

Half Yearly Financial Report 2011

**KENMARE**



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## Interim Management Report

### MARKET

Market prices for titanium feedstocks and zircon continued to improve during 2011, with particularly sharp increases experienced since the middle of the year. The average price achieved by the group for ilmenite increased by 30% and zircon by 38% during the first half of 2011, compared with the second half of 2010. However, it remains the case that it will be the start of 2012 before we really benefit from the very substantial improvements that have occurred in ilmenite prices when existing lower priced contracts expire. In future, we expect that ilmenite prices will be fixed over much shorter periods.

The strong market is driven by increased demand from emerging economies and a lack of capacity in the feedstock industry to supply this demand. New mines are being proposed to respond to this situation and will be developed in due course. However, many of these projects have high capital and operating costs, and will require long term sustained high prices to provide a reasonable return to their investors. In addition, the extensive barriers to entry in the titanium minerals industry will delay delivery of meaningful tonnages from these projects. In the meantime, demand is forecast to continue to grow with Kenmare well positioned to benefit.

Market conditions for zircon were favourable in the first half of 2011, driven by strong Chinese demand, recovering demand in Europe and continued growth in developing economies in Asia, Middle East and South America. Constrained supply led to strong price increases in the first half of 2011 and further price increases have been implemented for the third quarter. The outlook is for continued tight market conditions for zircon.

The Asian markets for titanium minerals are growing strongly. As part of Kenmare's strategy to expand sales in this region, the Company appointed Bruno Cavalancia as Head of Commercial and Strategic Development for Asia

and established a marketing office in Singapore in May 2011. Working closely with Kenmare's agent in Asia, Mitsui & Co., Bruno and Kenmare's marketing team will be responsible for the commercial development of product sales into the Asian market, which presently accounts for approximately 30% of Kenmare's sales revenues.

### OPERATIONS

In the first half of 2011, production of Heavy Mineral Concentrate (HMC) was 421,600 tonnes, ilmenite production was 323,700 tonnes, zircon was 19,800 tonnes and rutile was 3,100 tonnes. 17 ships were loaded with 349,400 tonnes of final products sold during the six months. At the start of the year, operation of the mine tailing ponds was restricted by a decision to not have an operating pond in the vicinity of Tupuito village, following a pond breach last year. This hampered mining activities during the early part of the year, but the tailing ponds were fully operational by the end of the first quarter. Production was impacted by an unofficial strike for three days in April, and mining conditions were encountered during the second quarter of the year that proved more difficult than anticipated. There is a clay-rich band in part of the Moma deposit known as Unit 81. In general, this unit is avoided by the mine path and Unit 81 will not be mined by Wet Concentrator Plant A in future. However, in order to access a pod of high grade ore, it was necessary to mine a section of Unit 81, resulting in a reduced mining rate during the second and third quarters of the year, though this enabled the absorption of this ore into the reserve.

During the fourth quarter of 2011, Wet Concentrator Plant A will benefit from an upgrade to increase the spiral feed capacity from 3,000 tonnes per hour to 3,500 tonnes per hour as part of the expansion project works. This upgrade is scheduled to be complete by the end of September and will result in increased HMC production thereafter. In addition, a small dry mining operation will be commissioned in September in order to increase throughput and improve the flexibility of the mine.

## Interim Management Report continued

This supplementary mining operation will enable the wet concentrator plants to run at capacity across a range of mining conditions and to access areas of high grade mineralisation which otherwise would be sterilized, including clay-rich pods within the orebody, such as the one mined earlier this year.

The expansion of Kenmare's Moma Mine from an annual design capacity of 800,000 tonnes of ilmenite, 50,000 tonnes of zircon and 14,000 tonnes of rutile to 1.2 million tonnes of ilmenite, 75,000 of zircon and 21,000 of rutile is well underway. Civil engineering works on site are progressing well and beach landings to import the necessary material have commenced. Factory acceptance tests on the new dredge are underway and it will be ready for transportation from the United States to Moma in the coming weeks.

Elevated commodity prices in recent months have continued to contribute to a higher level of construction activity in the mining industry, stretching the capabilities of suppliers and contractors. Escalating costs of certain key inputs, scope changes to improve the final plant design, contractor delays and exchange rate movements have contributed to increased capital costs of the Moma expansion project, which are being managed by Kenmare's Owner's Team. The recently completed peer review of the structural design of the new Wet Concentrator Plant B has also necessitated amendments to the final layout and design, which has extended the schedule. The revised schedule and cost increases have brought expansion costs to approximately US\$280 million, which is 12% above the upper limit of the cost estimate in the Expansion Study completed in early 2010. The current schedule indicates the expanded facilities will be commissioned by mid-2012 and have ramped-up to full production by the end of 2012. We therefore continue to expect 2013 to be a full year's production at expanded capacity. Kenmare's Owner's Team are continuing

to work closely with the contractor, Engineering & Projects Management Company, part of the Aveng Group, to ensure that the expansion is executed as quickly and cost efficiently as possible.

Upgrade of the jetty is 80% complete and is scheduled to be completed later this year. Following completion of the works, the transshipment vessels will be able to berth on the new southern side of the jetty in addition to the currently operating northern side, further enhancing the export facility's flexibility and availability. The upgrade of the Peg & Sofia III transshipment unit will take place in the coming months to supplement the Bronagh J transshipment vessel, further enhancing the export capacity of the marine facilities at Moma.

Monazite is a mineral rich in rare earth oxides with properties that are required to manufacture a wide range of modern electronic and other goods. In the normal course of operation, the mineral separation plant produces several monazite-rich waste streams which are presently recombined and pumped with other tailings back to the mine for placement in the mine tailings pond. A study is underway to evaluate the handling, storage and transportation of these streams for either direct sales or further upgrading into a higher value monazite product. In addition, a prefeasibility study on Phase 3, a second expansion of the Moma Mine, is underway. This study will be completed in 2012.

The Mine's health and safety record continues to improve with a lost time injury frequency rate per 200,000 hours worked of 0.16, representing a very strong achievement by everyone working at the Mine. Kenmare continues to invest in the local communities, both directly and through the Kenmare Moma Development Association (KMAD). As part of its five year plan, KMAD is building a health clinic for the communities, which will be handed over to the Ministry of Health on completion.

## Financial Review for the six months ended 30 June 2011

Revenues for the period amounted to US\$56.0 million (2010: US\$40.6 million), arising from the sale of 349,400 tonnes (2010: 366,600) of ilmenite and zircon. Revenues would have been materially greater were it not for unseasonably bad weather during June, which restricted shipments. Hence, product stock levels were higher than normal at 30 June and the excess stocks have since been shipped with revenues recognised in the third quarter of 2011. Completion of the enhanced jetty later this year and a move to a 24 hour loading cycle will increase shipping capacity to a level comfortably above our projected requirements. Comparing the blended prices during the first half of 2011 with the second half of 2010, the prices realised for ilmenite increased by 30% and zircon by 38%. During the period, ilmenite was priced based on a combination of contracts concluded in late 2010 and lower-priced legacy contracts entered into during previous years as a condition of financing. Zircon products are sold under volume-based contracts, with prices agreed on either a quarterly or a shipment-by-shipment basis, while rutile prices are set on a six month basis. During 2011, all product prices have increased substantially and we anticipate these price increases will contribute strongly to revenues from the start of 2012, when most of the existing fixed-price contracts will have come to an end.

Operating costs amounted to US\$46.0 million (2010: US\$46.8 million), including depreciation and amortisation of US\$9.7 million (2010: US\$10.4 million). Included in other operating costs are freight and distribution costs of US\$4.4 million (2010: US\$1.7 million), administration costs of US\$1.9 million (2010: US\$2.4 million) and a share-based payment expense of US\$1.0 million (2010: US\$0.7 million). Adjusting total operating costs for depreciation of US\$9.7 million, total group share-based payments of US\$1.4 million and freight reimbursable by customers of US\$1.1 million, the cash operating costs for the period amounted to US\$33.8 million (2010: US\$35.7 million). Group reported an operating profit for the period under review of

US\$10.0 million (2010: loss US\$6.1 million). Earnings before interest, tax, depreciation and amortisation (EBITDA) for the six months ended 30 June 2011 amounted to US\$19.7 million (2010: US\$4.3 million).

Net finance costs amounted to US\$14.4 million (2010: US\$14.8 million) and the Group reported a foreign exchange loss of US\$9.8 million (2010: gain US\$22.1 million), mainly based upon retranslation of Euro-denominated loans. During the six months ended the 30 June 2011, the Group reported a net loss of US\$14.2 million (2010: profit US\$1.2 million).

During the period, there were additions to property, plant and equipment of US\$70.3 million (2010: US\$9.6 million). Capital expenditure on existing plant and equipment amounted to US\$10.3 million (2010: US\$6.8 million). Expansion capital expenditure during the period was US\$60.0 million (2010: US\$2.8 million). Inventory at the period end amounted to US\$29.6 million (2010: US\$20.5 million), consisting of mineral products of US\$17.9 million (2010: US\$10.4 million) and consumables and spares of US\$11.7 million (2010: US\$10.1 million). Trade and other receivables amounted to US\$12.8 million (2010: US\$23.1 million), of which US\$7.3 million (2010: US\$17.9 million) are trade receivables from the sale of mineral products and US\$5.5 million (2010: US\$5.2 million) is comprised of insurance proceeds, prepayments and other miscellaneous debtors. Included in trade and other payables are US\$8.3 million (2010: nil) relating to expansion capital expenditure.

Bank loans at the period end amounted to US\$346.2 million (2010: US\$331.0 million). There were loan interest and principal repayments during the period of US\$19.6 million (2010: US\$18.6 million), interest accrued of US\$15.3 million (2010: US\$14.2 million) and an increase in the Euro-denominated loans of US\$12.2 million (2010: decrease US\$20.8 million) as a result of the US Dollar weakening against the Euro during the period. The average interest rate on loans at the period end was 9%.

## Interim Management Report continued

Cash and cash equivalents at 30 June amounted to US\$178.4 million (2010: US\$238.5 million); the reduction largely reflecting the investment in the expansion during the period. There is a significant projected build-up of cash in the Kenmare Moma subsidiary companies that, together with funds available from Kenmare Resources plc, is sufficient to meet the projected expansion funding requirements. The project financing documents ring-fence cash generated by the Moma subsidiary companies, not presently permitting it to be applied to expansion costs, which must be separately funded by Kenmare Resources plc. Thus, Kenmare have proposed an amendment to the project financing documents which, subject to lender agreement, would allow the requisite funds in the Moma subsidiary companies to be applied to expansion costs.

Under the Moma project financing documentation, Technical Completion is required to be achieved by 31 December 2011. In order to achieve Technical Completion, the physical facilities must have been constructed and made operational, certain production and efficiency tests must be passed, and compliance with a set of environmental standards must be achieved. Only the environmental certificate remains outstanding and this is expected to be issued in the coming weeks, following which the interest rate on Subordinated Loans will reduce by 2%.

### BOARD UPDATE

The Nomination Committee of the Board has continued to search for a new Chairman. This active search for a new Chairman who combines key competencies with strategic vision continues to be a top priority of the Board. To date, we have not managed to contract with a person with the right mix of key competencies to perform this vital role for the Company. We are in discussions with some very promising candidates and are hopeful of achieving a near-term resolution to this search. In the context of Kenmare's entry to the FTSE 250 Index last year, we continue to review our corporate governance procedures and plan to implement appropriate changes throughout the remainder of this year.

### OUTLOOK

We are in a very positive product market environment and working hard to increase current levels of production to enable us to take full advantage of the increasing prices. The scheduled expiry this year of a number of lower priced legacy ilmenite contracts will also support increased revenue generation given the favourable pricing environment. We are also implementing the first expansion of the Moma Mine, which will enable us to capture increased growth in the market as well as increasing our existing market share, further enhancing Kenmare's reputation as a major established supplier to the titanium minerals and zircon industries.

### PRINCIPAL RISKS AND UNCERTAINTIES

The Group's business may be affected by risks similar to those faced by many companies in the mining industry. These include geological, political, operational and environmental risks and changes in the macroeconomic environment. There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected results. These risks are outlined below.

#### Commercial risks

The Mine's revenue and earnings depend upon prevailing prices for ilmenite and zircon and to a lesser extent rutile. If market prices were to fall or the Mine was unable to negotiate satisfactory pricing terms, this would have an adverse impact on the Mine's revenue generation, results, operations or financial condition. Senior management closely monitor customer sales contracts and adjusts the contracting strategy to capitalise on expected market conditions.

### Operational risks

The Mine is reliant on the continued successful operation of the marine terminal for the shipment of products. Limitations caused by weather conditions or if the marine terminal was damaged by extreme weather conditions or accident such that it became unusable for any significant period pending repair would result in the Mine being unable to ship its products or would limit the amount which it could ship. In this case, the Mine would be unable to meet its commitments to customers which could result in ocean freight penalties and a reduced level of cash flow which would have an adverse effect on the Mine's results, operations and financial condition.

In addition, the Group's customers depend upon ocean freight to transport products purchased from the Group. Disruption of ocean freight as a result of piracy or other events could temporarily impair the Group's ability to supply its products to its customers and thus could adversely affect the Group's results, operations or financial condition. The Group has developed a policy to manage the threat of piracy near the marine terminal.

### Financing risks

The development of the Mine has been partly financed by the project loans. Once the net proceeds of the equity fund raising have been applied to the expansion capital expenditures and for other corporate purposes (including meeting scheduled interest and principal) the Group's ability to meet its debt service obligations will depend on the cash flow generated from operations. The Mine's cash flow, in turn, depends primarily on the Mine's ability to achieve production targets, product pricing and cost efficiencies. Failure to achieve these targets could result in insufficient funds to meet scheduled interest and principal repayments which would result in an event of default. Senior management monitors achievement of targets and cash flow

to ensure sufficient funds are available to meet scheduled repayments.

### Currency risks

The Group loans are denominated in US Dollars and Euro. At 30 June 2011 the loan balance was US\$346.2 million, comprising US\$187.7 million denominated in US Dollars and US\$158.5 million denominated in Euro. The loans are due to be repaid in installments between 2011 and 2019. All the Group's sales are denominated in US Dollars. Euro-denominated loans expose the Group to currency fluctuations which are realised on payment of interest and principal on Euro-denominated loans.

In 2010 the Group raised funds to finance the expansion of the Mine and for general corporate purposes. A portion of the funds raised has been placed in currency accounts to match the planned expansion expenditure currency profile over the next twelve months. Differences between the planned expansion expenditure currency profile and the currency of deposits held will result in a currency mismatch.

Senior management regularly monitors and reports to the Board on these currency risks. The Board has determined that the Group's current policy of not entering into derivative financial instruments to manage the loan-related currency risks continues to be appropriate in light of the length and payment profile over the loan repayment period. The expansion capital currency exposure will be managed by adjusting the currencies in which the cash is deposited to match the currency of forecast expenditures.

### Interest rate risk

Interest rates on the project loans are both fixed and variable. The variable rate basis is six month US Dollar LIBOR. All the Euro loans are fixed rate. The Group is exposed to movements in interest rates which affect the amount of interest paid on borrowings. As at 30 June 2011, 66% of the Group's debt (US\$230 million)

## Interim Management Report continued

was at fixed interest rates and 34% (US\$116.2 million) was at variable interest rates. Any increase in six month US Dollar LIBOR would increase finance costs, but would also increase interest income on the unspent proceeds of the equity issue held in US Dollar.

### Environmental risks

The Group is committed to managing its operations in accordance with applicable guidelines issued by the World Bank, MIGA, the African Development Bank and FMO, the environmental laws and standards in force in Mozambique, as well as its own policies. The Group is applying IFC Performance Standards to the Mine. The Environmental Management Plan (EMP) for the Mine sets out the monitoring activities, management and training programs, reporting activities, auditing and mitigation measures that are required in order to identify and reduce any negative impacts of the Mine and to comply with applicable environmental laws and guidelines.

### Health and safety risks

The Group is committed to conducting its business in a manner that minimises the exposure of its employees, contractors and the general public to health and safety risks arising from its operations. An accident or a breach of operating standards could result in a significant incident which would affect the Group's reputation, and the costs and viability of its operations for indeterminate periods. The Group's operations worked 2.5 million hours (2010: 1.2 million hours) in the six months to 30 June 2011, with 1 lost-time injury to operations employees and contractors (2010: 2 lost-time injuries). Malaria is a key risk at the Mine and the Group continues to develop and implement programmes to minimise its impact on all personnel at the Mine. The Group will also continue to ensure that appropriate health and safety standards are maintained in all Group activities.

### Human Resources risks

The Group's success depends upon the expertise and continued service of certain key executives and technical personnel, including the Executive Directors. The loss of the services of certain key employees, including to competitors, could have a material adverse effect on the results of operations or financial condition of the Group. The Mine employees are represented by a union under various collective agreements. The Mine may not be able to satisfactorily renegotiate agreements when they expire and may face tougher negotiations or higher wage demands. In addition, existing labour agreements may not prevent a strike or work stoppage, which could have an adverse effect on the Group's earnings, financial condition and reputation.

### Litigation risks

The Group may from time to time face the risk of litigation in connection with its business and/or other activities. Recovery may be sought against the Group for large and/or indeterminate amounts and the existence and scope of liabilities may remain unknown for substantial periods of time. A substantial legal liability and/or an adverse ruling could have a material adverse affect on the Group's business, results, operation and/or financial condition.

### Political risks

The Mine is located in Mozambique, which has been politically stable for over a decade. The Group has operated in Mozambique since 1987, and has executed a Mineral Licensing Contract and an Implementation Agreement which each contain provisions that provide certain protections to the Group against adverse changes in Mozambican law. Mozambique may, however, become subject to similar risks which are prevalent in many developing countries, including extensive political or economical instability, changes in fiscal policy (including increased taxes or royalty rates), nationalisation, inflation, currency

restrictions and increased governmental regulation and approval requirements. The occurrence of these events could adversely affect the economics of the Mine and could have a material adverse effect on the results, operations or financial condition of the Group. Political uncertainty or government changes to fiscal terms covering the Mine's operations may discourage future investments which may impact the Group's ability to access new assets, potentially reducing future growth opportunities.

### **Delay or failure by the Group in implementing the expansion**

Delay by the Group in implementing, or failure to complete the expansion or an inability by the Group to achieve post expansion production could have a material adverse effect on the Group's growth prospects. Successful implementation of the expansion is subject to various factors, many of which are not within the Group's control including the availability, terms, conditions and timing of the delivery of plant, equipment and other materials necessary for the construction and/or operation of the relevant facility, the availability of acceptable arrangements for transportation and construction, the performance of the EPCM Contractor, suppliers and consultants, adverse weather conditions affecting access to the Mine, the development site and/or the development process, and the ultimate cost of the expansion facilities relative to available funds. As noted above, a combination of factors, have brought expansion costs to approximately US\$280 million, which is 12% above the upper limit of the cost estimate of the Expansion Study completed in early 2010. In order to address this increase, Kenmare has proposed an amendment to the project financing documents which, subject to lender agreement, would allow a proportion of funds in the Moma subsidiary companies to be applied to expansion costs. Any failure by the Group to implement the expansion as planned may

have a material adverse effect on the results of operations and financial condition of the Group and the Group may be unable to capitalise on the increase in demand and the increase in prices anticipated by the Directors and may be unable to meet its commitments under the Project loan financing documents.

### **RELATED PARTY TRANSACTIONS**

There have been no material changes in the related party transactions affecting the financial position or the performance of the Group in the period other than those disclosed in Note 10.

### **GOING CONCERN**

As stated in Note 1 to the condensed financial statements, the Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than twelve months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed financial statements.

### **FORWARD-LOOKING STATEMENTS**

This report contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

On behalf of the Board,

Managing Director Michael Carvill	Financial Director Tony McCluskey
24 August 2011	24 August 2011

## Responsibility Statement

The Directors are responsible for preparation of the Half Yearly Financial Report in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the Transparency Rules of the Central Bank of Ireland, and with IAS 34, Interim Financial Reporting as adopted by the European Union.

The Directors confirm that, to the best of their knowledge:

- The Group condensed financial statements for the half year ended 30 June 2011 have been prepared in accordance with IAS 34 'Interim Financial Reporting', as adopted by the European Union;
- The Interim Management Report includes a fair review of the information required by Regulation 8(2) of the Transparency (Directive 2004/109/EC) Regulations 2007, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
- The Interim Management Report includes a fair review of the information required by Regulation 8(3) of the Transparency (Directive 2004/109/EC) Regulations 2007, being related party transactions that have taken place in the first six months of the current financial year and that materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

On behalf of the Board,

Managing Director  
Michael Carvill

Financial Director  
Tony McCluskey

24 August 2011

24 August 2011

## Independent Review Report

to the Members of Kenmare Resources Plc

**Deloitte**

### INTRODUCTION

We have been engaged by the Company to review the group condensed set of financial statements in the Half-Yearly Financial Report for the six months ended 30 June 2011 which comprises the Group Condensed Statement of Comprehensive Income, the Group Condensed Statement of Financial Position, the Group Condensed Statement of Changes in Equity, the Group Condensed Cash Flow Statement and related notes 1 to 12. We have read the other information contained in the Half-Yearly Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the group condensed set of financial statements.

This report is made solely to the Company's members, as a body, in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our 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 independent review 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 review work, for this report, or for the conclusions we have formed.

### DIRECTORS' RESPONSIBILITIES

The Half-Yearly Financial Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Half-Yearly Financial Report in accordance with the Transparency (Directive 2004/109/EC) Regulations, 2007 and the Transparency Rules of the Central Bank of Ireland.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The group condensed set of financial statements included in this Half-Yearly Financial Report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting,' as adopted by the European Union.

### OUR RESPONSIBILITY

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the Half-Yearly Financial Report based on our review.

### SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in Ireland. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Independent Review Report

to the Members of Kenmare Resources Plc



### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the group condensed set of financial statements in the Half-Yearly Financial Report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 (IAS 34 –Interim Financial Reporting) as adopted by the European Union, the Transparency (Directive 2004/109/EC) Regulations, 2007, and the Transparency Rules of the Central Bank of Ireland.

### Emphasis of Matter - Realisation of Assets

Without qualifying our conclusion, we draw your attention to the disclosures made in note 5 to the group condensed set of financial statements concerning the recoverability of Property, Plant and Equipment of US\$613.4 million which is dependent on the successful development of economic ore reserves and the successful operation of the mine including the mine expansion project and continued availability of adequate funding for the mine. The group condensed set of financial statements do not include any adjustments relating to these uncertainties and the ultimate outcome cannot at present be determined.

### Deloitte & Touche

Chartered Accountants  
Dublin

24 August 2011

## Group Condensed Statement of Comprehensive Income

For the six months ended 30 June 2011

	Notes	Unaudited 6 Months 30 June 2011 US\$'000	Unaudited 6 Months 30 June 2010 US\$'000	Audited 12 Months 31 Dec 2010 US\$'000
<b>Continuing Operations</b>				
Revenue	<b>2</b>	56,042	40,606	91,587
Cost of sales		(38,724)	(41,980)	(77,741)
Gross profit/(loss)		17,318	(1,374)	13,846
Other operating costs		(7,277)	(4,775)	(17,369)
Operating profit/(loss)		10,041	(6,149)	(3,523)
Finance income		1,232	576	1,522
Finance costs		(15,651)	(15,401)	(31,024)
Foreign exchange (loss)/gain		(9,789)	22,125	16,691
(Loss)/profit before tax		(14,167)	1,151	(16,334)
Income tax expense		-	-	-
(Loss)/profit for the period/year		(14,167)	1,151	(16,334)
Attributable to equity holders		(14,167)	1,151	(16,334)
		<b>US cent per share</b>	<b>US cent per share</b>	<b>US cent per share</b>
(Loss)/profit per share: basic	<b>4</b>	(0.59c)	0.07c	(0.80c)
(Loss)/profit per share: diluted	<b>4</b>	(0.59c)	0.07c	(0.80c)

The accompanying notes form part of the condensed financial statements

## Group Condensed Statement of Financial Position

As at 30 June 2011

	Notes	Unaudited 30 June 2011 US\$'000	Unaudited 30 June 2010 US\$'000	Audited 31 Dec 2010 US\$'000
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment	5	613,414	536,958	552,786
<b>Current assets</b>				
Inventories		29,647	20,473	24,618
Trade and other receivables		12,778	23,127	12,974
Cash and cash equivalents		178,435	252,386	238,515
		220,860	295,986	276,107
<b>Total assets</b>		834,274	832,944	828,893
<b>Equity</b>				
<b>Capital and reserves attributable to the Company's equity holders</b>				
Called-up share capital	6	195,988	195,789	195,830
Share premium	6	300,175	300,518	299,860
Retained losses		(57,861)	(56,350)	(43,694)
Other reserves		15,639	42,486	14,103
<b>Total equity</b>		453,941	482,443	466,099
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Bank loans	7	241,982	262,354	252,814
Obligations under finance lease		1,913	2,102	2,015
Provisions	8	6,770	3,814	6,750
		250,665	268,270	261,579
<b>Current liabilities</b>				
Bank loans	7	104,224	68,640	85,574
Obligations under finance lease		189	437	157
Provisions	8	276	442	279
Trade and other payables		24,979	12,712	15,205
		129,668	82,231	101,215
<b>Total liabilities</b>		380,333	350,501	362,794
<b>Total equity and liabilities</b>		834,274	832,944	828,893

The accompanying notes form part of the condensed financial statements

## Group Condensed Statement of Changes in Equity

For the six months ended 30 June 2011

	Called-Up Share Capital	Share Premium	Conversion Reserve Fund	Retained Losses	Share Option Reserve	Revaluation Reserve	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance at							
1 January 2010	74,670	163,147	754	(57,501)	10,900	30,141	222,111
Profit for the period	-	-	-	1,151	-	-	1,151
Share based payments	-	-	-	-	691	-	691
Issue of share capital	121,119	137,371	-	-	-	-	258,490
Balance at							
30 June 2010	195,789	300,518	754	(56,350)	11,591	30,141	482,443
Transfer	-	-	-	30,141	-	(30,141)	-
Loss for the period	-	-	-	(17,485)	-	-	(17,485)
Share based payments	-	-	-	-	1,758	-	1,758
Issue of share capital	41	(658)	-	-	-	-	(617)
Balance at							
31 December 2010	195,830	299,860	754	(43,694)	13,349	-	466,099
Loss for the period	-	-	-	(14,167)	-	-	(14,167)
Share based payments	-	-	-	-	1,536	-	1,536
Issue of share capital	158	315	-	-	-	-	473
Balance at							
30 June 2011	195,988	300,175	754	(57,861)	14,885	-	453,941

The accompanying notes form part of the condensed financial statements

## Group Condensed Cash Flow Statement

For the six months ended 30 June 2011

	<b>Unaudited 6 Months 30 June 2011 US\$'000</b>	<b>Unaudited 6 Months 30 June 2010 US\$'000</b>	<b>Audited 12 Months 31 Dec 2010 US\$'000</b>
<b>Cash flows from operating activities</b>			
(Loss)/profit for the period/year	(14,167)	1,151	(16,334)
Adjustment for:			
Foreign exchange movement	9,789	(22,125)	(16,691)
Share-based payments	1,451	691	2,374
Finance income	(1,232)	(576)	(1,522)
Finance costs	15,651	14,257	29,852
Depreciation	9,662	10,545	20,955
Impairment of property, plant and equipment	-	-	3,066
(Decrease)/increase in provisions	(164)	(581)	845
Operating cash inflow	20,990	3,362	22,545
(Increase)/decrease in inventories	(5,029)	1,478	(2,667)
Decrease/(increase) in trade and other receivables	211	(6,752)	319
Increase in trade and other payables	9,438	4,719	6,851
Cash generated by operations	25,610	2,807	27,048
Interest received	1,232	576	1,522
Interest paid	(4,545)	(5,390)	(10,191)
<b>Net cash from/(used in) from operating activities</b>	<b>22,297</b>	<b>(2,007)</b>	<b>18,379</b>
<b>Cash flows from investing activities</b>			
Additions to property, plant and equipment	(70,184)	(9,559)	(34,790)
<b>Net cash used in investing activities</b>	<b>(70,184)</b>	<b>(9,559)</b>	<b>(34,790)</b>
<b>Cash flows from financing activities</b>			
Proceeds on the issue of shares	474	258,490	257,873
Repayment of borrowings	(15,069)	(13,169)	(26,374)
Decrease in obligations under finance lease	(280)	-	(588)
<b>Net cash (used in)/from financing activities</b>	<b>(14,875)</b>	<b>245,321</b>	<b>230,911</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(62,762)</b>	<b>233,755</b>	<b>214,500</b>
Cash and cash equivalents at the beginning of period/year	238,515	17,408	17,408
Effect of exchange rate changes on cash and cash equivalents	2,682	1,223	6,607
<b>Cash and cash equivalents at end of period/year</b>	<b>178,435</b>	<b>252,386</b>	<b>238,515</b>

The accompanying notes form part of the condensed financial statements

# Notes to the Group Condensed Financial Statements

For the period ended 30 June 2011

## 1. Basis of Preparation and Going Concern

The annual financial statements of Kenmare Resources plc are prepared in accordance with IFRSs as adopted by the European Union. The Group Condensed Financial Statements for the six months ended 30 June 2011 have been prepared in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the Transparency Rules of the Central Bank of Ireland and with IAS 34 'Interim Financial Reporting', as adopted by the European Union.

The accounting policies and methods of computation adopted in the preparation of the Group Condensed Financial Statements are the same as those applied in the Annual Report for the financial year ended 31 December 2010 and are described in the Annual Report.

In the current financial year, the Group has adopted all Standards and Interpretations which are effective from 1 January 2011. Adoption has resulted in no material impact on the financial statements.

The financial information presented in this document does not constitute statutory financial statements. The amounts presented in the Half Yearly Financial Statements for the six months ended 30 June 2011 and the corresponding amounts for the six months ended 30 June 2010 have been reviewed but not audited. The independent auditors' review report is on pages 9 and 10. The financial information for the year ended 31 December 2010, presented herein, is an abbreviated version of the annual financial statements for the Group in respect of the year ended 31 December 2010. The Group's financial statements have been filed in the Companies Registration Office and the independent auditors issued an unqualified audit report, with an emphasis of matter in the opinion, in respect of those annual financial statements.

There were no other gains or losses during the six months period ended 30 June 2011 other than those reported in the Condensed Statement of Comprehensive Income.

Based on the Group's forecasts and projections, the Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than twelve months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed financial statements.

## Notes to the Group Condensed Financial Statements

For the period ended 30 June 2011

### 2. Segmental Information

Information on the operations of the Moma Titanium Minerals Mine in Mozambique is reported to the Group's Board for the purposes of resource allocation and assessment of segment performance. Information regarding the Group's operating segment is reported below.

	<b>Unaudited</b> <b>30 June 11</b> <b>US\$'000</b>	<b>Unaudited</b> <b>30 June 10</b> <b>US\$'000</b>	<b>Audited</b> <b>31 Dec 10</b> <b>US\$'000</b>
<b>Segment revenues and results</b>			
Moma Titanium Minerals Mine			
Revenue	56,042	40,606	91,587
Cost of sales	(38,724)	(41,986)	(77,741)
Gross profit/(loss)	17,318	(1,380)	13,846
Other operating costs	(4,585)	(2,049)	(10,363)
Segment operating profit/(loss)	12,733	(3,429)	3,483
Central operating costs	(2,692)	(2,720)	(7,006)
Group operating profit/(loss)	10,041	(6,149)	(3,523)
Finance income	1,232	576	1,522
Finance expense	(15,651)	(15,401)	(31,024)
Foreign exchange (loss)/gain	(9,789)	22,125	16,691
(Loss)/profit before tax	(14,167)	1,151	(16,334)
Income tax expense	-	-	-
(Loss)/profit for the period/year	(14,167)	1,151	(16,334)
<b>Segment assets</b>			
Moma Titanium Minerals Mine assets	657,483	569,370	593,305
Corporate assets	176,791	263,574	235,588
Total assets	834,274	832,944	828,893

### 3. Seasonality of Sale of Mineral Products

Sales of mineral products are not seasonal in nature.

### 4. (Loss)/Earnings per Share

The calculation of the basic and diluted (loss)/earnings per share attributable to the ordinary equity holders of the parent company is based on the following data:

	<b>Unaudited 30 June 11 US\$'000</b>	<b>Unaudited 30 June 10 US\$'000</b>	<b>Audited 31 Dec 10 US\$'000</b>
(Loss)/profit for the period/year attributable to equity holders of the parent	(14,167)	1,151	(16,334)
	<b>Unaudited 30 June 11 Number of Shares</b>	<b>Unaudited 30 June 10 Number of Shares</b>	<b>Audited 31 Dec 10 Number of Shares</b>
Weighted average number of issued ordinary shares for the purposes of basic (loss)/earnings per share	2,403,945,720	1,644,358,548	2,029,895,059
Effect of dilutive potential ordinary shares			
Share options	-	46,503,258	-
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	-	1,690,861,806	-
	<b>US\$ cent per share</b>	<b>US\$ cent per share</b>	<b>US\$ cent per share</b>
(Loss)/profit per share: basic	(0.59c)	0.07c	(0.80c)
(Loss)/profit per share: diluted	(0.59c)	0.07c	(0.80c)

In the 2010 Annual Report and Accounts the basic and diluted loss per share were incorrectly stated on the face of the Consolidated Income Statement as US\$0.01c. The correct basic and diluted loss per share for 2010 was US\$0.80c as noted above.

In 2011 the basic loss per share and the diluted loss per share are the same, as the effect of the outstanding share options is anti-dilutive.

## Notes to the Group Condensed Financial Statements

For the period ended 30 June 2011

### 5. Property, Plant and Equipment

	Plant & Equipment US\$'000	Other Assets US\$'000	Construction In Progress US\$'000	Development Expenditure US\$'000	Total US\$'000
<b>Cost</b>					
Balance at 1 January 2010	311,433	14,215	4,313	244,174	574,135
Transfer from construction in progress	575	1,530	(2,105)	-	-
Additions during the period	914	25	5,876	2,830	9,645
Balance at 30 June 2010	312,922	15,770	8,084	247,004	583,780
Transfer from construction in progress	3,649	363	(4,012)	-	-
Additions during the period	3,596	-	21,303	1,339	26,238
Balance at 31 December 2010	320,167	16,133	25,375	248,343	610,018
Transfer from construction in progress	4,741	230	(4,971)	-	-
Additions during the period	-	-	70,290	-	70,290
<b>Balance at 30 June 2011</b>	<b>324,908</b>	<b>16,363</b>	<b>90,694</b>	<b>248,343</b>	<b>680,308</b>
<b>Accumulated Depreciation</b>					
Balance at 1 January 2010	21,262	6,761	-	5,188	33,211
Charge for the period	5,428	1,368	-	3,749	10,545
Impairment during the period	3,066	-	-	-	3,066
Balance at 30 June 2010	29,756	8,129	-	8,937	46,822
Charge for the period	5,521	1,120	-	3,769	10,410
Balance at 31 December 2010	35,277	9,249	-	12,706	57,232
Charge for the period	5,267	905	-	3,490	9,662
<b>Balance at 30 June 2011</b>	<b>40,544</b>	<b>10,154</b>	<b>-</b>	<b>16,196</b>	<b>66,894</b>
<b>Carrying Amount</b>					
<b>Balance at 30 June 2011</b>	<b>284,364</b>	<b>6,209</b>	<b>90,694</b>	<b>232,147</b>	<b>613,414</b>
Balance at 30 June 2010	286,166	7,641	8,084	238,067	536,958
Balance at 31 December 2010	284,890	6,884	25,375	235,637	552,786

## 5. Property, Plant and Equipment continued

During the period the Group carried out an impairment review of property, plant and equipment. The cash generating unit for the purpose of impairment testing is the Moma Titanium Minerals Mine as this is the operating segment of the Group. The basis on which the recoverable amount of the Moma Titanium Minerals Mine is assessed is its value-in-use. The cash flow forecast employed for the value-in-use computation is a life of mine financial model. The recoverable amount obtained from the financial model represents the present value of the future pre tax and finance cash flows discounted at the average effective borrowing rate of the Moma Titanium Mineral Mine of 9%. Due to the specific nature of project borrowings the borrowing rate is used as a proxy for the market rate.

Key assumptions include the following:

- A mine plan based on the Namalope and Nataka proved and probable reserves.
- The cash flows assume ramp-up to expanded production levels during 2012. Expected annual production levels at full capacity pre-expansion are approximately 800,000 tonnes of ilmenite per annum plus co-products, rutile and zircon. Expected annual production levels at full capacity post-expansion are approximately 1.2 million tonnes of ilmenite per annum plus co-products, rutile and zircon.
- Product sales prices are based on contract prices as stipulated in marketing agreements with customers, or where contracts are based on market prices or production is not presently contracted, prices as forecast by the lenders' independent marketing consultant.
- Operating and capital replacement costs are based on approved budget costs for 2011 and escalated by 2% per annum thereafter and reflecting post expansion costs from 2012 onwards.

The discount rate is the significant factor in determining the recoverable amount and a 1% change in the discount rate results in a 7% change in the recoverable amount.

Substantially all the property, plant and equipment is or will be mortgaged, pledged or otherwise encumbered to secure project loans as detailed in Note 7.

The carrying amount of the Group's plant and equipment includes an amount of US\$1.4 million (2010: US\$2.7 million) in respect of assets held under finance leases.

The amount committed for expansion capital at the 30 June 2011 is US\$183.5 million.

Expansion development costs incurred during the period before the expansion assets are capable of operating at production levels in a manner intended by management are deferred and included in property, plant and equipment.

The recovery of property, plant and equipment is dependent upon the successful development of economic ore reserves and the successful operation of the mine including the mine expansion project and continued availability of adequate funding for the mine. The Directors are satisfied that at the balance sheet date the recoverable amount of property, plant and equipment is not less than its carrying amount and based on the planned mine production levels that the Moma Titanium Minerals Mine will achieve positive cash flows.

## Notes to the Group Condensed Financial Statements

For the period ended 30 June 2011

### 6. Share Capital

Share capital as at the 30 June 2011 amounted to US\$196.0 million (2010: US\$195.8 million). During the period, 1.89 million ordinary shares in Kenmare Resources plc were issued as a result of the exercise of share options. US\$0.2 million of these issues have been credited to share capital and US\$0.2 million to share premium.

On 1 April 2010, 1,497,030,066 new ordinary shares were issued by way of a firm placing and placing and open offer which raised Stg£179.6 million before expenses. The primary purpose of this equity raising is to fund an expansion of the existing mine operations to increase production capacity from 800,000 tonnes per annum of ilmenite plus co-products to 1.2 million tonnes per annum of ilmenite plus co-products.

### 7. Bank Loans

	<b>Unaudited 30 June 11 US\$'000</b>	<b>Unaudited 30 June 10 US\$'000</b>	<b>Audited 31 Dec 10 US\$'000</b>
Project loans			
Senior loans	147,952	171,714	159,968
Subordinated loans	198,254	156,953	176,372
Total Project loans	346,206	328,667	336,340
Mortgage loan	-	2,327	2,048
<b>Total loans</b>	<b>346,206</b>	<b>330,994</b>	<b>338,388</b>
The borrowings are repayable as follows:			
Within one year	104,224	68,640	85,574
In the second year	41,028	39,646	40,578
In the third to fifth year	115,214	118,277	120,656
After five years	85,740	104,431	91,580
	346,206	330,994	338,388
Less amounts due for settlement within 12 months	(104,224)	(68,640)	(85,574)
<b>Amount due for settlement after 12 months</b>	<b>241,982</b>	<b>262,354</b>	<b>252,814</b>

## 7. Bank Loans continued

### Project loans

Project loans have been made to the Mozambique branches of Kenmare Moma Mining (Mauritius) Limited and Kenmare Moma Processing (Mauritius) Limited (the Project Companies). The Project loans are secured by substantially all rights and assets of the Project Companies, and, amongst other things, the shares in and intercompany loans to the Project Companies.

The Company and Congolone Heavy Minerals Limited have guaranteed the Project loans during the period prior to Completion (achievement of "Technical Completion" and "Non-Technical Completion").

The Expansion Funding Deed dated 5 March 2010 extended the final date for achieving Completion to 31 December 2013. Completion occurs upon meeting certain tests and satisfying certain conditions, all as verified by the lenders' independent engineer, including installation of all required facilities, meeting certain cost, efficiency, and production benchmarks and social and environmental requirements ("Technical Completion"), meeting marketing, legal and permitting requirements, including filling of specified reserve accounts to the required levels ("Non-Technical Completion"). Upon Completion, the Company's and Congolone Heavy Minerals Limited's guarantee of the Project loans will terminate. Under the Expansion Funding Deed failure to achieve Technical Completion by 31 December 2011 ceases to be an event of default but Senior Loans and Subordinated Loans will attract an additional interest margin of 1% and 2% respectively from 31 December 2011 unless and until Technical Completion is achieved. Failure to achieve Non-Technical Completion by 31 December 2013 is an event of default. Three of the four certificates required for Technical Completion (Physical Facilities, Production, and Efficiency) were submitted to lenders on 20 February 2011. A small number of items are being addressed prior to submitting the fourth certificate (Environmental).

There is a significant projected build-up of cash in the Kenmare Moma subsidiary companies that, together with funds available from Kenmare Resources plc, is sufficient to meet the projected expansion funding requirements. The project financing documents ring-fence cash generated by the Moma subsidiary companies, not presently permitting it to be applied to expansion costs, which must be separately funded by Kenmare Resources plc. Thus, Kenmare have proposed an amendment to the project financing documents which, subject to lender agreement, would allow the requisite funds in the Moma subsidiary companies to be applied to expansion costs.

## Notes to the Group Condensed Financial Statements

For the period ended 30 June 2011

### 7. Bank Loans continued

Seven Senior Loan credit facilities were made available for financing the Moma Titanium Minerals Mine. The aggregate maximum available amount of the Senior Loan credit facilities was US\$185 million plus €15 million which were fully drawn in 2008. The Senior Loan tenors range from 4 years to 7 years from 30 June 2011. Three of the Senior Loans bear interest at fixed rates and four bear interest at variable rates.

The original Subordinated Loan credit facilities (made available under documentation entered into in June 2004) with original principal amounts of €47.1 million plus US\$10 million (excluding capitalised interest) were fully drawn in 2005. The Subordinated Loans denominated in Euro bear interest at a fixed rate of 10% per annum, while the Subordinated Loans denominated in US Dollars bear interest at six month LIBOR plus 8% per annum.

The Standby Subordinated Loan credit facilities (made available under documentation entered into in June 2005) with original principal amounts of €2.8 million and US\$4 million were fully drawn in 2007. Standby Subordinated Loans bear interest at fixed rates of 10% per annum in respect of €2.8 million and US\$1.5 million and at six month LIBOR plus 8% per annum in respect of US\$2.5 million.

The Additional Standby Subordinated Loan credit facilities of US\$12 million and US\$10 million (made available under documentation entered into in August 2007) were fully drawn in 2008. The Additional Standby Subordinated Loans bear interest at 6 month LIBOR plus 5%.

Interest and principal on the subordinated loans is due to be paid each year in February and August but if cash is insufficient in the Project Companies on the scheduled payment dates, interest is capitalised and both interest and principal becomes payable on the next semi-annual payment date thereafter on which sufficient cash is available, in whole or in part, to the extent of available cash. Included in loan amounts due within one year is US\$74.8 million in relation to subordinated loans. The final installments are due on 1 August 2019.

Standby Subordinated lenders have an option to require that Kenmare Resources plc purchase the Standby Subordinated Loans on agreed terms.

Under the second Deed of Waiver and Amendment referred to above, interest margins on subordinated loans were increased by 3% per annum until Technical Completion and by 1% per annum until Completion. This additional margin is scheduled to be paid after senior loans have been repaid in full but may be prepaid without penalty.

## 7. Bank Loans continued

### Amendments to Project Loans

On 18 April 2011, Kenmare Resources plc, Congolone Heavy Minerals Limited and the Project Companies entered into a Deed of Amendment with the lenders and lenders' agents. The main provisions of this Deed of Amendment include the following:

- The marketing covenant is to be tested semi-annually as at 1 January and 1 July, the calculation to be set out in a periodic marketing certificate to be delivered no later than 1 March (45 days after the effectiveness of the Deed of Amendment in the case of 2011) and 1 September of each year;
- In determining projected revenues for the marketing covenant, all offtake agreements with eligible buyers entered into on or before the date of the marketing certificate are considered regardless of term;
- The marketing covenant requires sales contracts with eligible buyers with a term of at least 1 year for a specified tonnage of final products, to be tested annually as at 1 January.

Failure to comply with the marketing covenant no longer results in an event of default; rather, such a failure would result, pre-Completion, in majority lenders being able to convene a meeting at which the Project Companies would present their marketing plan, and post-Completion in the inability of the Project Companies to make restricted payments (dividends and payments on intercompany loans) on the next semi-annual restricted payment date.

### Other Group bank borrowings

On the 7 August 2009 Mozambique Minerals Limited (a wholly-owned subsidiary undertaking) entered into a loan agreement with Banco Comerical e de Investimentos, S.A. for US\$2.5 million to fund the purchase of an additional product transshipment barge, Peg, and a tug/work boat, Sofia III. Interest accrued at a 6 month LIBOR plus 6%, payable monthly commencing September 2009 and principal was scheduled to be repaid in 54 monthly installments commencing March 2010. This loan was drawn down on 10 August 2009. The loan was secured by a mortgage on the Peg and Sofia III and by a guarantee from Kenmare Resources plc. This loan was repaid in full on the 5 March 2011. During the period interest relating to this loan of US\$0.03 million (2010: US\$0.09 million) at the rate of interest of this loan of 7% (2010:7%) was capitalised in property, plant and equipment.

### Group borrowings interest and currency risk

Loan facilities arranged at fixed interest rates expose the Group to fair value interest rate risk. Loan facilities arranged at variable rates expose the Group to cash flow interest rate risk. Variable rates are based on six month LIBOR. The average effective borrowing rate at the period end was 9%. The interest rate profile of the Group's loan balances at the period end was as follows:

## Notes to the Group Condensed Financial Statements

For the period ended 30 June 2011

### 7. Bank Loans continued

	<b>Unaudited 30 June 11 US\$'000</b>	<b>Unaudited 30 June 10 US\$'000</b>	<b>Audited 31 Dec 10 US\$'000</b>
Fixed rate debt	229,966	208,491	218,079
Variable rate debt	116,240	122,503	120,309
<b>Total debt</b>	<b>346,206</b>	<b>330,994</b>	<b>338,388</b>

The fair value of the group borrowing of US\$312.6 million have been calculated by discounting the expected future cash flows at prevailing interest rates and by applying period end exchange rates.

Under the assumption that all other variables remain constant and using the 6 month LIBOR, a 1% change in LIBOR would result in a US\$1.1 million (2010: US\$1.2 million) change in finance costs for the year.

The currency profile of the bank loans is as follows:

	<b>Unaudited 30 June 11 US\$'000</b>	<b>Unaudited 30 June 10 US\$'000</b>	<b>Audited 31 Dec 110 US\$'000</b>
Euro	158,496	121,879	139,029
US Dollars	187,710	209,115	199,359
<b>Total debt</b>	<b>346,206</b>	<b>330,994</b>	<b>338,388</b>

The Euro-denominated loans expose the Group to currency fluctuations. These currency fluctuations are realised on payment of Euro-denominated debt principal and interest. Under the assumption that all other variables remain constant a 10% strengthening or weakening of Euro against the US Dollar, would result in a US\$1.9 million (2010: US\$1.4 million) change in finance costs and a US\$16 million (2010: US\$12 million) change in foreign exchange gain or loss for the year.

The above sensitivity analyses are estimates of the impact of market risks assuming the specified change occurs. Actual results in the future may differ materially from these results due to developments in the global financial markets which may cause fluctuations in interest and exchange rates to vary from the assumptions made above and therefore should not be considered a projection of likely future events.

## 8. Provisions

	<b>Unaudited 30 June 11 US\$'000</b>	<b>Unaudited 30 June 10 US\$'000</b>	<b>Audited 31 Dec 10 US\$'000</b>
Mine closure provision	4,209	1,555	4,028
Mine rehabilitation	1,726	2,701	1,675
Legal provision	1,111	-	1,326
<b>Total provision</b>	<b>7,046</b>	<b>4,256</b>	<b>7,029</b>

The mine closure provision was increased by US\$0.2 million as a result of the unwinding of the discount and this is recognised as a finance cost in the income statement for the period. The mine rehabilitation provision was increased by US\$0.05 million as a result of additional provision of US\$0.2 million for areas disturbed net of US\$0.15 million released for areas rehabilitated during the period. US\$0.2 million of the legal provision was released during the period. US\$0.3 million (2010: US\$0.3 million) of the mine rehabilitation provision has been included in current liabilities to reflect the estimated cost of rehabilitation work to be carried out over the next year.

## 9. Share Based Payments

The Company has a share option scheme for certain Directors, employees and consultants. Options are exercisable at a price equal to the quoted market price of the Company's shares on the date of grant. The options generally vest over a three to five year period, in equal annual amounts. If options remain unexercised after a period of seven years from the date of grant, the options expire. The option expiry period may be extended at the decision of the Board of Directors.

During the period the Group recognised a share-based payment expense of US\$1.5 million (2010: US\$0.7 million). US\$0.08 million (2010: nil) of the share based payment was capitalised in property, plant and equipment during the period.

## Notes to the Group Condensed Financial Statements

For the period ended 30 June 2011

### 10. Related Party Transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

During the six months ended 30 June 2011, 4 million share options at a grant date fair value of US\$2.0 million were granted to Executive Directors, the key management personnel of the Group. The share options are exercisable at a price equal to the quoted market price of the Company's share on the date of grant. The options vest over a three year period. US\$0.07 million of the costs have been recognised in the period. Bonuses totalling US\$1.1 million were granted to Executive Directors during the period. US\$0.5 million of the bonuses are deferred until June 2014 subject to the Director remaining in employment with the Company until this time. Non-Executive Directors were granted annual Directors' fees of US\$0.5 million in total for remuneration of their services to the Company, Kenmare Resources plc.

Apart from existing remuneration arrangements and the matters noted above there were no material transactions or balances between Kenmare Resources plc and its key management personnel or members of their close families.

### 11. Events After the Balance Sheet Date

There have been no events since the period end which would have a material effect on the financial statements.

### 12. Information

The Half Yearly Financial report was approved by the Board on 24 August 2011.

Copies are available from the Company's registered office at Chatham House, Chatham Street, Dublin 2, Ireland. The statement is also available on the Company's website at [www.kenmareresources.com](http://www.kenmareresources.com).







## KENMARE

KENMARE RESOURCES PLC  
Chatham House,  
Chatham Street,  
Dublin 2,  
Ireland  
Tel: +353 1 671 0411  
Fax: +353 1 671 0810  
Email: [info@kenmareresources.com](mailto:info@kenmareresources.com)  
[www.kenmareresources.com](http://www.kenmareresources.com)