



KENMARE

Kenmare Resources plc

Half Yearly Financial Report

for the period ended 30 June 2016

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INTERIM MANAGEMENT REPORT

Overview

On 28 July 2016, the Group completed a capital restructuring to reduce debt to US\$100 million (from US\$392.4 million using agreed exchange rates) and to provide an additional US\$75 million of cash for working capital and to meet fees and expenses of the capital restructuring. This was achieved by the raising of new equity from new and existing shareholders, the conversion of certain debt to equity in the Company, and certain debt write-offs agreed by Lenders. The capital restructuring also provided for a reduction in the interest rates on outstanding debt, an extension to the term of that debt, and a principal repayment holiday until February 2018.

In H1 2016, production volumes of Heavy Mineral Concentrate (“HMC”) and finished products (ilmenite, zircon and rutile) increased by 33% and 24%, respectively, compared to H1 2015, primarily due to the improvements in power supply and reliability, as well as improved mining techniques and recovery rates at the Mineral Separation Plant (“MSP”).

Key Performance Measures

	H1 2016	H1 2015	Change %
Revenue	US\$56.2m	US\$73.9m	(24%)
EBITDA	(US\$10.7m)	(US\$10.6m)	(1%)
Cash operating cost per tonne of finished product	US\$153	US\$197	(22%)
Operating cashflow after additions to sustaining capex	US\$3.6m	(US\$4.2m)	N/A
Net Debt	US\$345.5m	US\$317.0m	9%

*Additional information in relation to these Alternative Performance Measures (“APMs”) is disclosed in the glossary

Revenue of US\$56.2 million decreased by 24% or US\$17.7 million compared to H1 2015 despite a 7% increase in shipments. H1 2016 ilmenite prices were mainly agreed at the bottom of the market in December 2015. The drop in revenue was principally a result of the average ilmenite prices received during the period declining by 31% on a Free On Board (“FOB”) basis, a sharper decline than the underlying commodity market due to a change in sales mix as finished product inventories were reduced, resulting in a higher proportion of lower quality ilmenite sales.

Total operating costs of US\$81.1 million decreased by US\$20.0 million from H1 2015. Total cash operating costs declined by 4% to US\$66.6 million as a result of the full effect of the 2015 cost control measures delivering savings and foreign exchange gains in the period. Management continues to pursue further sustainable cost reductions.

Kenmare recorded an operating loss for the first half of 2016 of US\$24.9 million (H1 2015: US\$27.2 million) and negative EBITDA of US\$10.7 million (H1 2015: negative US\$10.6 million). Cash flow generated by operating activity increased by US\$9.8 million over the prior period, from negative US\$3.2 million in H1 2015 to positive US\$6.6 million in H1 2016, benefitting from management’s focus on disciplined management of working capital.

Operations

Production	H1 2016 (tonnes)	H1 2015 (tonnes)	Change %
HMC	606,100	454,500	33%
Ilmenite	402,900	324,100	24%
Zircon*	28,500	23,800	20%
Rutile	3,000	2,800	7%
Total finished product production	434,400	350,700	24%

* Includes 9,200 tonnes secondary zircon product (H1 2015: 4,000 tonnes)

Shipments	H1 2016	H1 2015	Change
	(tonnes)	(tonnes)	%
Product Shipped	441,700	412,000	7%

HMC production increased 33% in H1 2016 compared to H1 2015 as the Mine benefitted from increased power quality and reliability as a result of additional power transmission capacity commissioned by Electricidade de Mocambique ("EdM") in December 2015. Electricity generation capacity in northern Mozambique has also been increased by EdM, with a ship-based 100MW mobile power generation plant positioned nearby at Nacala since April 2016. The plant provides significant additional capacity as well as stabilising EdM's northern transmission network. These enhancements have led to increased operating times and production in H1 2016.

Production of ilmenite was up 24% to 402,900 tonnes, compared with 324,100 tonnes in H1 2015. The increase is attributed to recovery improvements in the MSP, as well as increased HMC production, impacted in H1 2015 by power outages as a result of extreme weather and flooding. Production of primary zircon decreased by 3% to 19,300 tonnes compared with 19,800 tonnes in H1 2015, as non-magnetic concentrate stocks from circuit improvement projects contributed to higher yields in the prior period. Steady primary zircon recovery improvements took place, aided by power stability, and the processing of reject streams led to increased secondary zircon production. Rutile recoveries improved by 50% in H1 2016, compared to H1 2015, as a result of circuit improvement projects.

The benefits of the 2015 cost reduction programme continued through H1 2016, resulting in cost savings compared to H1 2015. Total cash operating costs declined 4% in H1 2016 to US\$66.6 million, compared to US\$69.1 million H1 2015, despite higher production volumes of finished products. As a result, cash operating costs per tonne of finished product declined 22% over the same period to US\$153 per tonne (H1 2015: US\$197 per tonne). Building on this progress to date the Company is committed to further reducing costs where possible.

Sales of total finished products were at record levels, and up 7% to 441,700 tonnes in H1 2016 compared to 412,000 tonnes in H1 2015. Sales in H1 2016 comprised 414,800 tonnes of ilmenite, 24,300 tonnes of zircon and 2,600 tonnes of rutile. Closing stock of finished products at 30 June 2016 was 230,100 tonnes, down from 237,300 tonnes at 31 December 2015. The closing stock of finished products includes 103,900 tonnes for which the Group has received advance payment from certain customers.

Market

The titanium dioxide pigment industry is the largest consumer of titanium feedstocks, of which Kenmare produces the minerals ilmenite and rutile. The pigment industry has been performing well after an extended period of weakness, inventories have normalised and demand is increasing. Given the improved pigment market outlook, feedstock purchasing activity has increased due to improved offtake requirements and re-stocking. Sulphate ilmenite demand, in particular, saw good improvement in Q2 2016 with increased activity in China as a result of strong pigment production and reduced ilmenite supply from domestic producers. The impact of low iron ore prices on Chinese ilmenite production (a by-product of iron ore mining) has continued a downward trend in domestic ilmenite production seen in the second half of 2015. There has also been reduced supply due to mine closures in Russia and Australia and restricted output from other suppliers, partially offset by increased supply from some regions including from that which Kenmare operates.

Sulphate ilmenite prices have started to move up in response to the tightening supply outlook in recent months, and a shortage of supply is now forecast for the remainder of 2016. While the impact of market improvement has not impacted on H1 figures, Kenmare is currently setting prices for the second half of the year with contracted customers at a point when prices have just started to trend up and we expect further gains going into 2017.

Demand for Kenmare's chloride ilmenite continues to be strong and shipments to date in 2016 are in line with expectations. The demand for chloride ilmenite is expected to remain strong given the recent mine closures and increased demand for pigment production and beneficiation.

Market conditions for zircon in the first half of the year were more subdued than H2 2015 due to weak offtake in China, partially offset by stronger demand in other regions, notably Europe. Although construction activity is

improving in China, excess ceramic tile inventories remain with producers and distributors. Enforcement of stricter environmental regulations by Chinese authorities is also negatively impacting on ceramic tile production. The outlook beyond 2016 is better as Chinese ceramic production activity is expected to recover. Some stability has returned to zircon pricing in Q3 2016, helped by price increase announcements by some of the larger producers.

Kenmare continues to receive good support from its global ilmenite and zircon customer base and we continue to target new growth markets for our products. Our expanded production capability and high quality ilmenite product suite, suitable for both sulphate and pigment production processes, as well as a feed for upgrading into higher grade titanium feedstocks, positions the Company well to benefit from the improving demand conditions and tightening feedstock supply outlook.

Financial Review for the six months ended 30 June 2016

Revenues for the period decreased to US\$56.2 million (H1 2015: US\$73.9 million), notwithstanding a 7% increase in tonnes sold to 441,700 tonnes (H1 2015: 412,000 tonnes) of ilmenite, zircon and rutile. The drop in revenue is principally a result of received average ilmenite prices declining by 31% on an FOB basis, a sharper decline than the underlying commodity market due to a change in sales mix as finished product inventories were reduced, resulting in a higher proportion of lower quality ilmenite sales.

Total operating costs, consisting of cost of sales and other operating costs, of US\$81.1 million decreased by US\$20.0 million from US\$101.1 million in H1 2015. A reduction in operating costs of US\$3.7 million contributed to this decrease, reflecting the cost savings implemented in 2015 and foreign exchange gains in the period. Depreciation and amortisation decreased by US\$2.4 million, due to an increase in the life of mine resulting in a lower depreciation charge on property, plant and equipment. These reductions were offset by an increase in arbitration costs of US\$3.1 million in the period, due to the February 2015 hearing in relation to Kenmare's construction contractor arbitration proceedings. In H1 2015, due to lower production, finished product inventory of US\$6.0 million was drawn down to meet shipment obligations and inventory was written down by US\$8.6 million to reflect lower prices being achieved in the market at the end of the financial period. Included as an offset to cost of sales in H1 2015 was a business interruption insurance receivable of US\$2.0 million for production losses due to flood damage to the EdM power transmission line in Q1 2015.

Included in other operating costs are freight, demurrage and distribution costs of US\$8.3 million (H1 2015: US\$8.1 million), administration costs of US\$0.9 million (H1 2015: US\$0.2 million), arbitration costs of US\$3.7 million (H1 2015: US\$0.6 million), and a share-based payment cost of US\$0.2 million (H1 2015: US\$0.2 million).

Adjusting total operating costs for depreciation of US\$14.2 million (H1 2015: US\$16.6 million), total Group share-based payments of US\$0.1 million (H1 2015: US\$0.8 million credit), freight reimbursable by customers of US\$2.4 million (H1 2015: US\$1.6 million) and the increase in mineral product inventory for the period of US\$2.2 million (H1 2015: US\$14.6 million decrease), the total cash operating cost for the period amounted to US\$66.6 million (H1 2015: US\$69.1 million).

EBITDA for the period amounted to negative US\$10.7 million (H1 2015: negative US\$10.6 million). The gross loss for the period was US\$11.8 million (H1 2015: US\$18.1 million) and the operating loss was US\$24.9 million (H1 2015: US\$27.2 million). The decrease in the gross loss for the period is a result of the lower cost of sales of US\$23.9 million, offset by lower weighted average sales prices in the period (H1 2016: US\$123 per tonne on FOB basis; H1 2015: US\$178 per tonne on FOB basis) reducing revenue by US\$17.7 million. The cost of sales decreased as a result of finished product write downs of US\$8.6 million and finished product stock level reduction of US\$9.4 million in H1 2015 and production cost decreases of US\$5.9 million in H1 2016 compared to H1 2015. The operating loss reduction was a result of the gross loss reduction of US\$6.3 million, detailed above offset by additional arbitration costs of US\$3.1 million, additional administration costs of US\$0.7 million and additional freight and demurrage costs of US\$0.2 million in the period.

Net finance costs of US\$21.5 million (H1 2015: US\$18.2 million) increased as a result of additional interest charges (including on Super Senior Loans of US\$10.0 million which were outstanding during the period), an increase in the subordinated loan balances as a result of capitalisation of interest, a higher subordinated loan fixed interest rate of 11%, agreed in the April 2015 Amendment, higher US Dollar costs of Euro denominated loans, as a result of the strengthening of the Euro against the US Dollar in the period, and higher loan fees amortised in the period.

The Group reported a foreign exchange loss of US\$2.7 million (H1 2015: US\$17.4 million gain), due to the retranslation of Euro-denominated loans. A deferred tax asset of US\$1.9 million is recognised in the period as it is anticipated that unused tax losses of Kenmare Moma Mining (Mauritius) Limited (“KMML”) will be carried forward for offset against future profits. The resultant net loss after tax is US\$47.1 million for the period (H1 2015: US\$27.9 million).

During the period, additions to property, plant and equipment were US\$3.0 million (2015: US\$1.0 million), reflecting continued tight expenditure control. Depreciation during the period decreased to US\$14.2 million from US\$16.6 million in H1 2015 as a result of the increase in the life of mine. The mine plan, based on the Namalope and Nataka proved and probable reserves, runs to 2056. The Group carried out an impairment review of property, plant and equipment. The key assumptions of this review are set out in Note 5. No impairment provision is required as a result of this review.

Inventory at the period end amounted to US\$47.4 million (2015: US\$46.2 million), consisting of intermediate and final mineral products of US\$29.8 million (2015: US\$27.6 million) and consumables and spares of US\$17.6 million (2015: US\$18.6 million). Closing stock of finished products at 30 June 2016 was 230,100 tonnes (2015: 237,300 tonnes). The Group has received advance payment from customers for 103,900 tonnes (2015: 40,000 tonnes) of finished product. The revenue for this stock will be recognised in the statement of comprehensive income when all criteria for recognition as a sale are met, including delivery to the customer’s vessel.

Trade and other receivables amounted to US\$12.5 million (2015: US\$20.9 million), of which US\$8.2 million (2015: US\$17.2 million) were trade receivables from the sale of mineral products and US\$4.3 million (2015: US\$3.7 million) was comprised of prepayments, mainly insurance premia. During the period there were sales of US\$56.2 million and receipts of US\$65.2 million resulting in a reduction in trade receivables since the year-end.

Included in trade and other payables of US\$63.9 million (2015: US\$47.8 million) is US\$19.6 million (2015: US\$19.6 million) relating to capital projects which are disputed by the Group in arbitration proceedings, and US\$12.4 million (2015: US\$3.0 million) relating to advanced payments from certain customers as noted above.

Bank loans amounted to US\$357.7 million (2015: US\$341.9 million) at the end of the period. The reported bank loans have been adjusted for applicable lender fees of US\$29.2 million (2015: US\$25.9 million).

On 28 July 2016, the Group completed a capital restructuring to reduce debt to US\$100 million (from US\$392.4 million using agreed exchange rates) and to provide an additional US\$75 million of cash for working capital and to meet fees and expenses of the capital restructuring. This was achieved by the raising of new equity from new and existing shareholders, the conversion of certain debt to equity in the Company, and certain debt write-offs agreed by Lenders. The capital restructuring also provided for a reduction in the interest rates on outstanding debt, an extension to the term of that debt, and a principal repayment holiday until February 2018.

At 30 June 2016 the Group was in breach of a number of loan covenants which, as and from 1 July 2016 were temporarily waived by Lenders. As a result, the loan balances as at 30 June 2016 were classified as falling due on demand in the statement of financial position. Upon the effectiveness of the Amended Financing Agreements on 28 July 2016, all then-existing breaches were permanently waived, with the effect that, as from such date, the loan balances are no longer classified as falling due on demand.

During the period, loan interest of US\$2.7 million (H1 2015: US\$3.4 million) was paid, interest of US\$18.6 million (H1 2015: US\$15.2 million) accrued, and the Euro-denominated loans increased by US\$3.3 million (H1 2015: US\$16.1 million decrease) as a result of the US Dollar weakening against the Euro. Loan fees and expenses of US\$5.7 million were incurred (H1 2015: US\$5.7 million) and US\$2.4 million loan fees and expenses amortised (H1 2015: US\$2.2 million). The average interest rate on the Group loans at the period end was 10.0% (2015: 9.1%).

Cash and cash equivalents as at 30 June 2016 amounted to US\$12.3 million (2015: US\$14.4 million).

Health, Safety and Community

The Lost Time Injury Frequency Rate (“LTIFR”) was 0.37 for the twelve months to 30 June 2016 as compared to 0.14 for the twelve months to 30 June 2015. There was one lost time injury experienced in H1 2016, a significant improvement on H1 2015 (3 lost time injuries) as a result of the delivery of a safety improvement

strategy. Kenmare remains committed to providing a safe and healthy work environment for its employees, contractors and visitors.

The Kenmare Moma Development Association (KMAD) continued to support local communities during the period through its economic, social and infrastructure projects, notwithstanding increased capital constraints as a result of lower commodities prices.

Board Update

Mr. Tony Lowrie has provided great service to the Board and the Company as a Non-Executive Director for more than nine years and retired at the AGM on 25 July 2016. The Board and the Company would like to thank him for all that he has done for the Company and wish him well for the future.

Outlook

The outlook for the mineral sands market has been steadily improving since the beginning of the year. Ilmenite has been the main beneficiary due to a combination of improved offtake from the pigment sector and the continued decline of ilmenite supply from a number of regions. As a result, Chinese domestic ilmenite prices have been steadily increasing since the beginning of the year and Kenmare has implemented price increases on spot sales during Q2 to be shipped in the early part of Q3.

In H2 2016, it is expected that increases in ore mined, ore grades, recoveries and operating time should all contribute to higher production levels in order for the Company to achieve production forecasts for 2016. Given the largely fixed cost base and continued progress that management has made in executing operating cost savings, increased production will further reduce unit operating costs.

In addition, the completion of the capital restructuring has provided the Company with an enhanced working capital position and significantly reduced debt, greatly strengthening the Company's balance sheet.

Principal risks and uncertainties

The Group's business may be affected by risks similar to those faced by many companies in the mining industry. There are a number of potential risks and uncertainties that could have a material effect 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 principal risks and uncertainties, together with relevant mitigating factors, are outlined below.

The Group's performance depends on the demand and the prices it receives for its products

The Group's revenue and earnings depend upon the demand for and prevailing prices of ilmenite, zircon and, to a lesser extent, rutile. Such prices are based on world supply and demand and are subject to large fluctuations in response to changes in the demand for such products, whether as a result of uncertainty or a variety of additional factors also beyond the Group's control, as well as changes in supply, including as a result of new heavy mineral sands projects commencing production or closure of existing operations. Weighted average prices for Kenmare's products (on a Free On Board ("FOB") basis) in H1 2016 declined 31% compared to H1 2015. Demand for the Group's products may be reduced by thrifting or substitution by users of the Group's products. The Group's revenue generation, results of operations and financial condition may be significantly and adversely affected by declines in the demand for and prices of ilmenite, zircon and rutile.

Product prices may not increase as anticipated or may fall

The Group's revenue and earnings depend upon prevailing prices for ilmenite and zircon and, to a lesser extent, rutile. If the increase in prevailing market prices for the Group's products that is anticipated by the Directors were not to occur (or if the prices negotiated by the Group were not to capture any such increase in market price) or if market prices were to fall or the Group were otherwise unable to negotiate satisfactory pricing terms, this would have an adverse impact on the Group's revenue generation, cash flow, results of operations and financial condition.

The Group fixes its prices for its products under certain contracts by reference to the market price prevailing at the time of the entry into, or renewal, of the contract. Some of the Group's products are sold to customers under

contracts of three to five year duration, which provide for the supply of fixed volumes of product at fixed prices with annual inflation-related price escalation. The balance of the Group's products are sold to its customers under contracts providing for the delivery of fixed volumes with annual or semi-annual price negotiations or under spot contracts for specific shipments. As some of the Group's products are sold under contracts at fixed price, or price set by a discount to market price, the Group will not immediately capture the full benefit of any increase in prevailing market prices for the Group's products.

The Group is dependent on contracts with, and the Group has credit exposure to, a number of key customers

As is typical in the titanium minerals industry, a small number of customers account for a significant proportion of the Group's revenue. In H1 2016 substantially all of the Group's revenues were derived from sales to less than ten customers. If any customer were to cease dealing with the Group or if any such customer with an existing off-take contract sought to cancel or defer delivery or payment, and the Group was unable to sell the product in the market on comparable or superior terms, then this would have an adverse impact on the Group's revenue generation, cash flow, financial condition and results of operations.

Further, the Group's contracts and sales process is such that, other than in specific cases where pre-payment has been negotiated by the Group, the customer receives the product prior to the due date for payment. If any of the customers were unable to, or failed to, pay for such products, then, unless the relevant customer's invoice had been factored (pursuant to the terms of the Group's factoring agreement), this would have an adverse impact on the Group's revenue generation, cash flow, results of operations and financial condition. Contracts can vary in duration from less than a year to up to five years, in some cases with the possibility of extensions of duration by the relevant customer. In the case of zircon, rutile and spot ilmenite sales, prices are generally variable in nature and agreed at the time of order.

The Group's production is concentrated on a single asset, the Moma Mine, and if production is delayed or interrupted, Kenmare's ability to generate revenue would be harmed, which would have a material adverse effect on its business, financial condition and results of operation

As a result of the concentration of its production on Moma, Kenmare is exposed, without the benefit of diversification which would come from multiple assets at multiple locations, to the effect of disruptions, loss of licence or interests at Moma, Government regulation, mining, processing or transportation capacity constraints, availability of equipment, equipment failure, facilities, personnel or services market limitations, weather events, or interruption of the transportation of diesel.

Physical aspects of the Moma reserve may impact adversely on production

The Namalope mineral deposit being mined has declining head feed grades (for the five year period from 2011 - 2015 head grade at the Mine was c 5.2% but over the following five years from 2016 – 2020 it is expected that the average grade will decline to c. 4.5%) and hence over time additional mining capacity is required to maintain heavy mineral concentrate feed to fill the mineral separation plant and therefore maximise production.

The timing of further capital investment to meet the additional mining capacity required depends on the performance of existing operations as well as market demand and prices. Development of an optimal plan is underway and prefeasibility studies are to be undertaken in 2016 and 2017 to optimise the mine plan from a production and financial perspective. The capital expenditure required to enhance the mining fleet to take account of declining head grades has yet to be approved by the Board and will be subject, *inter alia*, to market conditions. However, preliminary studies estimate the additional capital requirement to be approximately US\$100 million over the five year period. No decision has been made on any such expenditure and no significant capital expenditure is expected prior to 2018 in any event. This estimate of capital expenditure may alter as further studies are completed. In addition, while such expenditure would only be progressed in the event of market conditions being favourable (such that the expenditure could be financed from existing resources) and would, if occurring, occur primarily in and subsequent to 2018, the consequence of failing to make all or any of the investment required in the envisaged time frame would be a decline in volume produced. This would have an adverse impact on the financial performance of the Group.

The production rates forecast in the mining plan are based on the expected performance of the mining units in response to the characteristics of the orebody. Kenmare operates a model that predicts operating throughputs in response to varying orebody characteristics.

The metallurgical performance of the mining operations has remained steady and of high quality and is expected to be maintained in the future based on proper maintenance and operational procedures.

The Namalope deposit is currently being mined and will be mined until 2026 by WCP A and until 2022 by WCP B. There will be a capital cost associated with the movement of the plants from the Namalope deposit to the Nataka deposit which, absent alternative financing, would be intended to be financed from operating cash flows. This capital cost may be in excess of the amount currently estimated by the Group and/or the Group may have insufficient resources to finance this capital cost. In such a situation mining would be unable to move from the Namalope deposit to the Nataka deposit, resulting initially in a reduction in output and, as Namalope is depleted, in cessation of mining pending the re-location.

In addition, the WCP A dredge path envisages mining an area known as Monte Filipe in late 2016 and in 2017 and 2018. The area is within the Mining Concession; however, there has been some opposition to mining Monte Filipe on spiritual and economic development grounds. The Group continues to have extensive engagement with the local community and local and provincial Government seeking resolution of the matter. Should the matter not be resolved in a timely fashion, a change in the dredge path to avoid Monte Filipe could have an adverse effect on the Group's production and consequently on the Group's business, results of operations and financial condition.

Dry mining operations are used to supplement the Mine's dredge mining operations, including to address mining ore body characteristics such as elevated slimes levels and to optimise product mix. Dry mining operations are currently being used, have been used from time to time in the past, and may be used in the future.

While dry mining is suitable for purposes of supplementing dredge operations, it is more expensive to operate than dredge mining, resulting in some of the benefits of the Mine's inherently low-cost dredging being reduced.

In the event of any further difficulties being experienced, it may be necessary to expand dry mining. There can be no certainty that dry mining of the scale which may be required would be financially efficient.

The Mine is heavily reliant on the power supply and power transmission line to the Mine for which supply may fluctuate

The Mine is highly reliant on the power supply comprising the Cahora Bassa hydroelectric power station on the Zambezi River, the electricity transmission system of northern Mozambique that is owned and operated by the national power company Electricidade de Mocambique ("EdM") and a single 170km transmission line, owned by the Company, to the Mine from EdM's Nampula substation.

Despite significant improvements in power generating and transmission capacity and reliability, power stability in EdM's northern transmission system remains a point of focus for the Board and management.

In the first quarter of 2015, northern Mozambique experienced exceptionally heavy rains and unprecedented flooding. The unprecedented flooding resulted in sections of the transmission line being brought down, cutting power to the Mine for extended periods. Physical loss of power lines had not been experienced before in Kenmare's operations.

EdM has, both before and since this time, been investing in the power line infrastructure to increase capacity on the power network servicing the Moma Mine, from 118MW to 168MW. While power supply quality remained poor during 2015, since December 2015 there has been a marked improvement in power quality and consistency and further equipment is expected to be installed through 2016, providing another 10MW of transmission capacity. Additions to date appear to have fixed the network overloading issues which were previously the cause of voltage collapse during peak demand periods. Electricity generation capacity in northern Mozambique has also been increased by EdM, with a ship-based 100MW mobile power generation plant positioned nearby at Nacala since April 2016. These improvements in grid transmission and generation capacity help to provide a more stable power supply to the Mine, with additional capacity to allow for increased power needs in the future.

Despite these measures, there is no certainty that there will not be further interruptions to power which could affect production.

If either the Cahora Bassa power station or the transmission line to the Mine were to experience faults for a prolonged period of time, resulting in serious disruptions to electricity supply, the Group might be unable to

produce sufficient ilmenite, rutile and zircon to fulfil customer contracts, which would reduce cash flow and which could impact customer relationships and have an adverse impact on the Group's trading and financial position. The rented 10MW diesel generation capability at the Mine partially mitigates such risk. While the Group has insurance covering business interruption in respect of its operations, such insurance may not be sufficient and/or fully cover the consequences of such business interruption. No assurance can be given that such insurance will continue to be available, or that it will be available at economically feasible premiums.

The Mine is heavily reliant on diesel, the price for which may fluctuate

Certain of the Group's operations and facilities are intensive users of diesel. Factors effecting the global energy market, such as the level of supply of oil by OPEC, the level of supply of oil by the fracking industry in the US, and the level of economic activity and subsequent demand for oil in China are beyond the control of the Group and may put upward pressure on the prices paid by the Group for the fuel used by it.

Any increases in energy costs will adversely affect the results of operations and financial condition of the Group.

The Group depends on marine operations for the export of products and may not be able to export final products if, in particular, the jetty is out of commission

The Group is reliant on the continued successful operation of the marine terminal for the export of products. If the marine terminal became unusable (as a result of damage or otherwise) or inaccessible for any significant period, the Group would be unable to export its products or would be limited in the amount which it could export. In this case, the Group would be unable to meet its commitments to customers, which could result in ocean freight penalties and reduced revenue, each of which would have an adverse effect on the Group's cash flow, results of operations and financial condition.

The Group is also reliant on the effective operation of its trans-shipment system. The Group operates two trans-shipment vessels which transport products from the jetty to the trans-shipment point, where they self-discharge into the customer's vessel. If both trans-shipment vessels became unavailable or were simultaneously in need of repair, the Group would seek to implement alternative methods of loading customers' vessels. If this were to occur, it could adversely affect the business and financial position of the Group as the loading rate could be less than that of the current trans-shipment system, in which case, demurrage costs may be payable by the Company.

In addition, the Group and its customers depend upon ocean freight to transport products purchased from the Group. Disruption of ocean freight as a result of any impact of piracy, terrorism, weather-related problems, key equipment or infrastructure failures, strikes, lock-outs 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 cash flow, results of operations and financial condition.

The Group is required to maintain licences for the current mining operation

Kenmare is currently mining the Namalope Reserve which contains the titanium minerals ilmenite and rutile and the zirconium silicate mineral, zircon. This reserve is held under Mining Concession 735C issued by the Government of Mozambique which is valid until 26 August 2029 and is renewable thereafter.

Mining is governed by the terms of a Mineral Licensing Contract which was entered into in January 2002 covering an initial period of 25 years of mining and renewable thereafter.

A further key agreement with the Government of Mozambique in relation to the Mine is the Implementation Agreement which governs the operation of an Industrial Free Zone covering the processing and exporting aspects of the Mine and provides favourable tax treatment. This agreement was entered into in January 2002.

The Company is not aware of any incidents which may result in the Mining Concession, Mineral Licensing Contract or Implementation Agreement being revoked by the Government of Mozambique.

The permissions, approvals and leases required for the Group's operations are subject, in certain circumstances, to the occurrence of certain events or to modification, renewal or revocation. The Group may not receive the permits or renewals or modifications thereof necessary for it to operate profitably, or at all. Further, if the Group

does not receive the necessary permits, it may not be able to implement its required production plans which may adversely affect the results of operations and financial condition of the Group.

The Group could face increased risk and uncertainty in the event of political, economic, regulatory and fiscal developments in Mozambique

The Mine is located in Mozambique, which has been politically stable for over two decades. Kenmare has operated in Mozambique since 1987, and has executed the Mineral Licensing Contract and the Implementation Agreement which each contain provisions that provide certain protections to the Group against adverse changes in Mozambican law. The Group's operations in Mozambique may, however, become subject to risks similar to those which are prevalent in many developing countries, including extensive political or economic instability, other political, economic or regulatory developments, changes in fiscal policy or application thereof (including increased taxes or royalty rates), nationalisation, inflation, and currency restrictions, as well as renegotiation, nullification, termination or rescission of existing concessions, licences, permits, approvals and contracts. In addition, there may be an increase in, and tightening of, the regulatory requirements (including for example in relation to employee health and safety, permitting and licensing, planning and developments and environmental compliance). The occurrence of these events could adversely affect the economics of the Mine and could have a material adverse effect on the results of operations or financial condition of the Group.

Health, safety, environmental and other regulations, standards and expectations evolve over time and unforeseen changes could have an adverse effect on the Group's earnings and cash flows

The Mine is subject to the environmental laws and standards in force in Mozambique, together with international standards and guidelines of the World Bank, African Development Bank and FMO, as well as its own policies. The Mine applies the International Finance Corporation ("IFC") Performance Standards (2006), as set out in the Environmental Management Plan ("EMP") and is targeting compliance with the IFC Performance Standards 2012. The Mine consistently seeks to apply best practice in all of its activities. Where standards differ, Kenmare has committed to meeting the most stringent standard applicable.

Governmental authorities and the courts have the power to enforce compliance (and, in some jurisdictions, third parties and members of the public can initiate private procedures to enforce compliance) with applicable laws and regulations, violations of which may result in civil or criminal penalties, the curtailment or cessation of operations, orders to pay compensation, orders to remedy the effects of violations and/or orders to take preventative steps against possible future violations.

In addition, a violation of environmental or health and safety laws relating to the Mine or production facility or a failure to comply with the instructions of the relevant environmental or health and safety authorities could lead to, among other things, a temporary shutdown of all or a portion of the Mine or production facility, a loss of the right to mine or to continue with production or the imposition of costly compliance procedures, fines and penalties, liability for clean-up costs or damages. If environmental, health and safety authorities require the Group to shut down all or a portion of the Mine or to implement costly compliance measures, or impose fines and penalties, liability for clean-up costs or damages on the Group, whether pursuant to existing or new environmental, health and safety laws and regulations, such measures could have a material adverse effect on the Group's results of operations and financial condition.

The Company may face the risk of industrial action

Non-supervisory employees, amounting to over 80% of the workforce, are represented by a union under a collective agreement. The Group may not be able to satisfactorily renegotiate labour agreements when they expire and may face 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 results of operations, financial condition and reputation.

The Group is dependent on the continued services of senior management and skilled technical personnel. Should key personnel leave or should the Group be unable to attract and retain qualified personnel, the Group's business, results of operations and financial condition may be adversely affected.

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. In addition, as the Group's business develops and expands, the Group's future success will depend on its ability to attract and retain highly skilled and qualified personnel. Due to the increasing extractive industry activity in Mozambique and new projects in the heavy mineral sands industry in recent years, the Group has encountered increasing competition in attracting and retaining experienced mining professionals. Should key personnel leave or should the Group be unable to attract and retain qualified personnel, the Group's business, results of operations and financial condition may be adversely affected.

The Mine employs a number of non-Mozambicans, including in senior management and technical positions. Should expatriate personnel be unable to work at the Mine for prolonged periods of time, this could have an adverse effect on the Group's results of operations and financial condition.

Cash flow constraints have impacted on the continued development of the Moma operation and this may adversely impact on current or future production

Due to cash flow constraints in recent years, pressures have been placed on the capital budgets allocated to the Mine. This has impacted the continued development of the Mine in terms of operational efficiency, with the principal areas impacted being the Group's replacement strategy for mobile equipment used to support the operations and the Group's planning for improvement of product recovery and quality in the MSP.

In recent years, Kenmare has not followed a defined replacement strategy for the mobile equipment used to support the Moma operations. There is a risk that without further investment in new equipment, production rates at Moma may be impacted. Kenmare has sought to mitigate this risk through measures to extend the life of the existing equipment and rentals but a catch-up spend is required.

Kenmare has delayed implementation of identified projects for the improvement of product recovery and quality in the mineral separation plant.

If production, process or recovery rates are lower than anticipated, the Group may generate lower revenue and cash flow than anticipated which would have an adverse effect on the Group's results of operations and financial condition.

Kenmare is exposed to a number of operational factors which may be outside its control, does not insure against certain risks, and its insurance coverage may not be adequate for covering losses arising from potential operational hazards and unforeseen interruptions

The success of the Group's business is affected by a number of factors which are, to a large extent, outside its control. Such factors include the availability of water and power. In addition, the Group's business is subject to numerous other operating risks which include: unusual or unexpected geological features, seismic activity, climatic conditions (including as a result of climate change) such as flooding, cyclones or drought, interruption to power supplies, industrial action or disputes, environmental hazards, and technical failures, fires, explosions and other accidents at the Mine and related facilities. These and other risks and hazards could result in damage to, or destruction of, the mining, processing or trans-shipment facilities, may reduce or cause production to cease, may result in personal injury or death, environmental damage, business interruption, monetary losses and possible legal liability, and may result in actual production differing from estimates of production.

While the Group has insurance covering various types of business interruption arising from property damage or machinery breakdown in respect of its operations, such insurance may not be sufficient and/or fully cover the consequences of such business interruption and, in particular, may not cover interruption arising from all types of equipment failure, labour disputes or "force majeure" events. No assurance can be given that such insurance will continue to be available, or that it will be available at economically feasible premiums. Equally, there can be no assurance that operating risks and the costs associated with them will not adversely affect the results of operations or financial condition of the Group. Although the Group maintains liability insurance, the Group's insurances do not cover every potential risk associated with its operations and meaningful coverage at reasonable rates is unobtainable for certain types of environmental hazards. The occurrence of a significant adverse event, the damage from which is not adequately covered by insurance, or in respect of which adequate disaster recovery arrangements may not be in place, could have a material adverse effect on the results of operations and financial condition of the Group.

The Group is a party to a number of disputes that are subject to resolution through court or arbitral proceedings and may, from time to time, face the risk of other litigation in connection with its business and/or other activities

The Group is a party to a number of disputes that are subject to resolution through court or arbitral proceedings and may from time to time face the risk of other litigation in connection with its business and/or other activities. Recovery may be sought against the Group for significant but indeterminate amounts and the existence and scope of liabilities may remain unknown for substantial periods of time. Of the two current material claims against the Group, the estimated defence costs of one have been provided for under legal provisions, with further details disclosed in Note 8 to these interim condensed consolidated financial statements, and the value of the other is included in the Group's current liabilities, in relation to a capital projects dispute with a construction contractor, although the Group is disputing the claim in full and has raised a substantial counter-claim. A substantial legal liability and/or an adverse ruling could have a material adverse effect on the Group's financial condition.

The Group's reserves and resources estimates may be materially different from quantities it may ultimately recover, its estimates of mine life may prove inaccurate, and market price fluctuations and changes in operating and capital costs may render certain reserves or resources uneconomical to mine

The reserves and resources of the Group were compiled by Mr Paul Leandri (MAusIMM and MAIG) and Dr Alastair Brown (FIMMM). Both Mr Leandri and Dr Brown have sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which they undertook to qualify as Competent Persons as defined in the JORC Code 2012.

The Group's estimates of ore reserves and mineral resources are subject to a number of assumptions that may be incorrect and may be materially different from mineral quantities that may ultimately be recovered. Actual ore reserves may not conform to geological or other expectations and the volume and grade of ore recovered may be below the estimated level. Changes in the forecast prices of the Group's products, exchange rates, production costs or recovery rates may result in reserves ceasing to be economically viable and needing to be downgraded or reduced. Moreover, short-term operating factors relating to the reserves, such as the need for sequential development of ore bodies and variations in ore grades, may adversely affect the Group's production and profitability in any particular accounting period.

Changes in operating and capital costs within the mining industry

Mining requires substantial maintenance to prolong the life of the mining equipment and infrastructure, thus enabling the full recovery of the mining reserve. The Group believes that the technology it uses to mine and process titanium minerals and zircon is advanced and, in part due to high investment costs, subject only to slow technological change. However, there can be no assurance that more cost-effective production or processing technology will not be developed, or that the economic conditions in which current technology is applied will not change. Capital expenditure required to keep pace with unexpected technological advances of equipment would negatively impact the Group's future cash flows if there were insufficient benefit from such expenditures.

Additionally, as the prices the Group receives for its products is determined by demand and supply, its competitiveness and long-term profitability depend, to a significant degree, on its ability to control costs and maintain low-cost, efficient operations. Important cost inputs in the Group's operations generally include the extraction and processing costs of raw materials and consumables, such as power, fuels, labour, transport and equipment, many of which have been, and continue to be, particularly susceptible to inflationary and supply and demand pressures. It is difficult for the Group to pass these costs in full onto its customers due to the fact that prices are determined by demand and supply of the products and not by cost pressures. Any increases in input costs would adversely affect the results of operations or financial condition of the Group.

Kenmare is exposed to fluctuations in interest rates and exchange rates that could have a material adverse impact on its profitability

As and from 28 July 2016 the interest rates on the Group's bank loans are variable. The combined interest rate on senior and subordinated loans is US LIBOR for the applicable period (typically six months) plus a margin, which until 31 January 2020 is 4.75% per annum and thereafter is 5.50% per annum. Commencing 1 August 2016, interest on both senior and subordinated loans is payable in cash on 1 February and 1 August. Any

increase in the six month US Dollar LIBOR would increase finance costs and therefore have a negative effect on the Group's profitability.

All the Group's sales are denominated in US Dollars. Although, as and from 28 July 2016, all Project Loans are denominated in US Dollars, the Group's operating and capital costs are incurred in a variety of currencies, including in US Dollars, South African Rand, Mozambican Metical, Euro, Sterling, and to a lesser extent in Australian Dollars and Chinese Renminbi. Fluctuations in these currencies will affect the Group's financial results.

Group's ability to meet its obligations under the Amended Financing Documents

The terms of the Group's Project Loans under the Amended Financing Agreements include a number of covenants (including operational, organisational, insurance and financial covenants) applicable to the Group. Any failure to comply with any of the foregoing provisions could result in an event of default under the Amended Financing Agreements. The details of these covenants are set out in Note 7.

Uncertainties in relation to the realisation of assets of the Group

The ability of the Group to realise the value of property, plant and equipment of US\$824 million included in the consolidated statement of financial position as at 30 June 2016 is dependent on the successful operation of the Mine and the realisation of cash flow forecasts. An emphasis of matter to this effect and reflecting the related uncertainties is included in the independent auditor's review report in respect of the financial statements for the six month period ended 30 June 2016 and it is noted that no adjustments relating to the uncertainties concerning the realisation of assets has been included and that the ultimate outcome can not be determined at the time of the review report.

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 to the condensed consolidated financial statements.

Going Concern

On 28 July 2016, the Group completed a capital restructuring to reduce debt to US\$100 million (from US\$392.4 million using agreed exchange rates), to provide an additional US\$75 million of cash for working capital and to meet fees and expenses of the capital restructuring. This was achieved by the raising of new equity from new and existing shareholders, the conversion of certain debt to equity in the Company, and certain debt write-offs agreed by Lenders. The capital restructuring also provided for a reduction in the interest rates on outstanding debt, an extension to the term of that debt, and a principal repayment holiday until February 2018.

As a result of the capital restructuring and based on the cash flow forecast the Directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. They therefore continue to adopt the going concern basis of accounting in preparing the financial statements.

Key assumptions upon which the forecast is based over the next twelve months include a mine plan covering production using the Namalope reserves as set out in the Reserve and Resources table in the 2015 Annual Report. Production levels for the purpose of the forecast are approximately 1 million tonnes of ilmenite, zircon and rutile. Assumptions of 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 are forecast taking into account independent titanium mineral sands expertise and management expectations. Operating costs are based on budget costs for 2016 taking into account current running costs of the mine. Capital costs are based on the capital budget for 2016 taking into account revisions to this plan and the scheduling of outlay over the next twelve months.

Events after the Statement of Financial Position Date

Effective 25 July 2016, Mr. Tony Lowrie retired as a Non-Executive Director of the Company.

On 28 July 2016, the Group completed a capital restructuring to reduce debt to US\$100 million (from US\$392.4 million using agreed exchange rates), to provide an additional US\$75 million of cash for working capital and to meet fees and expenses of the capital restructuring. This was achieved by the raising of new equity from new and existing shareholders, the conversion of certain debt to equity in the Company, and certain debt write-offs agreed by Lenders. The capital restructuring also provided for a reduction in the interest rates on outstanding debt, an extension to the term of that debt, and a principal repayment holiday until February 2018.

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

24 August 2016

Financial Director
Tony McCluskey

24 August 2016

RESPONSIBILITY STATEMENT

The Directors are responsible for the 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 names and function of the Directors is as listed in the Group's 2015 Annual Report and Accounts, with the exception that effective 25 July 2016, Mr. Tony Lowrie retired as a Non-Executive Director of the Company. A list of the current Directors is maintained on the Kenmare Resources plc website: www.kenmareresources.com.

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

- The Group condensed consolidated financial statements for the half year ended 30 June 2016 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 effect on the condensed consolidated 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

24 August 2016

Financial Director
Tony McCluskey

24 August 2016



INDEPENDENT REVIEW REPORT TO THE MEMBERS OF KENMARE RESOURCES PLC

Introduction

We have been engaged by the Company to review the group condensed consolidated set of financial statements in the Half-Yearly Financial Report for the six months ended 30 June 2016 which comprises the Group Condensed Consolidated Statement of Comprehensive Income, the Group Condensed Consolidated Statement of Financial Position, the Group Condensed Consolidated Statement of Changes in Equity, the Group Condensed Consolidated Statement of Cash Flows and related notes 1 to 13. 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 consolidated 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 consolidated 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 consolidated 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the group condensed consolidated set of financial statements in the Half-Yearly Financial Report for the six months ended 30 June 2016 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 – Recoverability of Property, Plant and Equipment

In forming our conclusion on the condensed consolidated financial statements for the six months ended 30 June 2016, which is not modified, we have considered the adequacy of the disclosures in note 5 concerning the recoverability of Property, Plant and Equipment of US\$824 million which is dependent on the recovery in market prices for titanium mineral sands and consequently the realisation of the underlying cashflow forecast assumptions. The Group condensed financial statements do not include any adjustments relating to these uncertainties and the ultimate outcome cannot at present be determined.

Kevin Sheehan

for and on behalf of Deloitte

Statutory Audit Firm

Dublin

24 August 2016

KENMARE RESOURCES PLC
GROUP CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Notes	Unaudited 6 Months 30 June 2016 US\$'000	Unaudited 6 Months 30 June 2015 US\$'000	Audited 12 Months 31 Dec 2015 US\$'000
Revenue	2	56,195	73,887	142,583
Cost of sales		<u>(67,961)</u>	<u>(91,941)</u>	<u>(168,138)</u>
Gross loss		(11,766)	(18,054)	(25,555)
Other operating costs		<u>(13,116)</u>	<u>(9,125)</u>	<u>(21,780)</u>
Operating loss		(24,882)	(27,179)	(47,335)
Finance income		20	25	543
Finance costs		(21,535)	(18,151)	(37,805)
Foreign exchange (loss)/gain		<u>(2,664)</u>	<u>17,376</u>	<u>22,658</u>
Loss before tax		(49,061)	(27,929)	(61,939)
Income tax credit		<u>1,917</u>	-	<u>1,320</u>
Loss for the period/year		<u>(47,144)</u>	<u>(27,929)</u>	<u>(60,619)</u>
Attributable to equity holders		<u>(47,144)</u>	<u>(27,929)</u>	<u>(60,619)</u>
		Cent per share	Cent per share	Cent per share
Loss per share: basic	4	<u>(1.69)</u>	<u>(1.00)</u>	<u>(2.18)</u>
Loss per share: diluted	4	<u>(1.69)</u>	<u>(1.00)</u>	<u>(2.18)</u>

The accompanying notes form part of these condensed consolidated financial statements.

KENMARE RESOURCES PLC
GROUP CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	Notes	Unaudited 30 June 2016 US\$'000	Unaudited 30 June 2015 US\$'000	Audited 31 Dec 2015 US\$'000
Assets				
Non-current assets				
Property, plant and equipment	5	823,775	849,609	834,961
Deferred tax asset		3,236	-	1,320
Other receivables		<u>464</u>	<u>835</u>	<u>649</u>
		<u>827,475</u>	<u>850,444</u>	<u>836,930</u>
Current assets				
Inventories		47,438	46,829	46,228
Trade and other receivables		12,058	29,345	20,268
Cash and cash equivalents		<u>12,279</u>	<u>12,928</u>	<u>14,352</u>
		<u>71,775</u>	<u>89,102</u>	<u>80,848</u>
Total assets		<u>899,250</u>	<u>939,546</u>	<u>917,778</u>
Equity				
Capital and reserves attributable to the Company's equity holders				
Called-up share capital	6	214,941	225,523	214,941
Share premium		431,380	431,380	431,380
Retained losses	6	(226,590)	(142,961)	(175,651)
Other reserves		<u>32,943</u>	<u>22,126</u>	<u>32,804</u>
Total equity		<u>452,674</u>	<u>536,068</u>	<u>503,474</u>
Liabilities				
Non-current liabilities				
Bank loans	7	-	218,606	-
Obligations under finance lease		-	512	264
Provisions	8	<u>22,440</u>	<u>22,166</u>	<u>22,100</u>
		<u>22,440</u>	<u>241,284</u>	<u>22,364</u>
Current liabilities				
Bank loans	7	357,742	111,294	341,943
Obligations under finance lease		512	447	479
Provisions	8	1,714	2,006	1,714
Other financial liability		236	863	22
Trade and other payables		<u>63,932</u>	<u>47,584</u>	<u>47,782</u>
		<u>424,136</u>	<u>162,194</u>	<u>391,940</u>
Total liabilities		<u>446,576</u>	<u>403,478</u>	<u>414,304</u>
Total equity and liabilities		<u>899,250</u>	<u>939,546</u>	<u>917,778</u>

The accompanying notes form part of these condensed consolidated financial statements.

KENMARE RESOURCES PLC
GROUP CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Called- Up Share Capital	Share Premium	Capital Conversion Reserve Fund	Capital Redemption Reserve Fund	Retained Losses	Share Option Reserve	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance at 1 January 2015	225,523	431,380	754	-	(115,032)	22,142	564,767
Loss for the period	-	-	-	-	(27,929)	-	(27,929)
Share-based payments	-	-	-	-	-	(770)	(770)
Balance at 30 June 2015	<u>225,523</u>	<u>431,380</u>	<u>754</u>	<u>-</u>	<u>(142,961)</u>	<u>21,372</u>	<u>536,068</u>
Loss for the period	-	-	-	-	(32,690)	-	(32,690)
Share-based payments	-	-	-	-	-	96	96
Redemption of deferred shares	<u>(10,582)</u>	-	-	<u>10,582</u>	-	-	-
Balance at 31 December 2015	<u>214,941</u>	<u>431,380</u>	<u>754</u>	<u>10,582</u>	<u>(175,651)</u>	<u>21,468</u>	<u>503,474</u>
Loss for the period	-	-	-	-	(47,144)	-	(47,144)
Share-based payments	-	-	-	-	-	139	139
Transaction costs of an equity transaction	-	-	-	-	(3,795)	-	(3,795)
Balance at 30 June 2016	<u>214,941</u>	<u>431,380</u>	<u>754</u>	<u>10,582</u>	<u>(226,590)</u>	<u>21,607</u>	<u>452,674</u>

The accompanying notes form part of these condensed consolidated financial statements.

KENMARE RESOURCES PLC
GROUP CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Unaudited 6 Months 30 June 2016 US\$'000	Unaudited 6 Months 30 June 2015 US\$'000	Audited 12 Months 31 Dec 2015 US\$'000
Cash flows from operating activities			
Loss for the financial period/year before tax	(49,061)	(27,929)	(61,939)
Adjustment for:			
Foreign exchange movement	2,664	(17,376)	(22,658)
Share-based payments	139	(770)	(674)
Finance income	(20)	(25)	(45)
Finance costs	21,535	17,808	37,805
Depreciation	14,155	16,604	35,820
Increase/(decrease) in other financial liability	214	343	(498)
Increase/(decrease) in provisions	<u>112</u>	<u>(119)</u>	<u>(742)</u>
Operating cash outflow	(10,262)	(11,464)	(12,931)
(Increase)/decrease in inventories	(1,210)	15,623	16,224
Decrease/(increase) in trade and other receivables	8,395	(2,042)	7,222
Increase/(decrease) in trade and other payables	<u>12,377</u>	<u>(1,945)</u>	<u>(1,901)</u>
Cash generated by operations	9,300	172	8,614
Interest received	20	25	45
Interest paid	<u>(2,703)</u>	<u>(3,365)</u>	<u>(5,700)</u>
Net cash from/(used in) operating activities	<u>6,617</u>	<u>(3,168)</u>	<u>2,959</u>
Cash flows from investing activities			
Additions to property, plant and equipment	<u>(2,969)</u>	<u>(996)</u>	<u>(5,564)</u>
Net cash used in investing activities	<u>(2,969)</u>	<u>(996)</u>	<u>(5,564)</u>
Cash flows used in financing activities			
Increase in borrowings	-	-	10,000
Loan amendment fees	(5,730)	(5,673)	(17,330)
Equity transaction costs	(460)	-	-
Payment of obligations under finance leases	<u>(280)</u>	<u>(280)</u>	<u>(560)</u>
Net cash used in financing activities	<u>(6,470)</u>	<u>(5,953)</u>	<u>(7,890)</u>
Net decrease in cash and cash equivalents	(2,822)	(10,117)	(10,495)
Cash and cash equivalents at the beginning of period/year	14,352	21,795	21,795
Effect of exchange rate changes on cash and cash equivalents	<u>749</u>	<u>1,250</u>	<u>3,052</u>
Cash and cash equivalents at end of period/year	<u>12,279</u>	<u>12,928</u>	<u>14,352</u>

The accompanying notes form part of these condensed consolidated financial statements.

KENMARE RESOURCES PLC
NOTES TO THE GROUP CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2016

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 Consolidated Financial Statements for the six months ended 30 June 2016 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 Consolidated Financial Statements are the same as those applied in the Annual Report for the financial year ended 31 December 2015 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 2016. Adoption has resulted in no effect 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 2016 and the corresponding amounts for the six months ended 30 June 2015 have been reviewed but not audited. The independent review report is on pages 15 and 16. The financial information for the year ended 31 December 2015, presented herein, is an abbreviated version of the annual financial statements for the Group in respect of the year ended 31 December 2015. The Group's financial statements have been filed in the Companies Registration Office and the independent auditors issued an unqualified audit report, with emphases of matter in relation to going concern and realisation of assets in the opinion, in respect of those annual financial statements.

Other than the transaction costs of an equity transaction, as disclosed in the Consolidated Statement of Changes in Equity, there were no other gains or losses during the six month period ended 30 June 2016 other than those reported in the Condensed Consolidated Statement of Comprehensive Income.

On 28 July 2016, the Group completed a capital restructuring to reduce debt to US\$100 million (from US\$392.4 million using agreed exchange rates) and to provide an additional US\$75 million of cash for working capital and to meet fees and expenses of the capital restructuring. This was achieved by the raising of new equity from new and existing shareholders, the conversion of certain debt to equity in the Company, and certain debt write-offs agreed by Lenders. The capital restructuring also provided for a reduction in the interest rates on outstanding debt, an extension to the term of that debt, and a principal repayment holiday until February 2018.

As a result of the capital restructuring and based on the Group's forecast the Directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. They therefore continue to adopt the going concern basis of accounting in preparing the financial statements.

Key assumptions upon which the forecast is based over the next twelve months include a mine plan covering production using the Namalope reserves as set out in the Reserve and Resources table in the 2015 Annual Report. Production levels for the purpose of the forecast are approximately 1 million tonnes of ilmenite, zircon and rutile. Assumptions of 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 are forecast taking into account independent titanium mineral sands expertise and management expectations. Operating costs are based on budget costs for 2016 taking into account current running costs of the mine. Capital costs are based on the capital budget for 2016 taking into account revisions to this plan and scheduling of outlay over the next twelve months.

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.

	Unaudited	Unaudited	Audited
	30 June 16	30 June 15	31 Dec 15
	US\$'000	US\$'000	US\$'000
Segment revenues and results			
Moma Titanium Minerals Mine			
Revenue	56,195	73,887	142,583
Cost of sales	<u>(67,961)</u>	<u>(91,941)</u>	<u>(168,138)</u>
Gross loss	(11,766)	(18,054)	(25,555)
Other operating costs	<u>(12,047)</u>	<u>(8,849)</u>	<u>(20,529)</u>
Segment operating loss	(23,813)	(26,903)	(46,084)
Other corporate operating costs	<u>(1,069)</u>	<u>(276)</u>	<u>(1,251)</u>
Group operating loss	(24,882)	(27,179)	(47,335)
Finance income	20	25	543
Finance expense	(21,535)	(18,151)	(37,805)
Foreign exchange (loss)/gain	<u>(2,664)</u>	<u>17,376</u>	<u>22,658</u>
Loss before tax	(49,061)	(27,929)	(61,939)
Income tax credit	<u>1,917</u>	=	<u>1,320</u>
Loss for the period/year	<u>(47,144)</u>	<u>(27,929)</u>	<u>(60,619)</u>
Segment assets			
Moma Titanium Minerals Mine assets	890,091	925,759	905,795
Corporate assets	<u>9,159</u>	<u>13,787</u>	<u>11,983</u>
Total assets	<u>899,250</u>	<u>939,546</u>	<u>917,778</u>

3. SEASONALITY OF SALE OF MINERAL PRODUCTS

Sales of the Group's mineral products are not seasonal in nature.

4. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the ordinary equity holders of the Company is based on the following data:

	Unaudited 30 June 16 US\$'000	Unaudited 30 June 15 US\$'000	Audited 31 Dec 15 US\$'000
Loss for the period/year attributable to equity holders of the Company	(47,144)	(27,929)	(60,619)
	Unaudited 30 June 16 Number of Shares	Unaudited 30 June 15 Number of Shares	Audited 31 Dec 15 Number of Shares
Weighted average number of issued ordinary shares for the purposes of basic loss per share	2,781,905,503	2,781,905,503	2,781,905,503
Effect of dilutive potential ordinary shares: Shares, share options and warrants	=	=	=
Weighted average number of ordinary shares for the purpose of diluted loss per share	<u>2,781,905,503</u>	<u>2,781,905,503</u>	<u>2,781,905,503</u>
	Cent per share	Cent per share	Cent per share
Loss per share: basic	<u>(1.69)</u>	<u>(1.00)</u>	<u>(2.18)</u>
Loss per share: diluted	<u>(1.69)</u>	<u>(1.00)</u>	<u>(2.18)</u>

For the six months ended 30 June 2016, the basic loss per share and the diluted loss per share are the same, as the effect of the outstanding share awards, share options and warrants is anti-dilutive.

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
Cost					
Balance at 1 January 2015	776,953	52,917	9,808	249,984	1,089,662
Transfer from construction in progress	9,808	-	(9,808)	-	-
Additions during the period	<u>502</u>	<u>494</u>	-	-	<u>996</u>
Balance at 30 June 2015	<u>787,263</u>	<u>53,411</u>	-	<u>249,984</u>	<u>1,090,658</u>
Transfer to/from construction in progress	(1,206)	277	929	-	-
Additions during the period	-	-	<u>4,568</u>	-	<u>4,568</u>
Balance at 31 December 2015	<u>786,057</u>	<u>53,688</u>	<u>5,497</u>	<u>249,984</u>	<u>1,095,226</u>
Transfer from construction in progress	3,081	681	(3,762)	-	-
Additions during the period	(279)	-	3,248	-	2,969
Balance at 30 June 2016	<u>788,859</u>	<u>54,369</u>	<u>4,983</u>	<u>249,984</u>	<u>1,098,195</u>
Accumulated Depreciation					
Balance at 1 January 2015	96,745	22,537	-	105,163	224,445
Charge for the period	<u>11,369</u>	<u>2,549</u>	-	<u>2,686</u>	<u>16,604</u>
Balance at 30 June 2015	<u>108,114</u>	<u>25,086</u>	-	<u>107,849</u>	<u>241,049</u>
Charge for the period	<u>14,240</u>	<u>2,750</u>	-	<u>2,226</u>	<u>19,216</u>
Balance at 31 December 2015	<u>122,354</u>	<u>27,836</u>	-	<u>110,075</u>	<u>260,265</u>
Charge for the period	<u>9,613</u>	<u>2,176</u>	-	<u>2,366</u>	<u>14,155</u>
Balance at 30 June 2016	<u>131,967</u>	<u>30,012</u>	-	<u>112,441</u>	<u>274,420</u>
Carrying Amount					
Balance at 30 June 2016	<u>656,892</u>	<u>24,357</u>	<u>4,983</u>	<u>137,543</u>	<u>823,775</u>
Balance at 30 June 2015	<u>679,149</u>	<u>28,325</u>	-	<u>142,135</u>	<u>849,609</u>
Balance at 31 December 2015	<u>663,703</u>	<u>25,852</u>	<u>5,497</u>	<u>139,909</u>	<u>834,961</u>

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. 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 from a life-of-mine financial model. The recoverable amount obtained from the financial model represents the present value of the future cash flows, before finance costs and before tax costs are considered, discounted at 11%.

Key assumptions include the following:

- A mine plan based on the Namalope and Nataka proved and probable reserves which runs to 2056. The life of mine assumption has not changed from the year-end review, when it was applied for the purposes of the impairment test. Application of this change in assumption was applied to the provision for mine closure calculation in the Consolidated Statement of Financial Position as at 30 June 2016, as disclosed in Note 8.
- Average annual production of approximately 1 million tonnes of finished products ilmenite, zircon and rutile over the life of the mine. Minimum stock quantities are forecast to be maintained at period ends. The assumption has not changed from the year-end review.
- 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 are forecast, taking into account independent titanium mineral sands expertise and management expectations including general inflation of 2% per annum. Average forecast product sales prices have remained relatively unchanged over the life of the mine from the year-end review.
- Operating costs are based on budget costs for 2016 taking into account the current running costs of the Mine and escalated by 2% per annum thereafter.
- Sustaining capital costs are based on a life of mine capital plan considering inflation at 2% per annum from 2016.

As a result of this review, the recoverable amount, being its value in use, is greater than its carrying amount, and therefore, no impairment loss (2015: nil) was recognised in the statement of comprehensive income.

The discount rate is the significant factor in determining the recoverable amount. A 1% increase in the discount rate to 12% which management believe could be a reasonably possible change in this assumption would result in an impairment charge of US\$55.7 million in the period.

The recovery of property, plant and equipment is dependent upon the successful operation of the Moma Titanium Minerals Mine; the realisation of the cash flow forecast assumptions, as set out in this note, would result in the recovery of such amounts. The Directors are satisfied that at the reporting date, the recoverable amount of property, plant and equipment exceeds its carrying amount, and based on the planned mine production levels, the Moma Titanium Minerals Mine will achieve positive cash flows.

All additions to property, plant and equipment during the period have been for sustaining capital purposes.

The carrying amount of the Group's plant and equipment includes an amount of US\$0.5 million (2015: US\$0.7 million) in respect of assets held under finance leases.

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

6. SHARE CAPITAL

Share capital as at 30 June 2016 amounted to US\$214.9 million (2015: US\$214.9 million). During the period, no ordinary shares in the Company were issued.

At 30 June 2016, transaction costs of US\$3.8 million relating to an equity transaction were recognised as a deduction from equity. These costs represent costs directly attributable to the equity transaction which were committed at the period end. The transaction to which these costs relate is detailed in Note 12.

7. BANK LOANS

	Unaudited 30 June 16 US\$'000	Unaudited 30 June 15 US\$'000	Audited 31 Dec 15 US\$'000
Corporate Loan	-	19,647	-
Project Super Senior Loans	10,456	-	10,417
Project Senior Loans	79,511	79,209	79,178
Project Subordinated Loans	<u>297,021</u>	<u>246,558</u>	<u>278,216</u>
Total Loans	386,988	345,414	367,811
Project Loan fees and expenses	<u>(29,246)</u>	<u>(15,514)</u>	<u>(25,868)</u>
Total Bank Loans	<u>357,742</u>	<u>329,900</u>	<u>341,943</u>
Within one year	357,742	111,294	341,943
In the second year	-	30,477	-
In the third to fifth years	-	188,129	-
After five years	=	=	=
	357,742	329,900	341,943
Less amounts due for settlement within 12 months	<u>(357,742)</u>	<u>(111,294)</u>	<u>(341,943)</u>
Amount due for settlement after 12 months	=	<u>218,606</u>	=
Project Loans			
Balance at 1 January	341,943	318,275	318,275
Loan interest accrued	18,607	13,964	31,264
Loan interest paid	(2,703)	(2,134)	(4,242)
Loan drawdown	-	-	10,000
Loan amendment fees	(5,730)	(5,673)	(17,303)
Loan fees and expenses	2,352	1,939	3,214
Novated corporate loan	-	-	20,000
Foreign exchange movement	<u>3,273</u>	<u>(16,118)</u>	<u>(19,265)</u>
Balance at 30 June/31 December	<u>357,742</u>	<u>310,253</u>	<u>341,943</u>
Corporate Loan			
Balance at 1 January	-	19,399	19,399
Loan interest accrued	-	1,224	1,441
Loan interest paid	-	(1,241)	(1,458)
Loan fees and expenses	-	265	618
Novated corporate loan	=	=	<u>(20,000)</u>
Balance at 30 June/31 December	=	<u>19,647</u>	=

Project Loans

Project Loans have been made to the Mozambique Branches of Kenmare Moma Mining (Mauritius) Limited (“KMML”) and Kenmare Moma Processing (Mauritius) Limited (“KMPL”, and together with KMML, the “Project Companies”). The Project Loans are secured by substantially all rights and assets of the Project Companies, and, amongst other things, the Group’s shares in the Project Companies, substantially all of the Group’s cash balances and substantially all of the Group’s intercompany loans.

On 22 June 2016 the Group and the Lenders entered into an Amendment, Repayment and Equitisation Agreement for purposes of the proposed group capital restructuring and debt equitisation. The Group also entered into Amended Financing Agreements setting out the terms and conditions applicable to the US\$100 million residual debt following the debt restructuring. Details of these agreements are set out below. On 1 July 2016, the Group published the prospectus detailing the capital reorganisation and capital restructuring.

At 30 June 2016 the Group was in breach of a number of loan covenants which, as and from 1 July 2016, were temporarily waived by the Lenders. As a result, the loan balances as at 30 June 2016 were classified as falling due on demand in the statement of financial position. Upon the effectiveness of the Amended Financing Agreements on 28 July 2016, all then-existing breaches were permanently waived, with the effect that as from such date the loan balances are no longer classified as falling due on demand.

Amendment, Repayment and Equitisation Agreement

On 22 June 2016 the Group entered into an Amendment, Repayment and Equitisation Agreement with the Lenders which, amongst other things, set out their respective obligations to implement the capital restructuring.

The Amendment, Repayment and Equitisation Agreement provided that the debt balance of US\$392.4 million as at 28 July 2016, using agreed exchange rates and without deducting fees and expenses, was repaid as follows: US\$179.6 million of the proceeds from the capital raise was used to repay debt; US\$20.4 million of shares were issued to Absa, EAIF, EIB and FMO, discharging that amount of debt under their US\$40.8 million underwriting commitment; US\$23.8 million of shares were issued to Absa, EAIF, EIB and FMO discharging that amount of senior and subordinated loans under the debt reduction equitisation; and US\$68.6 million of debt was written off by the Subordinated Lenders. In consideration for providing the underwriting, the Subordinated Lenders were paid a fee of 1.75% of their US\$40.8 million underwriting commitment. Following completion of the capital restructuring on 28 July 2016, residual Group debt was US\$100 million. US\$0.6 million of shares were issued to Absa in settlement of an outstanding fee.

The repayments above are not subject to any prepayment or other Lender fees. The Group applied a portion of the US\$75 million in equity proceeds retained for working capital and expenses of the equity issue towards payment of all deferred restructuring fees and commitment fees of the Super Senior Facilities.

Subject to certain exceptions, Lenders will not be permitted to dispose of ordinary shares issued to them for a period of 179 days after 28 July 2016.

Amended Financing Agreements

On 28 July 2016 the debt restructuring was implemented pursuant to which the terms of the residual debt of US\$100 million are now effective.

The residual debt is in two tranches: US\$25.4 million is senior debt and US\$74.6 million is subordinated debt.

Senior debt will rank in priority to subordinated debt in repayment, subject to the waterfall provision summarised below, on insolvency of the Group and on enforcement of security.

Voting thresholds will be calculated on the basis of aggregate outstanding debt, being the aggregate of outstanding senior debt and outstanding subordinated debt. Decisions will be taken by majority Lenders (Lenders whose principal amount of outstanding debt aggregate more than 50.1% of all outstanding debt) or supermajority Lenders (Lenders whose principal amount of outstanding debt aggregate more than 66.7% of all outstanding debt).

Senior Debt

The final maturity date of each tranche of the senior debt is 1 February 2022. Interest on the senior debt will be payable in cash on each semi-annual payment date (1 February and 1 August). The interest rate on each tranche of senior debt is LIBOR plus a margin of 3.00% from and including 28 July 2016 to and including 31 January 2020, and 3.75% thereafter.

Scheduled repayment of the senior debt and subordinated debt is based on the following repayment schedule, the percentage being applied to total senior and subordinated debt outstanding on 28 July 2016 of US\$100 million, in each case subject to the waterfall provisions summarised below:

Payment Date	Principal amount to be repaid (%)
1 Feb 2018	9.52381
1 Aug 2018	9.52381
1 Feb 2019	9.52381
1 Aug 2019	9.52381
1 Feb 2020	9.52381
1 Aug 2020	9.52381
1 Feb 2021	9.52381
1 Aug 2021	11.11111
1 Feb 2022	22.22222

The principal instalment is allocated 50% to senior debt until senior debt is fully repaid (provided that once the amount of Absa senior debt is reduced to US\$10 million, Absa ceases to participate in the senior debt instalment and thereafter participates in the subordinated instalment) with the balance being applied to subordinated debt.

In addition to the scheduled instalments of senior debt, prepayments based on 25% of cash available for restricted payments are required under a cash sweep mechanism, commencing 1 February 2018.

Subordinated Debt

The final maturity date of each tranche of the subordinated debt is 1 February 2022. Interest on the subordinated debt is payable in cash on 1 February and 1 August and will no longer be capitalised. The interest rate on each tranche of subordinated debt is LIBOR plus a margin of 4.75% from and including 28 July 2016 to and including 31 January 2020 and 5.50% thereafter. Subordinated Lenders will receive additional interest allocated pro rata to principal amounts outstanding equal to the difference between (i) interest on the senior loans calculated on the basis of subordinated loan margins and (ii) actual interest on the senior loans. Taken together, the margin on the senior and subordinated loans is thus 4.75% from and including 28 July 2016 to and including 31 January 2020, and 5.50% thereafter.

As mentioned above, scheduled principal instalments on subordinated loans will equal the total principal instalment due on a Payment Date less the principal instalment on senior loans. In addition to the scheduled instalments, payments based on cash available for restricted payments are required under a cash sweep mechanism, commencing 1 February 2018.

Repayment waterfall

All principal repayments, whether scheduled repayments, prepayments with insurance proceeds, prepayments with proceeds from any arbitral award related to the dispute with E+PC Aveng, and prepayments under the cash sweep mechanism, will be allocated as follows:

- (a) the lesser of (i) 50% of the principal repayment and (ii) the principal amount of senior loans outstanding will be applied to repaying the principal amounts outstanding under the senior loans on a pro rata basis to each Senior Lender, provided that once the Absa senior loan is reduced to US\$10 million, Absa shall not participate in the senior loan instalment and shall participate instead in the subordinated loan instalment on a pro rata basis.
- (b) the balance shall be applied to repaying the principal amounts outstanding under the subordinated loans (and, if applicable, under the Absa senior loan) on a pro rata basis to each subordinated lender (and, if applicable, to Absa). Once the senior loans (other than the Absa senior loan) have been fully repaid, the whole amortisation is applied to repaying principal amounts outstanding under the subordinated loans, and, if applicable under the Absa senior loan.

Cash Sweep

From and including the first principal Payment Date (1 February 2018), the Project Companies will be required to prepay outstanding debt in an amount equal to 25% of cash available for restricted payments (as defined below) in accordance with and subject to conditions set out in the Amended Financing Agreements, on each semi-annual payment date (1 February and 1 August), on which all conditions to making a restricted payment set out in the Amended Financing Agreements are met. For this purpose only, conditions to making a restricted payment will be deemed to have been met unless the Project Companies notify the administrative agent on or before the day falling 10 business days prior to the Payment Date that one or more conditions are not met.

Cash sweep payments in accordance with the preceding paragraph will be applied towards repayment of outstanding debt in inverse order of maturity and in accordance with the repayment waterfall summarised above, without any break costs, prepayment premia, charges or penalties. If any Lender elects not to participate in a cash sweep payment, the amount that would otherwise be available to prepay that Lender shall be applied in mandatory prepayment of loans from the other Lenders of the same ranking (senior or subordinated) as such non-participating Lender.

Cash available for restricted payments means in respect of any Payment Date on or after 1 February 2018 the Project Companies' estimate of (a) the aggregate balance expected to be (i) remaining in the Proceeds Accounts, after making of all payments and transfers required or permitted to be made for operating and capital costs, agents' fees, schedule principal and interest payments, mandatory prepayments from proceeds from the E+PC/Aveng dispute, mandatory prepayments upon illegality of Project Loans, and deposits to a reserve account to fund certain expected capital expenditures, (ii) in the senior debt reserve account and (iii) in the sinking fund account, minus (b) (i) the amounts that are required to be in each of the senior debt reserve accounts and the sinking fund account in order to meet the applicable Restricted Payment condition on the Restricted Payment Date associated with that Payment Date and (ii) the amount of Project Costs (other than those related to and payable with funds in the insurance account, the price drop reserve account or the expropriation account) reasonably estimated by the Project Companies for the month in which the Payment Date falls, provided that the balance of Net Arbitration Proceeds retained by the Project Companies shall not in any case count as cash available for restricted payments unless expected by the Project Companies to be used (in part or in whole) for purposes of making a Restricted Payment on the Restricted Payment Date associated with such Payment Date.

Arbitration Proceeds Mandatory Prepayment

In the event that the arbitration between the Project Companies and E+PC Aveng is resolved in favour of the Project Companies (whether by way of arbitral award, settlement or otherwise), the resulting proceeds received by the Project Companies following such resolution (net of all costs incurred by the Project Companies in connection with such arbitration) (such net proceeds, the "Net Arbitration Proceeds") shall be applied by the Project Companies as follows:

- (a) the lesser of (i) 50% of the Net Arbitration Proceeds and (ii) the principal amounts outstanding under the senior loans and the subordinated loans, shall be applied towards repayment of principal amounts of senior loans and subordinated loans then outstanding in accordance with the repayment waterfall described above, in inverse order of maturities; and

- (b) any residual amounts of Net Arbitration Proceeds may be retained by the Project Companies to apply in accordance with applicable waterfalls and must be deposited in an operating cost reserve account to fund future capital expenditures or be transferred to the proceeds account and applied in accordance with the priority of payments.

Withdrawals from accounts: priority of payments

Unless a declared default has occurred and is continuing, moneys to the credit of the Project Companies held in the accounts (other than the senior debt reserve account, the operating cost reserve account, the price drop reserve account, the sinking fund account, the insurance account and the expropriation account) shall be applied in the following order of priority and solely for the following purposes:

1. Project costs;
2. Agents' fees;
3. On each payment date, accrued senior debt interest then due and payable;
4. On each payment date, accrued subordinated debt interest then due and payable;
5. On each payment date, senior principal repayment;
6. On each payment date, subordinated debt principal repayment;
7. Mandatory prepayments related to Net Arbitration Proceeds and in the event of illegality of a Project Loan;
8. Deposits to the senior debt reserve account;
9. Deposits to the sinking fund account;
10. On the first business day of the month in which a payment date falls, deposits in the price drop reserve account to fund permitted capital expenditures;
11. On each cash sharing date, cash sweep payments; and
12. Restricted payments or other general corporate purposes for cash available for restricted payments

Undertakings

Key amendments to the undertakings of the Project Companies are summarised below.

1. Undertakings added by the April 2015 Amendment, including those listed at items (1) to (5) and (7) of page 126 of the 2014 Annual Report, are deleted.
2. The limitation on indebtedness has been amended such that the unsecured financial indebtedness the Project Companies are able to incur without the consent of the Lenders increases from US\$350,000 to US\$7.5 million in aggregate at any time, provided that (a) such unsecured financial indebtedness is in connection with overdraft facilities, working capital facilities and/or capital leases of any mobile or other equipment and other similar arrangements involving the deferral of the purchase price and (b) the interest rate for any such unsecured indebtedness does not exceed that of similar facilities on commercial and arms' length terms.
3. Offtake Agreements: KMPL will be able to cancel, terminate or agree to a reduction in term or quantity of product to be delivered under certain Offtake Agreements without the consent of majority Lenders (i) where the consequent reduction of gross revenues in the subsequent 12 months, when aggregated with any previous cancellation or amendment without majority Lenders' consent from the preceding 12 months, would not reasonably be expected to result in a reduction of gross revenues by an amount that is greater than 10% of the aggregate annual gross revenues set forth in the most recent annual budget and operating plan delivered to the Lenders and (ii) such termination, cancellation or reduction, does not give rise to any liability of KMPL.
4. Restricted payments: these will be permitted subject to the Project Companies meeting certain conditions. See paragraph entitled "Restricted payments" below.
5. The Annual Budget and Operating Plan will no longer be subject to the approval of the Lenders.
6. KMMML and KMPL will be released from certain information undertakings relating to short term cash flow projections, production figures, monthly management accounts, offtake agreements and similar.
7. In addition, certain existing undertakings which are historical and relate to construction, expansion, first disbursement or similar have been deleted.

Events of Default

Key amendments to the events of default are summarised below.

1. Events of default added by the April 2015 Amendment, listed at items (1) to (8) of pages 127-8 of the 2014 Annual Report are deleted.
2. KMMML and KMPL will be able to remedy any event of default that is not a declared default, and will have more time to do so with grace periods for certain events of default being increased. The grace period for events of default under individual loan agreements has increased from 60 days to 90 days. Events of default arising from breach of certain undertakings which prior to 28 July 2016 had no grace period now have a grace period ranging from 15 days to 90 days. Grace periods for events of default for breach of or non-compliance with a covenant run from the earlier of the administrative agent or any Lender giving written notice of the breach or non-compliance, and the date on which either of the Project Companies become aware of the breach or non-compliance.
3. It is an event of default if any litigation, arbitration, administrative, governmental, regulatory or other investigation or proceeding or dispute which is reasonably likely to be adversely determined and if adversely determined, could be expected to have a material adverse effect (as defined in the Amended Financing Agreements), is commenced on or after the date on which the Amended Financing Agreements become effective (as defined in the Amended Financing Agreements) against any member of the Group and is not stayed or discharged within 120 days of commencement.
4. DSCR Default: the Project Companies fail to maintain an historical debt service coverage ratio of at least 1.25:1 as calculated in relation to the previous six months on any Payment Date falling on or after the earlier of Completion and 1 February 2018. Prior to 28 July 2016, this applied only after Completion, and Lenders could only take action if there were three consecutive defaults.
5. In addition, certain existing events of default which are historical and relate to construction, completion or similar have been deleted.

A single Lender is able to unilaterally declare a declared default only in relation to a payment default or default under its individual loan agreement. A decision by the majority Lenders is required to declare a declared default in connection with all other events of default.

The regime for taking enforcement action is simplified as a result of the ability to remedy events of default, longer grace periods and simplified debt structure. Majority Lenders will have the right to take, or direct the taking of, enforcement action on and from the date an event of default is declared a declared default.

Restricted payments

The prohibition on the Project Companies making restricted payments to other Group companies (and hence on the Company paying dividends to its shareholders) under the April 2015 Amendments has been removed. The Project Companies will be permitted to make payments to other Group companies by way of dividend or repayment of shareholder loans (other than amounts invoiced under the existing Management Services Agreement between the Company and the Project Companies which remains unchanged) ("restricted payments"), subject to the conditions referred to below. The result is that from 1 February 2018 the Project Companies would be permitted to make payments to the Company for the purposes of dividend payments to shareholders if the relevant conditions are met.

The Project Companies will be permitted to make restricted payments:

1. after the later of (i) 1 February 2018 and (ii) the date on which the Project Companies have delivered the financial certificate (as such term is defined in the completion agreement); and
2. if the other conditions to making restricted payments (including the cash sweep debt prepayment summarised above) are satisfied. The other conditions to making restricted payments are generally those that were in place prior to the April 2015 Amendments, with certain amendments in favour of the Company. For example, conditions relating to (i) maintaining eligible offtake agreements (as defined in the Amended Financing Agreements) in place to generate revenues above a certain percentage of project costs, (ii) maintaining a specified balance in the operating cost reserve account, and (iii) certain aspects of the periodic marketing certificate, have been removed.

Completion Agreement

Key amendments to the undertakings of the Company and events of default (a “completion default”) in each case under the Completion Agreement are summarised below.

1. Kenmare is no longer required to give Lenders notice of any change of its ownership in excess of 3%.
2. Kenmare procures that on each cash sharing date, amounts to be prepaid to Lenders in connection with the cash sharing arrangement summarised above are applied by the Project Companies. The cash sweep summarised at page 125 of the 2014 Annual Report no longer applies.
3. The limitation on unsecured indebtedness incurred by Kenmare or any other affiliate other than Kenmare Moma Mining (Mauritius) Limited and Kenmare Moma Processing (Mauritius) Limited will be increased from US\$150,000 to US\$2.5 million in aggregate at any time, provided that (a) in each case the interest rate of such indebtedness does not exceed that for similar facilities on commercial and arms’ length terms, and (b) no creditor of Kenmare receives a preferential right to the proceeds of a subsequent equity raise. The restriction on the use of such indebtedness has been broadened to include overdraft facilities, working capital facilities, capital leases of any IT or office equipment and/or corporate credit card facilities.
4. Kenmare is no longer subject to cooperation undertakings relating to Lenders’ financial advisors, site visits, full cooperation and weekly updates to Lenders on implementation of certain steps required by the April 2015 Amendment.
5. Completion defaults for breaches by Kenmare of an undertaking under the Completion Agreement are now subject to a grace period of 30 days other than breaches of the limitation on indebtedness and the limitation on guarantees, which now have a grace period of 15 days. Prior to 28 July 2016 there was no grace period in most cases.

Other

The Subordinated Lenders’ Option Agreement, FMO/EAIF Standby Put Rights Deed dated 30 June 2005 and the EIB Standby Put Right Deed dated 30 June 2005 have been terminated.

The parties to each super senior loan agreement have agreed to irrevocably cancel all available super senior commitments and terminate each super senior loan agreement.

The security trustee will release any security given by the Project Companies in respect of the super senior debt obligations and the Novated Absa debt obligations upon payment and discharge in full of such obligations under the Amendment, Repayment and Equitisation Agreement, which occurred on 28 July 2016.

Lenders’ right to appoint a Lender-Approved Non-Executive Director has been terminated effective 28 July 2016.

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 or one month LIBOR. The average effective borrowing rate at the period end was 10.0%.

The interest rate profile of the Group’s loan balances at the period end was as follows:

	Unaudited 30 June 16 US\$'000	Unaudited 30 June 15 US\$'000	Audited 31 Dec 15 US\$'000
Fixed rate debt	310,800	201,096	294,932
Variable rate debt	<u>46,942</u>	<u>128,804</u>	<u>47,011</u>
Total debt	<u>357,742</u>	<u>329,900</u>	<u>341,943</u>

Under the assumption that all other variables remain constant and using the 6 month LIBOR (and ignoring the

capital restructuring), a 1% change in LIBOR would in principle result in a US\$0.5 million (2015: US\$1.1 million) change in finance costs for the year in respect of these loan balances.

The currency profile of the bank loans at the period end was as follows:

	Unaudited	Unaudited	Audited
	30 June 16	30 June 16	31 Dec 15
	US\$'000	US\$'000	US\$'000
Euro	181,545	176,952	170,195
US Dollars	<u>176,197</u>	<u>152,948</u>	<u>171,748</u>
Total debt	<u>357,742</u>	<u>329,900</u>	<u>341,943</u>

During H1 2016, the Euro-denominated loans exposed 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 (and ignoring the capital restructuring), a 10% strengthening or weakening of Euro against the US Dollar, would in principle result in a US\$2.1 million (2015: US\$1.9 million) change in finance costs and a US\$18.2 million (2015: US\$17.0 million) change in foreign exchange gain or loss for the year, in respect of these loan balances.

The above sensitivity analyses are estimates of the effect of market risks assuming the specified change occurs based on the currency and interest rate profile of the bank loans at 30 June 2016. However, with effect from 28 July 2016, all Group bank loans are denominated in US Dollars, and have been reduced to US\$100 million, so the above currency sensitivity ceased to be relevant from such date. From such date, a 1% change in LIBOR would result in a US\$1.0 million change in finance costs over a 12 month period.

8. PROVISIONS

	Unaudited	Unaudited	Audited
	30 June 16	30 June 15	31 Dec 15
	US\$'000	US\$'000	US\$'000
Mine closure provision	20,117	19,595	19,890
Mine rehabilitation provision	2,593	2,786	2,480
Legal provision	1,444	1,444	1,444
Executive Directors' bonus provision	-	<u>347</u>	-
Total provision	<u>24,154</u>	<u>24,172</u>	<u>23,814</u>
Current	1,714	2,006	1,714
Non-current	<u>22,440</u>	<u>22,166</u>	<u>22,100</u>
	<u>24,154</u>	<u>24,172</u>	<u>23,814</u>

The mine closure provision represents the Directors' best estimate of the Group's liability for close-down, dismantling and restoration of the mining and processing site. A corresponding amount equal to the provision is recognised as part of property, plant and equipment. The costs are estimated on the basis of a formal closure plan and are subject to regular review. The costs are estimated based on the net present value of estimated future cost. Mine closure costs are a normal consequence of mining, and the majority of close-down and restoration expenditure is incurred at the end of the life of the mine.

The unwinding of the discount is recognised as a finance cost and US\$0.2 million (2015: US\$0.3 million) has been recognised in the statement of comprehensive income for the period.

During the period the mine closure provision was adjusted as a result of the increased life of mine. In 2015 there was a reclassification of 776 million tonnes of ore from the Nataka indicated resource to the Nataka probable

reserve. Inclusion of these additional reserves extended the last year of operations from 2033 in the 2014 mine plan to 2056 in the 2015 mine plan. Offsetting the increase in life of mine was a reduction in the discount factor to 2.3% to reflect the 30 year US Treasury yield rate as at 30 June 2016.

The main assumptions used in the calculation of the estimated future costs include:

- a discount rate of 2.3% (2015: 3%) based on a 30 year (2015: 20 year) US Treasury yield rate;
- an inflation rate of 2% (2015: 2%);
- an estimated life of mine of 40 years (2015: 24 years); and
- an estimated closure cost of US\$21.7 million (2015: US\$20.4 million) and an estimated post-closure monitoring provision of US\$1.7 million (2015: US\$1.9 million).

The significant factor in determining the estimated future cost is the discount factor and a 1% change in the discount rate results in a 34% change in the estimated future cost.

The mine rehabilitation provision was increased by US\$0.1 million as a result of additional provision of US\$0.4 million for areas disturbed net of US\$0.3 million released for areas rehabilitated during the period. US\$0.3 million (2015: US\$0.2 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.

On 17 November 2010, a High Court jury delivered a verdict of damages of €10 million in a defamation case taken by a former Company Director. The Company has submitted an appeal to the Supreme Court with a view to setting aside both the verdict and the amount, with the intention of securing a retrial. The High Court granted a stay on the award subject to the payment of €0.5 million until the hearing of the Supreme Court appeal. The Company's legal team strongly advise that the award will be set aside on appeal. The same former director has also served notice that he intends to pursue a number of non-defamation actions against the Company.

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 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 discretion of the Board of Directors. The Company also has an incentive plan under which annual awards have a cash element and a separate share element.

During the period the Group recognised share-based payment expenses of US\$0.1 million (2015: US\$0.8 million credit).

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.

Apart from existing remuneration arrangements there were no material transactions or balances between Kenmare and its key management personnel or members of their close families during the period under review.

11. FAIR VALUE

The fair value of the Group borrowings of US\$318.4 million (2015: US\$333.3 million) has been calculated by reference to the terms of capital restructuring that were agreed with lenders at 30 June 2016, subject to approval by shareholders which was given at an Extraordinary General Meeting on 25 July 2016. These terms provided for a debt write-off by lenders of US\$68.6 million. The fair value is calculated by deducting this write-off from the gross book value of group borrowings of US\$387.0 at 30 June 2016 and by applying period end exchange rates.

The fair value of trade and other receivables, trade and other payables, other financial liabilities and the finance lease are equal to their carrying amounts.

12. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

Effective 25 July 2016, Mr. Tony Lowrie retired as a Non-Executive Director of the Company.

On 28 July 2016, the Group completed a capital restructuring to reduce debt to US\$100 million (from US\$392.4 million using agreed exchange rates) and to provide an additional US\$75 million of cash for working capital and to meet fees and expenses of the capital restructuring. This was achieved by the raising of new equity from new and existing shareholders, the conversion of certain debt to equity in the Company, and certain debt write-offs agreed by Lenders. The capital restructuring also provided for a reduction in the interest rates on outstanding debt, an extension to the term of that debt, and a principal repayment holiday until February 2018.

13. INFORMATION

The Half Yearly Financial Report was approved by the Board on 24 August 2016.

Copies are available from the Company's registered office at Chatham House, Chatham Street, Dublin 2, Ireland. The report is also available on the Company's website at www.kenmareresources.com.

Glossary - Alternative Performance Measures

Certain financial measures set out in our Half Yearly Report to 30 June 2016 are not defined under International Financial Reporting Standards (IFRS), but represent additional measures used by the Board to assess performance and for reporting both internally and to shareholders and other external users. Presentation of these Alternative Performance Measures (“APMs”) provides useful supplemental information which, when viewed in conjunction with the Company’s IFRS financial information, allows for a more meaningful understanding of the underlying financial and operating performance of the Group.

These non-IFRS measures should not be considered as an alternative to financial measures as defined under IFRS.

Descriptions of the APMs included in this report, as well as their relevance for the Group, are disclosed below.

APM	Description	Relevance
EBITDA	Operating profit/loss before depreciation and amortisation	Eliminates the effects of financing and accounting decisions to allow assessment of the profitability and performance of the Group
Cash operating cost per tonne of finished product	Total costs less freight and other non-cash costs, including inventory movements, divided by final product production (tonnes)	Eliminates the non-cash impact on costs to identify the actual cash outlay for production and, as production levels increase or decrease, highlights operational performance by providing a comparable cash cost per tonne of product produced over time
Net Debt	Bank loans net of cash and cash equivalents	Measures the Group’s ability to repay its debts if they were to fall due immediately, and aids in developing an understanding of the leveraging of the Group
Operating cashflow after additions to sustaining capex	The result of cash inflows and outflows from operating activities minus sustaining additions to property, plant and equipment in the period	Provides a measure of the cash the Group is able to generate after expenditure required to maintain its asset base, and highlights the resources available to allow the Group pursue opportunities to enhance shareholder value

EBITDA

	H1 2016	H1 2015	2015
	US\$m	US\$m	US\$m
Operating loss	(24.9)	(27.2)	(47.3)
Depreciation and amortisation	<u>14.2</u>	<u>16.6</u>	<u>35.8</u>
EBITDA	(10.7)	(10.6)	(11.5)

Cash operating cost per tonne of finished product

	H1 2016	H1 2015	2015
	US\$m	US\$m	US\$m
Cost of sales	68.0	91.9	168.1
Other operating costs	<u>13.1</u>	<u>9.2</u>	21.8
Total operating costs	81.1	101.1	189.9
Freight charges	<u>(2.4)</u>	<u>(1.6)</u>	<u>(3.7)</u>
Total operating costs less freight	78.7	99.5	186.2
<u>Non cash costs</u>			
Depreciation and amortisation	(14.2)	(16.6)	(35.8)
Share-based payments	(0.1)	0.8	0.7
<u>Inventory movements</u>			
Finished product movements	<u>2.2</u>	<u>(14.6)</u>	<u>(14.7)</u>
Adjusted cash operating costs	66.6	69.1	136.4
Final product production	434,400	350,700	821,300
Cash operating cost per tonne of finished product	US\$153	US\$197	US\$166

Net Debt

	H1 2016	H1 2015	2015
	US\$m	US\$m	US\$m
Bank loans	357.7	329.9	341.9
Cash and cash equivalents	<u>(12.3)</u>	<u>(12.9)</u>	<u>(14.4)</u>
Net Debt	345.5	317.0	327.5

Operating cashflow after additions to sustaining capex

	H1 2016	H1 2015	2015
	US\$m	US\$m	US\$m
Net cash from/(used in) operating activities	6.6	(3.2)	2.9
Additions to property, plant and equipment	<u>(3.0)</u>	<u>(1.0)</u>	<u>(5.5)</u>
Operating cashflow after additions to sustaining capex	3.6	(4.2)	(2.6)