required to report to you if, in our opinion:**

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Other matter**
We have reported separately on the parent Company financial statements of Rare Earth Minerals plc for the Year ended 31 December 2014.

**Keith Fulton**
Senior Statutory Auditor
for and on behalf of Chapman Davis LLP
Statutory Auditor, Chartered Accountants
LONDON

Date: 24 June 2015

**BASIS OF PREPARATION**

The Group financial statements have been prepared under the historical cost convention, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). The Company's shares are listed on the AIM market of the London Stock Exchange. Separate financial statements of Rare Earth Minerals plc (the Company) have been prepared on pages 42 to 54 under the historical cost convention and in accordance with applicable accounting standards under UK GAAP. The principal accounting policies of the Group are set out below.

**RESTATEMENT OF 2013 COMPARITIVES**

As a result of a review of the accounting treatment of the Group's equity swap arrangement and transactions related thereto, the Group has restated its 2013 comparatives. The effect of the restatement is to re-allocate the settled gain on the equity swap in 2013 of £2,261,000 to the income statement from its previous accounting treatment being credited to the share premium account. The effect of this is to restate the Group's result for 2013 to a profit of £1,447,000. The Earnings per share for 2013 has also been corrected to reflect the change in result for 2013. There is no effect of this amendment on the Group or Company's cash flow statement for that period.

**GOING CONCERN**

The Directors note the substantial losses that the Group has made for the Year ended 31 December 2014. The Directors have prepared cash flow forecasts for the period ending 30 June 2016 which take account of the current cost and operational structure of the Group.

The cost structure of the Group comprises a high proportion of discretionary spend and therefore in the event that cash flows become constrained, costs can be quickly reduced to enable the Group to operate within its available funding.

These forecasts demonstrate that the Group has sufficient cash funds available to allow it to continue in business for a period of at least twelve months from the date of approval of these financial statements. Accordingly, the financial statements have been prepared on a going concern basis.

**BASIS OF CONSOLIDATION**

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to the balance sheet date. Subsidiaries are entities over which the Company has the power to control, directly or indirectly, the financial and operating policies so as to obtain benefits from their activities. The Company obtains and exercises control through voting rights. Subsidiaries are fully consolidated from the date at which control is transferred to the Company. They are deconsolidated from the date that control ceases.

Unrealised gains on transactions between the Company and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Acquisitions of subsidiaries are dealt with by the acquisition method. The acquisition method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Acquisition costs are written off as incurred.

Investments is associates are initially recognised at cost and subsequently accounted for using the equity method. Any goodwill or fair value adjustment attributable to the Group's share in the associate is not recognised separately and is included in the amount recognised as investment in associate. The carrying amount of the investment in associates is increased or decreased to recognise the Group's share of the profit or loss and other comprehensive income of the associate, adjusted where necessary to ensure consistency with the accounting policies of the Group. Unrealised gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

## TAXATION

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable result for the period. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amounts of assets and liabilities in the consolidated financial statements with their respective tax bases. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are always provided for in full. Deferred tax assets are recognised to the extent that it is probable that they will be able to be offset against future taxable income. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Most changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement. Only changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities that is charged directly to equity are charged or credited directly to equity.

## FINANCIAL ASSETS

The Group's financial assets include cash, other receivables and available for sale assets.

All financial assets are recognised when the Group becomes party to the contractual provisions of the instrument. All financial assets are initially recognised at fair value, plus transaction costs.

Trade and other receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Derivative instruments are recorded at cost, and adjust for their market value as applicable. They are assessed for any equity and debt component which is subsequently accounted for in accordance with IFRS's. The Group's and Company's only derivative is considered to be the Equity Swap Arrangement as detailed in Note 12, which is accounted for on a fair value basis in accordance with the terms of the agreement, being based around the Company's share price as traded on AIM.

## AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Group's available-for-sale financial assets include listed securities. These available-for-sale financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the available-for-sale reserve within equity, except for impairment losses and foreign exchange differences, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income. Interest calculated using the effective interest method and dividends are recognised in profit or loss within finance income.

Reversals of impairment losses are recognised in other comprehensive income.

**INTANGIBLE ASSETS – LICENCES**

Licences are recognised as an intangible asset at historical cost and are carried at cost less accumulated amortisation and accumulated impairment losses. The licences have a finite life and no residual value and are amortised over the life of the licence.

**EXPLORATION OF MINERAL RESOURCES**

Acquired intangible assets, which consist of mining rights, are valued at cost less accumulated amortisation.

The Group applies the full cost method of accounting for exploration and evaluation costs, having regard to the requirements of IFRS 6 'Exploration for and Evaluation of Mineral Resources'. All costs associated with mining development and investment are capitalised on a project by project basis pending determination of the feasibility of the project. Such expenditure comprises appropriate technical and administrative expenses but not general overheads.

Such exploration and evaluation costs are capitalised provided that the Group's rights to tenure are current and one of the following conditions is met:

(i) such costs are expected to be recouped through successful development and exploitation of the area of interest or alternatively by its sale; or
(ii) the activities have not reached a stage which permits a reasonable assessment of whether or not economically recoverable resources exist; or
(iii) active and significant operations in relation to the area are continuing.

When an area of interest is abandoned or the directors decide that it is not commercial, any exploration and evaluation costs previously capitalised in respect of that area are written off to profit or loss.

Amortisation does not take place until production commences in these areas. Once production commences, amortisation is calculated on the unit of production method, over the remaining life of the mine. Impairment assessments are carried out regularly by the directors. Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such indicators include the point at which a determination is made as to whether or not commercial reserves exist.

The asset's residual value and useful lives are reviewed and adjusted if appropriate, at each reporting date. An assets' carrying value is written down immediately to its recoverable value if the assets carrying amount is greater than its listed recoverable amount.

**CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise cash at bank and in hand, bank deposits repayable on demand, and other short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, less advances from banks repayable within three months from the date of advance if the advance forms part of the Group's cash management.

**GOODWILL**

Goodwill representing the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is capitalised and reviewed annually for impairment. Goodwill is carried at cost less accumulated impairment losses. Negative goodwill is recognised immediately after acquisition in profit or loss.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

## IMPAIRMENT TESTING OF GOODWILL AND OTHER INTANGIBLE ASSETS

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows.

Goodwill, other individual assets or cash-generating units that include goodwill and other intangible assets with an indefinite useful life are tested for impairment at least annually.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

## EQUITY

Share capital is determined using the nominal value of shares that have been issued.

The share premium account represents premiums received on the initial issuing of the share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

The share based payment reserve represents the cumulative amount which has been expensed in the income statement in connection with share based payments, less any amounts transferred to retained earnings on the exercise of share options.

Available Sale Financial Asset & Hedging reserve represents the market value movement of AFS investments, and the market value movement of the Company’s share price in accordance with the Derivative Assets the Company holds, including the Equity Swap Asset.

Retained earnings include all current and prior period results as disclosed in the income statement.

## FOREIGN CURRENCIES

The financial statements are presented in Sterling, which is also the functional currency of the parent Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in profit or loss.

In the consolidated financial statements, the financial statements of subsidiaries, originally presented in a functional currency, have been translated into Sterling. Assets and liabilities have been translated into Sterling at the exchange rates ruling at the balance sheet date. Profit and losses have been translated at an average monthly rate for the period. Any differences arising from this procedure are taken to the foreign exchange reserve. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities to the foreign entity and translated into Sterling at the closing rates.

## SHARE BASED PAYMENTS

The Group issues equity-settled share-based payments to certain employees (including directors). Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, together with a corresponding increase in equity, based upon the Group's estimate of the shares that will eventually vest.

Fair value is measured using the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates.

No adjustment is made to the expense or share issue cost recognised in prior periods if fewer share options are, ultimately exercised than originally estimated. Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of shares issued are allocated to share capital with any excess being recorded as share premium.

## FINANCIAL LIABILITIES

The Group's financial liabilities include trade and other payables. Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument.

All financial liabilities are recognised initially at fair value, net of direct issue costs, and are subsequently recorded at amortised cost using the effective interest method with interest related charges recognised as an expense in the income statement.

Dividend distributions to shareholders are included in 'other short term financial liabilities' when the dividends are approved by the shareholders'.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

**Significant judgments and estimates**

The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the reported period. The estimates and associated judgments 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 judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying judgments 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 only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In the preparation of these consolidated financial statements, estimates and judgments have been made by management concerning calculating the fair values of the assets acquired on business combinations, and the assumptions used in the calculation of the fair value of the share options. Actual amounts could differ from those estimates.

Management has made the following estimates that have the most significant effect on the amounts recognised in the financial statements.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

***Impairment of goodwill***
The basis of review of the carrying value of goodwill is as detailed in note 4. The carrying value of goodwill is £567,000 at the balance sheet date. Management do not consider that any reasonably foreseeable changes in the key assumptions would result in an impairment. Further details of management's assessment of the goodwill for impairment are included in note 4.

***Business combinations***
On initial recognition, the assets and liabilities of the acquired business and the consideration paid for them are included in the consolidated financial statements at their fair values. In measuring fair value, management uses estimates of future cash flows. Any subsequent change in these estimates would affect the amount of goodwill if the change qualifies as a measurement period adjustment. Any other change would be recognised in the income statement in the subsequent period.

***Share-based payments***
The Group measures the cost of the equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The charge for the period ended 31 December 2014 of £1,846,000 (2013: £52,000) is determined using a Black-Scholes Valuation model, using the assumptions detailed in note 9.

***Treatment of exploration and evaluation costs***
IFRS 6 "Exploration for and Evaluation of Mineral Resources" requires an entity to consistently apply a policy to account for expenditure on exploration and evaluation of a mineral resource. The directors have set out their policy in respect of the treatment of these costs within these accounting policy notes. Amounts capitalised in the year to 31 December 2014 were £539,000 (2013 £Nil).

***Treatment of licenses***
The Company purchased the entire share capital of Mojito Resources Limited during the period ended 31 December 2011. Mojito Resources Limited is the beneficial owner of a 30% interest in the Tenements in the Yangibana Rare Earth Project. These have been treated in the accounting records of Mojito Resources Limited and on consolidation as an intangible asset. The directors consider the fair value of the tenements to be equal to the book value in Mojito Resources Limited at the date of acquisition as the interest in the tenements were purchased during the financial period. In addition Mojito Resources Limited has entered into an Agreement with GTI Resources Limited and Gascoyne Metals Pty Limited in respect of the Yangibana Project. Mojito Resources is not however liable for any of the exploration costs in the initial sole funding period until a Feasibility Report is produced by the operators (GTI Resources Limited). At this stage therefore the directors have treated the licenses as an intangible asset. Following the completion of the Feasibility report the directors will review the accounting treatment going forward giving consideration to their respective responsibilities for the development of the project.

## ADOPTION OF NEW OR AMENDED IFRS

**Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group**

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements.

IASB (International Accounting Standards Board) and IFRIC (International Financial Reporting Interpretations Committee) have issued the following standards and interpretations with an effective date after the date of these financial statements:

The following standards have been adopted by the group for the first time for the financial year beginning on or after 1 January 2014 and have a material impact on the Group:

**ADOPTION OF NEW OR AMENDED IFRS (CONTINUED)**

Amendment to IAS 32, 'Financial instruments:Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the group financial statements.

Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13.

Amendment to IAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The Group has applied the amendment and there has been no significant impact on the Group financial statements as a result.

IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The Group is not currently subjected to significant levies so the impact on the Group is not material.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the Group.

*New standards, amendments and interpretations not yet adopted*
A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statement. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The group is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

| | Note | **Year ended 31 December 2014 £'000** | Year ended 31 December 2013 restated £'000 |
|---|---|---|---|
| Other administrative expenses | | **(3,173)** | (766) |
| Total administrative expenses | | **(3,173)** | (766) |
| **Operating (loss)** | *1* | **(3,173)** | (766) |
| Share of associates losses | | **(19)** | - |
| (Loss) on sale of available for sale assets | | **-** | (48) |
| Gain on equity swap settlements | | **456** | 2,261 |
| Finance cost | | **(342)** | - |
| **(Loss)/profit before taxation** | | **(3,078)** | 1,447 |
| Taxation | *2* | - | - |
| **(Loss)/profit attributable to the equity holders of the Company** | | **(3,078)** | 1,447 |
| **Other comprehensive income** | | | |
| Foreign currency translation differences | | **(61)** | (127) |
| Fair value adjustment of equity swap | | **(389)** | 580 |
| Transfer to income statement of hedging & available for sale reserve | | **(580)** | 47 |
| Increase/(decrease) in value of available for sale assets | | **429** | (203) |
| Other comprehensive income for the period, net of tax | | **(601)** | 297 |
| **Total comprehensive loss for the year, attributable to the equity holders of the company** | | **(3,679)** | 1,744 |
| **(Loss)/Earnings per ordinary share** | | | |
| Basic (loss)/earnings per share (pence) | *3* | **(0.06)** | 0.05 |
| Diluted (loss)/earnings per share (pence) | | **(0.06)** | 0.04 |

The accompanying principal accounting policies and notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

| | Share capital | Share premium restated | Share based payment reserves | Available for sale reserve | Hedging & Exchange reserve | Retained earnings restated | Total equity |
|---|---|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| **Balance at 1 January 2013** | 628 | 7,198 | 712 | (47) | 3 | (7,037) | 1,457 |
| Share based payments | - | - | 52 | - | - | - | 52 |
| Transfer on exercise of options | - | - | (264) | - | - | 264 | - |
| Share issue | 191 | 1,512 | - | - | - | - | 1,703 |
| Share placing costs | - | (11) | - | - | - | - | (11) |
| **Transactions with owners** | 191 | 1,501 | (212) | - | - | 264 | 1,744 |
| Currency translation differences | - | - | - | - | (127) | - | (127) |
| Transfer to income statement | - | - | - | 47 | - | - | 47 |
| Fair value adjustment on equity swap | - | - | - | - | 580 | - | 580 |
| Decrease in value of available for sale asset | - | - | - | (203) | - | - | (203) |
| Loss for the year | - | - | - | - | - | 1,447 | 1,447 |
| **Total comprehensive loss for the year** | - | - | - | (156) | 453 | 1,447 | 1,744 |
| **Balance at 31 December 2013** | 819 | 8,699 | 500 | (203) | 456 | (5,326) | 4,945 |
| Share based payments | - | - | 1,846 | - | - | - | 1.846 |
| Transfer on exercise of options | - | - | (106) | - | - | 106 | - |
| Share issue | 248 | 12,126 | - | - | - | - | 12,374 |
| Share placing costs | - | (960) | - | - | - | - | (960) |
| **Transactions with owners** | 248 | 11,166 | 1,740 | - | - | 106 | 13,260 |
| Foreign exchange | - | - | - | - | (61) | - | (61) |
| Fair value adjustment on equity swap | - | - | - | - | (389) | - | (389) |
| Transfer to income statement | - | - | - | - | (580) | - | (580) |
| Increase in value of available for sale asset | - | - | - | 429 | - | - | 429 |
| Loss for the year | - | - | - | - | - | (3,078) | (3,078) |
| **Total comprehensive loss for the year** | - | - | - | 429 | (1,030) | (3,078) | (3,679) |
| **Balance at 31 December 2014** | **1,067** | **19,865** | **2,240** | **226** | **(574)** | **(8,298)** | **14,526** |

The accompanying principal accounting policies and notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

| ASSETS | *Note* | **31 December 2014 £'000** | 31 December 2013 restated £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | *4* | **1,174** | 698 |
| Investment in associate | *5* | **2,933** | 1,496 |
| **Total non-current assets** | | **4,107** | 2,194 |
| **Current assets** | | | |
| Trade and other receivables | *7* | **1,047** | 688 |
| Derivative financial instrument | *12* | **3,311** | 630 |
| Available for sale asset | *6* | **5,708** | 699 |
| Cash and cash equivalents | | **1,463** | 961 |
| **Total current assets** | | **11,529** | 2,978 |
| **Total assets** | | **15,636** | 5,172 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | *8* | **475** | 227 |
| Borrowings | *9* | **635** | - |
| **Total current liabilities** | | **1,110** | 227 |
| **Total liabilities** | | **1,110** | 227 |
| **EQUITY** | | | |
| Issued share capital | *11* | **1,067** | 819 |
| Share premium | | **19,865** | 8,699 |
| Share based premium reserve | | **2,240** | 500 |
| Available for sale asset reserve | | **226** | (203) |
| Hedging & Exchange reserve | | **(574)** | 456 |
| Retained earnings | | **(8,298)** | (5,326) |
| **Equity attributable to equity holders of the Company** | | **14,526** | 4,945 |
| **Total equity and liabilities** | | **15,636** | 5,172 |

The consolidated financial statements were approved by the Board on 24 June 2015.

**David Lenigas**
Director
Company number 05234262

The accompanying principal accounting policies and notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

| | **Year ended 31 December 2014 £'000** | Year ended 31 December 2013 £'000 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Operating loss | **(3,173)** | (766) |
| Amortisation of intangibles | **49** | 54 |
| Equity settled share based payments | **1,846** | 52 |
| (Increase) in trade and other receivables | **(359)** | (249) |
| Increase in trade and other payables | **248** | 105 |
| **Net cash (outflow) from operating activities from continuing operations** | **(1,389)** | (804) |
| **Cash flows from investing activities** | | |
| Net payment for investment in associate | **(1,456)** | (1,496) |
| Investment in exploration costs | **(539)** | - |
| Payments for investments in AFS assets | **(4,580)** | (902) |
| Receipts on sale of AFS assets | **-** | 34 |
| **Net cash outflow from investing activities** | **(6,575)** | (2,364) |
| **Cash flows from financing activities** | | |
| Proceeds from issue of share capital | **12,280** | 1,703 |
| Proceeds from share swap | **506** | 2,261 |
| Investment in share swap | **(3,700)** | - |
| Share issue costs | **(960)** | (11) |
| Net borrowings | **682** | - |
| Finance cost | **(342)** | - |
| **Net cash inflow from financing activities** | **8,466** | 3,953 |
| **Net change in cash and cash equivalents** | **502** | 785 |
| Cash and cash equivalents at beginning of period | **961** | 176 |
| **Cash and cash equivalents at end of period** | **1,463** | 961 |

The accompanying principal accounting policies and notes form an integral part of these financial statements.

## 1 OPERATING LOSS AND SEGMENTAL INFORMATION

**Loss before taxation - continuing operations**

The loss before taxation is attributable to the principal activities of the Group.

The loss before taxation is stated after charging:

| | **Year ended 31 December 2014** | Year ended 31 December 2013 |
|---|---|---|
| | **£'000** | £'000 |
| Share based payment charge | **1,846** | 52 |
| Amortisation charge | **49** | 54 |
| Staff costs (see note 17) | **240** | 238 |
| Directors fees | **460** | 208 |
| Fees payable to the Company's auditor for the audit of the financial statements | **13** | 10 |
| Fees payable to the Company's auditor and its associates for other services: | | |
| Other services relating to taxation compliance | **-** | - |

**Segmental information**

An operating segment is a distinguishable component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about the allocation of resources and assessment of performance and about which discrete financial information is available.

The chief operating decision maker has defined that the Group's only reportable operating segment during the period is mining.

Subject to further acquisitions the Group expects to further review its segmental information during the forthcoming financial year.

The Group has not generated any revenues from external customers during the period.

In respect of the total assets, £5,821,000 (2013: £2,095,000) arise in the UK, and £570,000 (2013: £235,000) arise in Greenland, £7,572,000 arise in Mexico (2013: £1,951,000), £1,029,000 arise in USA (2013: £244,000l), £630,000 (2013: £647,000) arise in Australia and £14,000 arise in Canada (2013: £Nil).

## 2 TAXATION

There is no tax credit on the loss for the current or prior period.

The tax assessed for the period differs from the standard rate of corporation tax in the UK as follows:

| | **Year ended 31 December 2014** | **2014** | Year ended 31 December 2013 restated | 2013 |
|---|---|---|---|---|
| | **£'000** | **%** | £'000 | % |
| Loss before taxation | **(3,078)** | | 1,447 | |
| Loss multiplied by standard rate of corporation tax in the UK | **(662)** | **21/23** | 344 | 23/24 |
| Effect of: | | | | |
| Overseas loss not recognised | **9** | | 11 | |
| Deferred tax asset not recognised | **255** | | (369) | |
| Expenses not deductible for tax purposes | **398** | | 14 | |
| Total tax charge for year | **-** | | - | |

The Group has tax losses in the UK, subject to HMRC's approval, available for offset against future operating profits. The Group has not recognised any deferred tax asset in respect of these losses, due to there being insufficient certainty regarding its recovery.

## 3 (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share is calculated by dividing the consolidated loss attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

| | **Year ended 31 December 2014** | Year ended 31 December 2013 |
|---|---|---|
| | **£'000** | £'000 |
| (Loss)/profit attributable to owners of the Company | **(3,078)** | 1,447 |
| | **2014 Number** | 2013 Number |
| Weighted average number of shares for calculating basic (loss)/earnings per share | **5,219,766,921** | 3,167,733,205 |
| Share options and warrants exercisable | **406,643,850** | 310,260,334 |
| Weighted average number of shares for calculating diluted (loss)/earnings per share | **5,626,410,771** | 3,477,993,539 |
| | **2014 Pence** | 2013 Pence |
| Basic (loss)/earnings per share | **(0.06)** | 0.05 |
| Diluted (loss)/earnings per share | **(0.06)** | 0.04 |

The impact of the share options are anti-dilutive.

## 4 INTANGIBLE ASSETS

| | Exploration costs £'000 | Goodwill £'000 | Licences £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2013 | 37 | 692 | 250 | 979 |
| Additions | - | - | - | - |
| Exchange Difference | - | (111) | (38) | (149) |
| At 31 December 2013 | 37 | 581 | 212 | 830 |
| Additions | 539 | - | - | 539 |
| Exchange Difference | - | (14) | (5) | (19) |
| **At 31 December 2014** | **576** | **567** | **207** | **1,350** |
| **Amortisation and impairment** | | | | |
| At 1 January 2013 | - | - | (100) | (100) |
| Amortisation charge in the year | - | - | (54) | (54) |
| Exchange difference | - | - | 22 | 22 |
| At 31 December 2013 | - | - | (132) | (132) |
| Amortisation charge in the year | - | - | (49) | (49) |
| Exchange difference | - | - | 5 | 5 |
| **At 31 December 2014** | **-** | **-** | **(176)** | **(176)** |
| **Net book value at 31 December 2014** | **576** | **567** | **31** | **1,174** |
| Net book value at 31 December 2013 | 37 | 581 | 80 | 698 |

During the periods the Group incurred expenses which were in relation to the application of several prospecting licenses in Greenland, these costs had previously been classified as prepaid exploration & licence costs amounting to £526,000. The Group had been awaiting confirmation of transfer of these licences to 2 subsidiaries newly incorporated in Greenland and currently held in trust on the Group's behalf, this process has now been completed during the year, and as a result, during the year ended 31 December 2014 £526,000 invested in Exploration costs were reclassified from prepayments, and in addition £13,000 was invested in Exploration costs by REM Mexico Ltd.

Goodwill of £692,000 arose on the acquisition of Mojito Resources Limited, the licences being the only asset held within that company. The directors are continuing to review their provisional assessment of the fair value of the licences acquired although do not expect any material adjustment. The directors have therefore identified only one cash generating unit to which the goodwill is allocated. As set out in the accounting policies Goodwill is reviewed annually or in the event of an indication of impairment. The recoverable amount of goodwill has been determined by the fair value less costs to sell. The directors consider that there have been no changes in circumstances between acquisition on 1 December 2013 and 31 December 2014 that would give rise to an impairment charge.

At this stage the Feasibility Study has not been completed to fully assess the potential future cash flows of developing the areas under licence. The directors, however, having given consideration to the past exploration of the Projects which had identified nine individual occurrences of rare earth elements known to occur within the Project areas. Management's review of the recoverable amount is most sensitive to changes in the commodity prices of the underlying minerals and the existence of the rare earth elements within the Project Areas. Since the acquisition date there has been no material changes to the Project Area. The directors consider that no impairment is required at 31 December 2014.

## 5 INVESTMENT IN ASSOCIATES

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| | £'000 | £'000 |
| **Changes in equity accounted investment** | | |
| Carrying value at beginning of year | **1,496** | - |
| Investment in associate - equity purchases/contributions | **1,456** | 1,496 |
| Share of associates retained (losses) attributable to the group | **(19)** | - |
| Investment carrying value as at year end | **2,933** | 1,496 |

These investments are accounted for under the equity method. Both associate companies have a reporting date of 30 June. The shares are not publicly listed on a stock exchange and hence published results are not available. Therefore the fair value of the Group's investment equates to the carrying book value of £2,933,000 (31 December 2013: £1,496,000).

The Group's share of results of its associates, which are unlisted, and their aggregated assets and liabilities, are as follows:

| Name | Country of incorporation | Assets | Liabilities | Revenues | Profit/(Loss) | % interest held |
|---|---|---|---|---|---|---|
| | | As at 31 December 2014 | | Year to 31 December 2014 | | |
| Mexilit S.A. de C.V. | Mexico | £1,360,000 | £85,000 | Nil | (£46,000) | 30 |
| Minera Megalit S.A. de C.V. | Mexico | £393,000 | £384,000 | Nil | (£50,000) | 30 |

## 6 AVAILABLE FOR SALE ASSETS

| **Available for sale assets** | 31 December 2014 | 31 December 2013 |
|---|---|---|
| | £'000 | £'000 |
| **Current Assets - Listed Investments** | | |
| Valuation at 1 January | **699** | 35 |
| Additions at cost | **4,580** | 902 |
| Disposal proceeds | **-** | (34) |
| Transfer from equity reserves | **-** | 47 |
| Realised (loss) on disposal | **-** | (48) |
| Change in fair value recognised in other comprehensive income | **429** | (203) |
| Valuation at 31 December | **5,708** | 699 |

During the year ended 31 December 2013 the company acquired 2,007,500 shares in Bacanora Minerals Limited and 1,791,000 shares in Western Lithium USA Corporation.

During the year ended 31 December 2014 the company acquired a further 8,116,708 shares in Bacanora Minerals Limited, a further 1,788,000 shares in Western Lithium USA Corporation, 1,000,000 shares in Hastings Rare Metals Ltd and 160,000 shares in Nemaska Lithium Inc.

Available-for-sale assets comprise investments in listed securities which are traded on stock markets throughout the world, and are held by the Group as a mix of strategic and short term investments.

## 7 TRADE AND OTHER RECEIVABLES

| | **31 December 2014** | 31 December 2013 |
|---|---|---|
| | **£'000** | £'000 |
| **Current assets** | | |
| Other receivables | **1,025** | 484 |
| Prepaid exploration costs | **-** | 184 |
| Prepayments and accrued income | **22** | 20 |
| | **1,047** | 688 |

There is no impairment of receivables and no amounts are past due at 31 December 2014 or at 31 December 2013.

The fair value of these financial assets is not individually determined as the carrying amount is a reasonable approximation of fair value.

## 8 TRADE AND OTHER PAYABLES

| | **31 December 2014** | 31 December 2013 |
|---|---|---|
| | **£'000** | £'000 |
| **Current liabilities** | | |
| Trade payables | **217** | 135 |
| Accruals and deferred income | **258** | 92 |
| | **475** | 227 |

The fair value of trade and other payables has not been disclosed as, due to their short duration, management considers the carrying amounts recognised in the balance sheet to be a reasonable approximation of their fair value.

## 9 BORROWINGS

| | **31 December 2014** | 31 December 2013 |
|---|---|---|
| **Current liabilities** | **£'000** | £'000 |
| Loans – other (unsecured) | **635** | - |
| | **635** | **-** |

On 13 June 2014, the Company agreed a US$10million debt facility with YA Global Master SPV ("YAGM"), and drew down the first US$3million on that date. This loan facility carries a twelve month repayment schedule at a fixed coupon of 10%. Any subsequent drawdowns will be on the same terms and subject to approval by YAGM. The Company made two further drawdowns against the facility both of US$1million each. As part of the terms of the facility, on each drawdown the Company issues Warrants over ordinary shares to YAGM in accordance with the terms of the agreement. Total warrants issued to YAGM under this agreement are 73,718,850, each with a 3 year term and exercise prices ranging from 1.1p to 1.8p per share.

## 10 SHARE BASED PAYMENTS

**Share Options**
The Group operates share option schemes for certain employees (including directors). Options are exercisable at the option price agreed at the date of grant. The options are settled in equity once exercised. The expected life of the options varies between 1 and 6 years. Options all vested immediately, there are no vesting requirements.

Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the period are as follows:

| | **31 December 2014** | | 31 December 2013 | |
|---|---|---|---|---|
| | **Number** | **WAEP £** | Number | WAEP £ |
| Outstanding at the beginning of the year | **210,925,000** | **0.0021** | 212,925,000 | 0.005 |
| Granted | **240,000,000** | **0.0050** | 110,000,000 | 0.0006 |
| Exercised | **(118,000,000)** | **(0.0006)** | (112,000,000) | |
| Outstanding at the end of the year | **332,925,000** | **0.0045** | 210,925,000 | 0.0021 |
| Exercisable at year end | **332,925,000** | | 210,925,000 | |

The share options outstanding at the end of the period have a weighted average remaining contractual life of 5.73 years (31 December 2013: 6.36 years) and have the following exercise prices and fair values at the date of grant:

| First exercise date (when vesting conditions are met) | Grant date | Exercise price £ | Fair value £ | **31 December 2014 Number** | 31 December 2013 Number |
|---|---|---|---|---|---|
| 7 March 2008 | 7 March 2005 | 0.03 | 0.019221 | 5,100,000 | 5,100,000 |
| 6 March 2009 | 6 March 2006 | 0.0325 | 0.020776 | 3,825,000 | 3,825,000 |
| 28 January 2013 | 28 January 2010 | 0.0006 | 0.0004 | 24,000,000 | 24,000,000 |
| 29 November 2013 | 29 November 2010 | 0.005 | 0.003537 | 30,000,000 | 48,000,000 |
| 13 December 2012 | 13 December 2012 | 0.0006 | 0.00055 | 20,000,000 | 20,000,000 |
| 29 November 2013 | 14 December 2012 | 0.005 | (0.000471) | (48,000,000) | (48,000,000) |
| 29 November 2013 | 14 December 2012 | 0.0006 | 0.000549 | 48,000,000 | 48,000,000 |
| 28 June 2013 | 28 June 2013 | 0.0006 | 0.000371 | 10,000,000 | 110,000,000 |
| 21 May 2014 | 21 May 2014 | 0.0048 | 0.004711 | 200,000,000 | - |
| 23 May 2014 | 23 May 2014 | 0.0058 | 0.005574 | 40,000,000 | - |
| **As at 31 December** | | | | 332,925,000 | 210,925,000 |

The share options can be exercised up to seven years after the date first exercisable.

At 31 December 2014 all 332,925,000 options were exercisable (31 December 2013: 210,925,000).

## 10 SHARE BASED PAYMENTS (CONTINUED)

**Share Warrants**
Additionally during the year ended 31 December 2014 73,718,850 warrants were issued to YAGM in connection with the $5million loan agreement drawdowns, and 48,090,000 warrants were issued to Hume Capital. Details of these warrants are set out below:

| First exercise date (when vesting conditions are met) | Grant date | Exercise price | Fair value | **31 December 2014** |
|---|---|---|---|---|
| | | £ | £ | **Number** |
| 02 June 2014 | 02 June 2014 | 0.004 | 0.004 | 48,090,000 |
| 16 June 2014 | 16 June 2014 | 0.011 | 0.0081 | 49,068,529 |
| 22 September 2014 | 22 September 2014 | 0.018 | 0.0133 | 10,848,654 |
| 23 October 2014 | 23 October 2014 | 0.014 | 0.0101 | 13,801,667 |
| **Total warrants issued during the year** | | | | 121,808,850 |

These warrants can be exercised up to three years after the date first exercisable.

During the year the 48,090,000 issued to Hume Capital were exercised, and 99,335,334 warrants brought forward from 2013 were also exercised in full (2013: 309,000,000 warrants were exercised). At 31 December 2014 all of the remaining 73,718,850 warrants attributable to YAGM remain exercisable, no other warrants remain outstanding. (31 December 2013: 99,335,334 warrants outstanding).

For those options and warrants granted where IFRS 2 "Share-Based Payment" is applicable, the fair values were calculated using the Black-Scholes model. The inputs into the model were as follows:

| | Risk free rate | Share price volatility | Expected life | Share price at date of grant |
|---|---|---|---|---|
| 14 December 2012 amendments | 0.50% | 122% | 2 months | £0.0006 |
| 14 December 2012 amendments | 0.50% | 122% | 11 months | £0.0006 |
| 28 June 2013 | 0.50% | 137% | 6 months | £0.0004 |
| 21 May 2014 | 2.00% | 158% | 6.6 years | £0.0049 |
| 23 May 2014 | 2.00% | 158% | 6.6 years | £0.0058 |
| 16 June 2014 | 2.00% | 158% | 3 years | £0.0098 |
| 19 September 2014 | 2.00% | 158% | 3 years | £0.0161 |
| 22 October 2014 | 2.00% | 158% | 3 years | £0.0123 |

Expected volatility was determined by calculating the historical volatility of the Company's share price for 12 months prior to the date of grant. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised total expenses of £1,846,000 (year ended 31 December 2013: £52,000) relating to equity-settled share-based payment transactions during the period.

## 11 SHARE CAPITAL

| | **31 December 2014** | 31 December 2013 |
|---|---|---|
| | **£'000** | £'000 |
| **Allotted, issued and fully paid** | | |
| 173,619,050 deferred shares of 0.24p | **417** | 417 |
| 6,503,153,495 ordinary shares of 0.01p (31 December 2013: 4,017,952,383) | **650** | 402 |
| | **1,067** | 819 |

| | **Ordinary shares No.** | £'000 |
|---|---|---|
| **Allotted and issued** | | |
| At 31 December 2013 | 4,017,952,383 | 402 |
| Issue of shares during the year | 2,485,201,112 | 248 |
| **At 31 December 2014** | **6,503,153,495** | **650** |

On 7 March 2014 1,150,000,000 Ordinary Shares of 0.01p were issued at 0.4p per share for cash proceeds of £4,600,000 before share placing costs.

On 25 April 2014 20,000,000 Ordinary Shares of 0.01p were issued at 0.47p per share for non-cash consideration of £94,000.

On 21 May 2014 6,000,001 warrants were exercised at 0.06p per Ordinary Shares of 0.01p for cash proceeds of £3,600.

On 18 June 2014 259,423,333 warrants and options were exercised at between 0.06p and 0.5p per Ordinary Shares of 0.01p for total cash proceeds of £649,160.

On 18 September 2014 272,000,000 Ordinary Shares of 0.01p were issued at par value for cash proceeds of £27,200.

On 19 December 2014 777,777,778 Ordinary Shares of 0.01p were issued at 0.9p per share for cash proceeds of £7,000,000 before share placing costs.

The deferred shares have no voting rights and are not eligible for dividends.

**Warrants issued**

On 6 March 2013 subscribers to the share issue were awarded a half warrant per share at an exercise price of 0.06 pence, resulting in the issue of 333,333,334 warrants. Additionally on 22 August 2013 a further 75,000,000 warrants were issued to shareholders at an exercise price of 0.5 pence. All of these warrants expired on 30 June 2014.

Each warrant was governed by the provisions of warrant instruments representing the warrants which have been adopted by the Company. The rights conferred by the warrants are transferable in whole or in part subject to and in accordance with the transfer provisions set out in the Articles. The holders of warrants have no voting rights, pre-emptive rights or other rights attaching to Ordinary Shares. All warrants issued vest in full.

## 11 SHARE CAPITAL (CONTINUED)

These warrants fall outside the scope of IFRS2 as they have been issued to shareholders in their capacity as shareholders and have therefore not been treated as share based payments.

During the year ended 31 December 2014 warrants were issued to Hume Capital and warrants were issued to YAGM in connection with the $5 million loan drawdowns, and their treatment has been covered in Note 10.

The following table shows details of the warrants granted and exercised during the year:

| | **31 December 2014** | | 31 December 2013 | |
|---|---|---|---|---|
| | **Number** | **WAEP £** | Number | WAEP £ |
| Outstanding at the beginning of the year | **99,333,334** | **0.00392** | - | - |
| Granted | **121,808,050** | **0.0092** | 408,333,334 | 0.00141 |
| Exercised | **(147,423,334)** | **(0.0040)** | (309,000,000) | (0.0006) |
| Outstanding at the end of the year | **73,718,050** | **0.1259** | 99,333,334 | 0.00392 |
| Exercisable at year end | **73,718,050** | | 99,333,334 | |

## 12 DERIVATIVE FINANCIAL INSTRUMENT

On 17 June 2013 the Company announced that it had entered into an equity swap agreement ("the Equity Swap Agreement") with YAGM over 666,666,667 of the Subscription Shares ("the Swap Shares"). In return for an payment by the Company to YAGM of £150,000 ("the Initial Escrowed Funds"), twelve monthly settlement payments in respect of such payment were to be made by YAGM to the Company, or by the Company to YAGM, based on a formula related to the difference between the prevailing market price (as defined in the Equity Swap Agreement) of the Company's ordinary shares in any month and a 'benchmark price' that is 5% above the Subscription Price. Thus the funds received by the Company in respect of the Swap Shares are dependent on the future price performance of the Company's ordinary shares.

The Initial Escrowed Funds was deposited into an escrow account ("the Escrow Account") and the subsequent monthly settlement payments will be managed through the Escrow Account under the terms of the Equity Swap Agreement. YAGM may elect to terminate the Equity Swap Agreement and accelerate the payments due under it in certain circumstances. The Company may pause a monthly payment under the Equity Swap Agreement once in each six month period.

YAGM has agreed that it and its affiliates will refrain from holding any net short position in respect of the Company's ordinary shares and has agreed restrictions on the volume of ordinary shares in the Company that it can trade from time to time until the expiry or if earlier termination of the Equity Swap Agreement.

During the year ended 31 December 2014, the final 218,875,310 (31 December 2013: 447,791,357) shares had been closed out for gross proceeds of £506,000 (31 December 2013: £2,361,000), resulting in a gain on the settled swap of £456,000 (31 December 2013: £2,261,000. (At 31 December 2013 the remaining balance had been fair valued, resulting in a fair uplift adjustment based on the benchmark price and formula of the arrangement, with the unrealised gain credited to reserve and highlighted in other comprehensive income. This adjustment was reversed in the year when the agreement was settled.)

## 12 DERIVATIVE FINANCIAL INSTRUMENT (CONTINUED)

On 17 December 2014 the Company announced that it has entered into a further Equity Swap Agreement with YAGM. Under the terms of the agreement the Company will pay YAGM £3,700,000. In consideration for this payment, the Company will receive twelve monthly payments of £308,333.33, amounting to £3,700,000 in aggregate, between the effective date of the end of February 2015 and the end of February 2016. The monthly payments can be adjusted either:

· up, if 90% of the lowest 10 day VWAP during the relevant one month period is greater than 0.99p, being a 10% premium to the Placing Price, in accordance with the adjustment formula for an additional payment over the base amount calculated as *64,814,815 shares x (Market Price - 0.99p) x 50%*; or

· down, if 90% of the lowest 10 day VWAP during the relevant one month period is lower than or equal to 0.99p in accordance with the adjustment formula for a reduction in base amount by an amount calculated as *64,814,815 shares x (0.99p - Market Price)* . This would result in the Company receiving less funds from YAGM in any relevant one month period.

The Market Price attributable to each monthly payment being the average of the lowest 10 daily VWAPs of the Ordinary shares during the preceding month.

Thus the funds received by the Company in respect of the Swap Shares will be dependent on the future price performance of the Company's ordinary shares.

YAGM may elect to terminate the Equity Swap Agreement and accelerate the payments due under it in certain circumstances. The Company may pause a monthly payment under the Equity Swap Agreement once in each six month period. YAGM has agreed that it and its affiliates will refrain from holding any net short position in respect of the Company's ordinary until the expiry or, if earlier, termination of the Equity Swap Agreement.

The summary of the settlements at the market value adjust of the Swap at 31 December are shown below.

| | **31 December 2014** | 31 December 2013 |
|---|---|---|
| | **£'000** | £'000 |
| **Fair value as at 1 January** | **630** | - |
| Settled during the year | **(506)** | (2,361) |
| Gain on settlements | **456** | 2,261 |
| Transfer to income statement | **(580)** | - |
| Cost of new equity swap arrangements | **3,700** | 150 |
| Fair value adjustment to 31 December | **(389)** | 580 |
| At 31 December | **3,311** | 630 |

## 13 CONTINGENT LIABILITIES

There were no contingent liabilities at 31 December 2014 or 31 December 2013.

## 14 CAPITAL COMMITMENTS

There were no capital commitments at 31 December 2014 or 31 December 2013.

## 15 FINANCIAL INSTRUMENTS

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Board is responsible for co-ordinating the Group's risk management and focuses on actively securing the Group's short to medium term cash flows. Long term financial investments are managed to generate lasting returns.

The Group has purchased shares in Companies which are listed on public trading exchanges such as the TSX and ASX, and these shares are held as an available-for-sale asset. The most significant risks to which the Group is exposed are described below:

### a Credit risk

The Group's credit risk will be primarily attributable to its trade receivables. At 31 December 2014, the Group had minimal trade receivables and therefore minimal risk arises.

Generally, the Group's maximum exposure to credit risk is limited to the carrying amount of the financial assets recognised at the balance sheet date, as summarised below:

| | **31 December 2014** | | | | 31 December 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | **AFS (carried at fair value** | **Loans and receivables** | **Derivative financial assets** | **Statement of Financial position total** | AFS (carried at fair value) | Loans and receivables | Derivative financial assets | Statement of financial position total |
| | **£'000** | **£'000** | **£'000** | **£'000** | £'000 | £'000 | £'000 | £'000 |
| **Current Assets** | | | | | | | | |
| Available-for-sale financial asset | **5,708** | **-** | **-** | **5,708** | 699 | - | - | 699 |
| Other short term financial assets | **-** | **-** | **3,311** | **3,311** | - | - | 630 | 630 |
| Other receivables | **-** | **1,025** | **-** | **1,025** | - | 484 | - | 484 |
| Prepayments and accrued income | **-** | **22** | **-** | **22** | - | 204 | - | 204 |
| Cash and cash equivalents | **-** | **1,463** | **-** | **1,463** | - | 961 | - | 961 |
| **Total** | **5,708** | **2,510** | **3,311** | **11,529** | 699 | 1,649 | 630 | 2,978 |

**15 FINANCIAL INSTRUMENTS (CONTINUED)**

Financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Management's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgement, and considers factors specific to the investment.

*Investments*
The Group's investment in shares in Bacanora Minerals Limited and other listed entities included as an available-for-sale asset has been classified as Level 1, as market prices are available and the market is considered an active, liquid market.

The credit risk on liquid funds is limited because the Group only places deposits with leading financial institutions in the United Kingdom.

**b Liquidity risk**

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Directors prepare rolling cash flow forecasts and seek to raise additional equity funding whenever a shortfall in funding is forecast. Details of the going concern basis of preparing the financial statements are included in the principal accounting policies.

**c Market risk**

The amount and quality of minerals available and the related costs of extraction and production represent a significant risk to the group. The group is exposed to fluctuating commodity prices in respect of the underlying assets. The Group seeks to manage this risk by carrying out appropriate due diligence in respect of the projects in which it invests.

The Group is exposed to the volatility of the stock markets around the world, on which it holds share in various listed entities, and the fluctuation of share prices of these underlying companies. The Group manages this risk through constant monitoring of its investments share prices and news information, but does not hedge against these investments.

**Interest rate risk**

The Group has no loans and therefore minimal interest rate risk.

## 15 FINANCIAL INSTRUMENTS (CONTINUED)

### d Financial liabilities

The group's financial liabilities are classified as follows:

| | **31 December 2014** | | | 31 December 2013 | | |
|---|---|---|---|---|---|---|
| | **Other financial liabilities at amortised cost** | **Liabilities not within the scope of IAS 39** | **Total** | Other financial liabilities at amortised cost | Liabilities not within the scope of IAS 39 | Total |
| | **£'000** | **£'000** | **£'000** | £'000 | £'000 | £'000 |
| Trade payables | **217** | **-** | **217** | 135 | - | 135 |
| Accruals and deferred income | **-** | **258** | **258** | - | 92 | 92 |
| Borrowings | **635** | | **635** | - | - | - |
| Total | **852** | **258** | **1,110** | 135 | 92 | 227 |

**Maturity of financial liabilities**

All financial liabilities at 31 December 2014 and 31 December 2013 mature in less than one year.

**Borrowing facilities for the period ended 31 December 2014**

The Group has outstanding drawn and committed borrowing facilities at 31 December 2014 of £635,000 (31 December 2013: £Nil). See Note 9 for details.

### e Capital risk management

The Group's objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern, so that it continues to provide returns and benefits for the shareholders;
- to support the Group's stability and growth; and
- to provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure, to ensure an optimal capital structure, and equity holder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. Management regards total equity as capital and reserves, for capital management purposes.

When the net assets of the parent Company are below half of the called up share capital, the directors contact the shareholders accordingly.

## 16 RELATED PARTY TRANSACTIONS

Included within accruals at 31 December 2014 is £Nil (31 December 2013: £18,000) in respect of monies owed to Adrian Fairbourn, a director of Rare Earth Minerals plc. In addition to the directors fees A Fairbourn was paid £64,000 consultancy fees (2013: £Nil).

At 31 December 2014 £20,000 was outstanding to D Strang for directors' fees (2013: £8,000). In addition to the directors fees D Strang was awarded £168,000 in consultancy fees (2013: £52,000), £175,000 of consultancy fees were still outstanding at 31 December 2014 (2013: £52,000).

## 17 EMPLOYEE REMUNERATION

**Employee benefits expense**

The expense recognised for employee benefits, including Directors' emoluments, is analysed below:

| | **Year ended 31 December 2014 £'000** | Year ended 31 December 2013 £'000 |
|---|---|---|
| Wages and salaries | **460** | 238 |
| Share based payments | **471** | 8 |
| | **931** | 246 |

The average number of employees (including directors) employed by the Group during the period was:

| | **2014 No.** | 2013 No. |
|---|---|---|
| Directors | **3** | 3 |
| | **3** | 3 |

Included within the above are amounts in respect of Directors, who are considered to be the key management personnel, as follows:

| | **Year ended 31 December 2014 £'000** | Year ended 31 December 2013 £'000 |
|---|---|---|
| Salaries | **460** | 208 |
| Share based payments | **471** | 8 |
| | **931** | 216 |

Details of Directors' emoluments are included in the Report on Remuneration on page 13 -14.

## 18 SUBSIDIARIES

The Subsidiaries of the Parent Company included with the consolidated financial statements are;

| Subsidiary | Proportion of ordinary share capital held | Nature of business | Country of incorporation |
|---|---|---|---|
| Mojito Resources Ltd | 100% | Mining | British Virgin Islands |
| Rare Earth Minerals Mexico Limited | 100% | Mining | UK |
| Rare Earth Resources Limited | 100% | Mining | UK |

## 19 EVENTS AFTER THE REPORTING PERIOD

On 15 January 2015, the Company completed a share placing of 312,500,000 ordinary shares at a placing price of 0.8p per share, raising £2.5million gross proceeds.

Between 12 February 2015 and 10 June 2015, the Company purchased on market shares in Bacanora Minerals Ltd, totalling £2,592,733 raising the Company's direct shareholding in Bacanora Minerals Ltd to 16.41%

On 22 April 2015, Andrew Suckling was appointed as a Non-executive Director of the Company.

On 23 June 2015, the Company acquired a 6.65% holding in European Metals Holding Ltd at a cost of £200,000 via a placement of new ordinary shares by European Metals.

**RARE EARTH MINERALS PLC**

COMPANY STATUTORY FINANCIAL STATEMENTS

(PREPARED UNDER UK GAAP)

FOR THE YEAR PERIOD ENDED

31 DECEMBER 2014

Company No 05234262

**Statement of directors' responsibilities**

The Directors are responsible for preparing the Company only financial statements ("financial statements") in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company for that period. In preparing these 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 United Kingdom 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 Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the Directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We have audited the parent Company financial statements (the "financial statements") of Rare Earth Minerals plc for the Year ended 31 December 2014 which comprise the principal accounting policies, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of the Directors and auditor**
As explained more fully in the Directors' Responsibilities Statement set out on page 43, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

**Scope of the audit of the financial statements**
A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.ork.uk/apb/scope/private.cfm.

**Opinion on financial statements**
In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2014;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**
In our opinion the information given in the Report of the Directors for the financial period for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Other matter**
We have reported separately on the group financial statements of Rare Earth Minerals plc for the Year ended 31 December 2014.

**Keith Fulton**
Senior Statutory Auditor
for and on behalf of Chapman Davis LLP
Statutory Auditor, Chartered Accountants
LONDON

Date: 24 June 2015

## BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards.

The principal accounting policies of the Company are set out below and remain unchanged from the previous period.

As permitted by Section 408(3) of the Companies Act 2006, the profit and loss account of Rare Earth Minerals plc has not been presented in these financial statements. The parent Company's loss for the year was £3,473,000 (period ended 31 December 2013: £767,000 loss).

## RESTATEMENT OF 2013 COMPARITIVES

As a result of a review of the accounting treatment of the Company's equity swap arrangement and transactions related thereto, the Company has restated its 2013 comparatives. The effect of the restatement is to re-allocate the settled gain on the equity swap in 2013 of £2,261,000 to other gains and losses from its previous accounting treatment being credited to the share premium account. The effect of this is to restate the Company's reserves for 2013, as per note 9 and 10. There is no effect of this amendment on the Company's cash flow statement for that period.

## GOING CONCERN

The Directors note the substantial losses that the Company has made for the Year ended 31 December 2014. The Directors have prepared cash flow forecasts for the period ending 30 June 2016 which take account of the current cost structure of the Company. These forecasts demonstrate that the Company has sufficient finance facilities available to allow it to continue in business for a period of at least twelve months from the date of approval of these financial statements. Accordingly, the financial statements have been prepared on a going concern basis.

## DEFERRED TAXATION

Deferred tax is recognised on all timing differences where the transactions or events that give the Company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

## SHARE BASED PAYMENTS

*Options*
The Company issues equity-settled share-based payments to certain employees (including directors). Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, together with a corresponding increase in equity, based upon the Company's estimate of the shares that will eventually vest.

Fair value is measured using the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to rest differs from previous estimates.

No adjustment is made to the expense or share issue cost recognised in prior periods if fewer share options are, ultimately exercised than originally estimated. Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of shares issued are allocated to share capital with any excess being recorded as share premium.

*Warrants*
The Company has also issued equity settled share-based payments in respect of services provided. The share-based payment is measured at fair value at the grant date. Where the fair value of the services provided cannot reliably be measured, the fair value of the equity instrument is used. The expense is allocated over the vesting period. Where services relate to the issue of shares the expense has been charged to share premium.

**FINANCIAL INSTRUMENTS**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited directly to equity.

Derivatives are initially accounted for and measured at fair value on the date a derivative contract is entered into and subsequently measured at fair value. The gain or loss on re-measurement is taken to the profit and loss account except where the derivative is a designated cash flow hedging instrument. The accounting treatment of derivatives classified as hedges depends on their desination, which occurs on the date that the derivative contract is committed to.

Gains or losses on cash flow hedges that are regarded as highly effective are recognized in equity. Where the forecast transaction results in a financial asset or financial liability, only gains or losses previously recognized n equity are reclassified to profit and loss in the same period as the asset or liability affects profit or loss. Where the forecasted transaction or commitment results in a non-financial asset or non-financial liability, any gains or losses previously deferred in equity are included in the cost of the related asset or liability. If the forecasted transaction or commitment results in future income or expenditure, gains or losses deferred in equity are transferred to the profit and loss account in the same period as the underlying income or expenditure. The ineffective portions of the gain or loss on the hedging instrument are recognized in profit or loss.

**OTHER INVESTMENTS**

Other investments are valued at cost less provision for impairment.

**INVESTMENTS IN SUBSIDIARY UNDERTAKINGS**

Investments in subsidiaries are valued at cost less provision for impairment.

When applicable the Company takes advantage of the merger relief provisions in Section 612 of the Companies Act 2006 when accounting for investments in subsidiary undertakings whereby the cost of investment in the books of the Company is calculated by reference to the nominal value of shares issued rather than the fair value used on consideration.

## EXPLORATION OF MINERAL RESOURCES

All costs associated with mining development and investment are carried in WIP on a project by project basis pending determination of the feasibility of the project. Such expenditure comprises appropriate technical and administrative expenses but not general overheads.

Such exploration and evaluation costs are carried in WIP provided that the Group's rights to tenure are current and one of the following conditions is met:

(iv) such costs are expected to be recouped through successful development and exploitation of the area of interest or alternatively by its sale; or
(v) the activities have not reached a stage which permits a reasonable assessment of whether or not economically recoverable resources exist; or
(vi) active and significant operations in relation to the area are continuing.

When an area of interest is abandoned or the directors decide that it is not commercial, any exploration and evaluation costs previously carried in WIP in respect of that area are written off to profit or loss.

Amortisation does not take place until production commences in these areas. Once production commences, amortisation is calculated on the unit of production method, over the remaining life of the mine. Impairment assessments are carried out regularly by the directors. Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such indicators include the point at which a determination is made as to whether or not commercial reserves exist.

The asset's residual value and useful lives are reviewed and adjusted if appropriate, at each reporting date. An assets' carrying value is written down immediately to its recoverable value if the assets carrying amount is greater than its listed recoverable amount.

## INTANGIBLE ASSETS – LICENCES

Licences are recognised as an intangible asset at historical cost and are carried at cost less accumulated amortisation and accumulated impairment losses. The licences have a finite life and no residual value and are amortised over the life of the licence.

**RARE EARTH MINERALS PLC**

BALANCE SHEET

For the year ended 31 December 2014

| | Note | 31 December 2014 £'000 | 31 December 2013 restated £'000 |
|---|---|---|---|
| **Fixed Assets** | | | |
| Intangible fixed assets | *1* | **7** | 14 |
| Investment in subsidiaries | *2* | **406** | 406 |
| | | **413** | 420 |
| **Current assets** | | | |
| WIP | *4* | **37** | 37 |
| Debtors due within one year | *5* | **4,538** | 2,183 |
| Derivative financial instrument | *6* | **3,700** | 50 |
| Other investments | *3* | **5,482** | 902 |
| Cash at bank and in hand | | **1,463** | 961 |
| **Total current assets** | | **15,220** | 4,133 |
| **Creditors:** Amounts falling due within one year | *7* | **(1,111)** | (227) |
| **Net current assets** | | **14,109** | 3,906 |
| **Total assets less current liabilities and net assets** | | **14,522** | 4,326 |
| **EQUITY** | | | |
| Called up share capital | *8* | **1,067** | 819 |
| Share premium account | *9* | **19,365** | 8,199 |
| Exchange reserve | | **(47)** | - |
| Share based payment reserve | | **2,240** | 500 |
| Profit and loss account | | **(8,103)** | (5,192) |
| **Equity shareholders' funds** | | **14,522** | 4,326 |

The financial statements were approved by the Board on 24 June 2015

**David Lenigas**
Director
Company number 05234262

The accompanying principal accounting policies and notes form an integral part of these financial statements.

## 1 INTANGIBLE FIXED ASSETS

| | Licences £'000 |
|---|---|
| **Cost** | |
| At 31 December 2013 and 31 December 2014 | 33 |
| **Amortisation** | |
| At 31 December 2013 | 19 |
| Charge in the year | 7 |
| At 31 December 2014 | 26 |
| **Net book value at 31 December 2014** | **7** |
| Net book value at 31 December 2013 | 14 |

## 2 INVESTMENTS IN SUBSIDIARIES

| | Investment in group undertakings £'000 |
|---|---|
| **Cost and net book value** | |
| At 31 December 2013 and 31 December 2014 | **406** |

At 31 December 2014, the Company holds 100% of the ordinary share capital of the following subsidiary undertakings.

| Subsidiary | Proportion of ordinary share capital held | Nature of business | Country of incorporation |
|---|---|---|---|
| Mojito Resources Ltd | 100% | Mining | British Virgin Islands |
| Rare Earth Minerals Mexico Limited | 100% | Mining | UK |
| Rare Earth Resources Limited | 100% | Mining | UK |

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertaking held directly by the parent company do not differ from the proportion of the ordinary shares held. The following companies are taking an exception from the audit of the financial statements as per S479A of the Companies Act; REM Mexico Ltd (08022329), Rare Earth Resources Ltd (08390571)..

## 3 OTHER INVESTMENTS

| | **31 December 2014** **£'000** | 31 December 2013 |
|---|---|---|
| **Current assets** | | |
| **Cost** | | |
| At 31 December 2013 | 902 | 82 |
| Additions | 4,580 | 902 |
| Disposal proceeds | - | (34) |
| Loss on disposal | - | (48) |
| At 31 December 2014 | **5,482** | **902** |

## 4 STOCK

| **Work in progress** | **£'000** |
|---|---|
| At 31 December 2013 and 31 December 2014 | 37 |

## 5 DEBTORS

| | **31 December 2014** **£'000** | 31 December 2013 £'000 |
|---|---|---|
| Other debtors | **1,025** | 484 |
| Amounts owed by subsidiaries | **3,491** | 1,495 |
| Prepaid exploration expenses | **-** | 184 |
| Prepayments and accrued income | **22** | 20 |
| | **4,538** | 2,183 |

## 6 DERIVATIVE FINANCIAL INSTRUMENT

| | **31 December 2014 £'000** | 31 December 2013 £'000 |
|---|---|---|
| **At 1 January** | **50** | - |
| Settled during the year | **(506)** | (2,361) |
| Gain on settlements | **456** | 2,261 |
| Costs of new Equity swap arrangements | **3,700** | 150 |
| **At 31 December** | **3,700** | 50 |

On 17 June 2013 the Company announced that it had entered into an equity swap agreement ("the Equity Swap Agreement") with YAGM over 666,666,667 of the Subscription Shares ("the Swap Shares"). In return for an payment by the Company to YAGM of £150,000 ("the Initial Escrowed Funds"), twelve monthly settlement payments in respect of such payment were to be made by YAGM to the Company, or by the Company to YAGM, based on a formula related to the difference between the prevailing market price (as defined in the Equity Swap Agreement) of the Company's ordinary shares in any month and a 'benchmark price' that is 5% above the Subscription Price. Thus the funds received by the Company in respect of the Swap Shares are dependent on the future price performance of the Company's ordinary shares.

The Initial Escrowed Funds was deposited into an escrow account ("the Escrow Account") and the subsequent monthly settlement payments will be managed through the Escrow Account under the terms of the Equity Swap Agreement. YAGM may elect to terminate the Equity Swap Agreement and accelerate the payments due under it in certain circumstances. The Company may pause a monthly payment under the Equity Swap Agreement once in each six month period.

YAGM has agreed that it and its affiliates will refrain from holding any net short position in respect of the Company's ordinary shares and has agreed restrictions on the volume of ordinary shares in the Company that it can trade from time to time until the expiry or if earlier termination of the Equity Swap Agreement.

During the year ended 31 December 2014, the final 218,875,310 (31 December 2013: 447,791,357) shares had been closed out for gross proceeds during the year of £506,000 (31 December 2013: £2,361,000) resulting in a gain on the settled swap of £456,000 (31 December 2013: £2,261,000).

On 17 December 2014 the Company announced that it has entered into a further Equity Swap Agreement with YAGM. Under the terms of the agreement the Company will pay YAGM £3,700,000. In consideration for this payment, the Company will receive twelve monthly payments of £308,333.33, amounting to £3,700,000 in aggregate, between the effective date of the end of February 2015 and the end of February 2016. The monthly payments can be adjusted either:

· up, if 90% of the lowest 10 day VWAP during the relevant one month period is greater than 0.99p, being a 10% premium to the Placing Price, in accordance with the adjustment formula for an additional payment over the base amount calculated as *64,814,815 shares x (Market Price - 0.99p) x 50%*; or
· down, if 90% of the lowest 10 day VWAP during the relevant one month period is lower than or equal to 0.99p in accordance with the adjustment formula for a reduction in base amount by an amount calculated as *64,814,815 shares x (0.99p - Market Price)* . This would result in the Company receiving less funds from YAGM in any relevant one month period.

The Market Price attributable to each monthly payment being the average of the lowest 10 daily VWAPs of the Ordinary shares during the preceding month.

## 6 DERIVATIVE FINANCIAL INSTRUMENT

Thus the funds received by the Company in respect of the Swap Shares will be dependent on the future price performance of the Company's ordinary shares.

YAGM may elect to terminate the Equity Swap Agreement and accelerate the payments due under it in certain circumstances including a Takeover Offer being declared unconditional, the Company's shares ceasing to be admitted to trading on Aim or an Insolvency event. YAGM has agreed that it and its affiliates will refrain from holding any net short position in respect of the Company's ordinary until the expiry or, if earlier, termination of the Equity Swap Agreement.

## 7 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | **31 December 2014 £'000** | 31 December 2013 £'000 |
|---|---|---|
| Trade creditors | **217** | 135 |
| Loans due within one year | **636** | - |
| Accruals and deferred income | **258** | 92 |
| | **1,111** | 227 |

## 8 SHARE CAPITAL

| | **31 December 2014 £'000** | 31 December 2013 £'000 |
|---|---|---|
| **Allotted, issued and fully paid** | | |
| 173,619,050 deferred shares of 0.24p | **417** | 417 |
| 6,503,153,495 ordinary shares of 0.01p (31 December 2013: 4,017,952,383) | **650** | 402 |
| | **1,067** | 819 |

| | **Ordinary shares No.** | £'000 |
|---|---|---|
| **Allotted and issued** | | |
| At 31 December 2013 | 4,017,952,383 | 402 |
| Issue of shares during the year | 2,485,201,112 | 248 |
| **At 31 December 2014** | **6,503,153,495** | **650** |

## 8 SHARE CAPITAL (CONTINUED)

On 7 March 2014 1,150,000,000 Ordinary Shares of 0.01p were issued at 0.4p per share for cash proceeds of £4,600,000 before share placing costs.

On 25 April 2014 20,000,000 Ordinary Shares of 0.01p were issued at 0.47p per share for non-cash consideration of £94,000.

On 21 May 2014 6,000,001 warrants were exercised at 0.06p per Ordinary Shares of 0.01p for cash proceeds of £3,600.

On 18 June 2014 259,423,333 warrants and options were exercised at between 0.06p and 0.5p per Ordinary Shares of 0.01p for total cash proceeds of £649,160.

On 18 September 2014 272,000,000 Ordinary Shares of 0.01p were issued at par value for cash proceeds of £27,200.

On 19 December 2014 777,777,778 Ordinary Shares of 0.01p were issued at 0.9p per share for cash proceeds of £7,000,000 before share placing costs.

The deferred shares have no voting rights and are not eligible for dividends.

## 9 RESERVES

| | Share Premium | Profit and loss account | Share based payment reserve |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **At 31 December 2013** | 8,199 | (5,192) | 500 |
| Share based payment | - | - | 1,846 |
| Share based payments transferred to profit and loss | - | 106 | (106) |
| Share issue | 12,126 | - | - |
| Share issue costs | (960) | - | - |
| Gain on settlements of equity swap | - | 456 | - |
| Retained loss for the period | - | (3,473) | - |
| **At 31 December 2014** | **19,365** | **(8,103)** | **2,240** |

## 10 RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

| | **Year ended 31 December 2014** | Year ended 31 December 2013 restated |
|---|---|---|
| | **£'000** | £'000 |
| Loss for financial period | **(3,473)** | (767) |
| Gain on settlements of equity swap | **456** | 2,261 |
| Share based payment charge | **1,846** | 52 |
| Issue of shares net of costs | **11,414** | 1,692 |
| Exchange differences | **(47)** | - |
| Net increase in shareholders' funds | **10,196** | 3,238 |
| Equity shareholders' funds brought forward | **4,326** | 1,088 |
| Equity shareholders' funds carried forward | **14,522** | 4,326 |

## 11 DIRECTORS REMUNERATION

Details of Directors' remuneration is disclosed within the Report on Remuneration on page 13 - 14.

## 12 CONTINGENT LIABILITIES

There were no contingent liabilities at 31 December 2014 or at 31 December 2013.

## 13 CAPITAL COMMITMENTS

There were no capital commitments at 31 December 2014 or at 31 December 2013.

## 14 RELATED PARTY TRANSACTIONS

Details of related party transactions are disclosed on page 40.

## 15 POST BALANCE SHEET EVENTS

Details of post balance sheet events are disclosed on page 41.