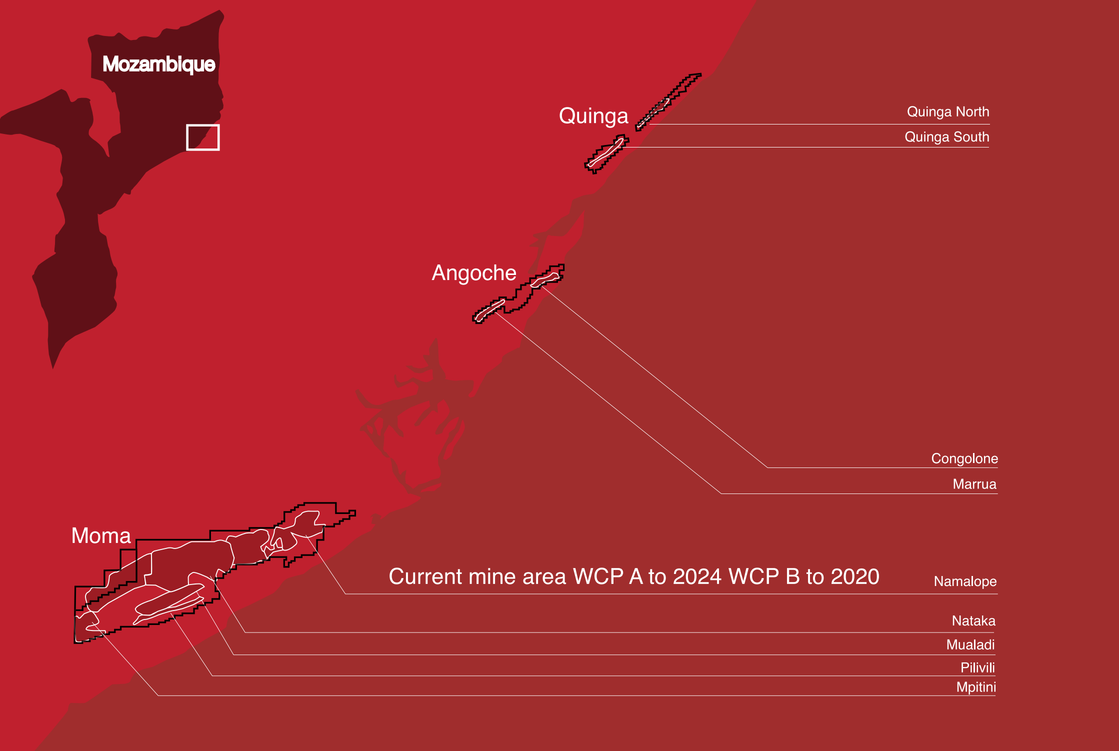
KENMARE

# Half Yearly Financial Report

for the period ended 30 June 2013



Mozambique
Quinga
Quinga North
Quinga South
Angoche
Congolone
Marrua
Moma
Current mine area WCP A to 2024 WCP B to 2020
Namalope
Nataka
Mualadi
Pilivili
Mpitini

## OVERVIEW

- Phase II expansion facilities operational and ramping up production
- Heavy Mineral Concentrate production up 24% on H1 2012 to 480,000 tonnes
- Ilmenite production up 9% on H1 2012 to 302,600 tonnes, zircon production down 19% to 19,100 tonnes
- Moma Project loan amendment agreed
- H2 expected to show strong growth over H1 production volumes as expansion plant ramps up
- Revenues US$79.3 million (H1 2012: US$109.1 million)
- EBITDA US$18.8 million (H1 2012: US$55.5 million)
- Operating profit US$6.9 million (H1 2012: US$47.0 million)
- Net loss US$10.2 million (H1 2012: net profit US$38.8 million)
- Ilmenite market still subdued, zircon market continues to show signs of recovery

# INTERIM MANAGEMENT REPORT

## Overview

Kenmare recorded an operating profit for the first half of 2013 of US$6.9 million (2012: US$47.0 million) and EBITDA of US$18.8 million (2012: US$55.5 million). While production volumes of Heavy Mineral Concentrate (HMC) and ilmenite increased by 24% and 9% respectively on the same period last year, revenues decreased to US$79.3 million (2012: US$109.1 million). This was principally a result of lower average prices, primarily a reflection of weaker market conditions for the first half of the year compared with 2012.

## Expansion

All main production facilities built as part of the 50% capacity expansion are substantially complete and operational.

The completed facilities are in ramp-up, with some undergoing debugging processes and some ancillary systems are still in the last stages of cold commissioning. No issues have been identified to date which would have a major effect on the ramp-up or the ultimate ability of the expanded facilities to operate at nameplate capacity.

## Operations

| Production | H1 2013 | H1 2012 |
|---|---|---|
| Heavy Mineral Concentrate (HMC) | 480,000 tonnes | 386,200 tonnes |
| Ilmenite | 302,600 tonnes | 276,600 tonnes |
| Zircon | 19,100 tonnes* | 23,600 tonnes* |

| Shipments | H1 2013 | H1 2012 |
|---|---|---|
| Product Shipped | 294,100 tonnes | 321,500 tonnes |

* Includes 7,400 tonnes secondary zircon product (H1 2012: 11,100 tonnes)

Production is consistent with operational updates given in the course of the year. Production of HMC in H1 2013 was up 24% on H1 2012 despite January and February being very difficult months for mining operations. These months were the last part of the transition of Dredge Pond A from the Namalope Flats area to an elevated dunal plateau where it will remain for the next 10 years. As a direct consequence of difficult mining in January and February, ilmenite production was constrained in these months by a lack of HMC for processing. In addition, there was a scheduled shutdown of the Mineral Separation Plant (MSP) in June to facilitate expansion integration works which restricted that month's ilmenite production to 36,400 tonnes. Nonetheless, ilmenite production increased 9% in H1 2013 from H1 2012. In July, 80,000 tonnes of ilmenite were produced, a significant increase compared to previous months due to the start of contributions from the Auxiliary Ilmenite Plant constructed as part of the Phase II Expansion. August ilmenite production was slightly reduced due to planned maintenance. The outlook for the remainder of the year is that production will increase towards design capacity as the expansion plants ramp-up.

Zircon production declined by 19% from H1 2012 to H1 2013. This was mainly due to an expansion-related shutdown of the non-magnetic production circuits throughout June which resulted in reduced zircon production of 1,000 tonnes. This shutdown extended through July but is now over and the expanded non-magnetic circuits are being ramped-up.

The Company shipped 294,100 tonnes of products in H1 2013 compared with 321,500 tonnes in H1 2012. In Q1, shipping levels were very low (48,500 tonnes) primarily because stocks had been sold down to a minimum level at the end of the year, and since production was quite modest in the first two months of 2013, stocks took some time to replenish. In contrast, 245,600 tonnes were shipped in Q2.

Now that WCP A is mining in favourable conditions on the dunal plateau, and disruption of operations to link in expansion facilities has ceased, output of all final products is expected to increase in H2 2013 reflecting a steadily increasing contribution from the expansion facilities.

In August, the Company and the union (SINTICIM) which represents the Mine's unionised workforce reached a long term agreement on remuneration for the next three years which provides the Company with a stable basis for cost management of a key component of our operating cost.

## Market

Demand for titanium feedstocks to date in 2013 has been subdued due to a significant destocking cycle by the pigment industry. In 2012, despite global GDP increasing by [3%], global volumes of traded pigment reduced by approximately 10%. Given the scale of this contraction and general expectation of improved economic outlook in 2013, most industry commentators expected a sustained recovery in demand by mid-year. However this recovery has not fully taken hold and the destocking cycle has been longer and deeper than we or most industry participants expected.

Nonetheless despite a less buoyant spring coating season due to the extended winter in Europe and North America, pigment demand improved in the first two quarters compared to the same period in 2012, and steps to moderate pigment production contributed to a significant drawdown of pigment inventory. However the process is not complete, and although some producers have announced a normalisation of their pigment inventories, others continue to hold some excess volumes and curtail production. Globally, pigment plant operating rates, although improving, are still around 80% (and likely lower in China) compared to more normal levels of around 90%.

This curtailment of pigment production is likely to continue into the second half of 2013 as pigment producers remain cautious about the pace of demand recovery in the pigment market. Although US demand continues to grow due to the improved economic conditions, and in particular the recovery in the housing market and strong automotive manufacturing, demand in Europe is sluggish, whilst Asia is more challenging. China in particular is adjusting to more moderate growth rates as the Government orients the direction of the economy to a more consumer-driven model and tries to deflate the property market.

As a consequence of high feedstock inventories at the start of 2013 and low pigment plant operating rates, demand for feedstocks continues to be weak in 2013 and downward pricing pressure persists. However, along with widespread production cuts by major high grade feedstock producers, there is evidence that ilmenite production is being curtailed in Vietnam and China as current prices are now below production cost for some producers. As pigment plant utilisation rates continue to improve during the second half of 2013, we expect a normalisation of feedstock purchasing and increased demand.

The outlook in the zircon market continues to improve since prices bottomed at the end of Q1 2013 following the sharp correction in the previous eight months. There is evidence that some of the substitution and thrifting of zircon by the ceramics industry in the past two years, motivated by previous significant price increases, is being reversed in response to lower prices. Demand conditions are also looking more positive in China and Europe, the two principal ceramics producing regions which experienced a big slowdown in 2012. The zircon market is expected to continue its slow recovery, and the expected price environment for the remainder of 2013 is stable to modest upward pressure.

## Financial Review for the six months ended 30 June 2013

Revenues for the period amounted to US$79.3 million (2012: US$109.1 million), arising from the sale of 294,100 tonnes (2012: 321,500 tonnes) of ilmenite, zircon and rutile. The decrease in revenue was principally due to lower market prices received as weak market conditions prevailed during the first half of the year.

Total operating costs, consisting of cost of sales and other operating costs, amounted to US$72.4 million (2012: US$62.1 million), included depreciation and amortisation of US$12.0 million (2012: US$8.5 million). The increase in operating costs was principally from higher labour and engineering costs, together with additional costs associated with the continued transition of Wet Concentrator Plant A from the low lying Namalope Flats zone onto a raised dunal plateau, which was completed during the first quarter. Included in other operating costs are freight, demurrage and distribution costs of US$7.0 million (2012: US$5.4 million), administration costs of US$1.8 million (2012: US$1.9 million) and a share-based payment expense of US$1.4 million (2012: US$0.9 million). Adjusting total operating costs for depreciation of US$12.0 million (2012: US$8.5 million), total Group share-based payments of US$1.5 million (2012: US$1.4 million), freight reimbursable by customers of US$1.6 million (2012: US$1.3 million) and mineral product inventory movements of US$9.3 million (2012: US$0.9m), the cash production cost for the period amounted to US$66.6 million (2012: US$51.8 million).

The gross profit for the period was US$17.0 million (2012: US$55.2 million) and the operating profit was US$6.9 million (2012: US$47.0 million). The decreases in gross profit and operating profit resulted from lower revenues and increases in operating costs as noted above.

Earnings before interest, tax, depreciation and amortisation (EBITDA) for the period amounted to US$18.8 million (2012: US$55.5 million).

Net finance costs amounted to US$17.5 million (2012: US$13.9 million) and the Group reported a foreign exchange gain of US$1.4 million (2012: US$5.7 million), mainly based upon retranslation of Euro-denominated loans. The Group is reporting a net loss of US$10.2 million for the period (2012: profit US$38.8 million).

During the period, additions to property, plant and equipment were US$90.8 million (2012: US$191.9 million). Capital expenditure on existing plant and equipment was US$7.3 million (2012: US$36.2 million), expansion capital expenditure was US$64.6 million (2012: US$154.5 million) bringing total expansion additions as at 30 June 2013 to US$395.6 million (2012: US$331.0 million). Of this US$395.6 million US$18.5 million relates to a claim by an expansion contractor that is being disputed by Kenmare. In addition, during the period operating costs of US$5.6 million (2012: nil) associated with the expansion facilities were capitalised and US$3.5 million of expansion consumable spares were reclassified to inventory. Final expansion construction costs, excluding disputed amounts, are now expected to be approximately US$390 million. The mine closure asset has increased by US$13.3 million as a result of the change in the discount rate used in the calculation of the mine closure provision. The discount rate used as at 30 June 2013 was 3% based on a 20 year US Treasury yield rate. This is a change in the assumption from 9% used as at 31 December 2012 being the average effective borrowing rate for the Moma Titanium Minerals Mine. The reason for the change in assumption is to exclude the risk of the Company and only include risk specific to the liability.

Inventory at the period end amounted to US$34.2 million (2012: US$22.4 million), consisting of mineral products of US$16.0 million (2012: US$6.6 million) and consumable spares of US$18.2 million (2012: US$15.8 million). The increase in mineral product inventories from 2012 is due to higher volumes at the period end. The increase in consumable spares is due to additional spares required to be held for the expanded plant and equipment. Trade and other receivables amounted to US$20.2 million (2012: US$35.7 million), of which US$16.9 million (2012: US$29.9 million) are trade receivables from the sale of mineral products and US$3.3 million (2012: US$5.8 million) is comprised of prepayments and other miscellaneous debtors. The decrease in trade receivables at the period end is due to the reduction in revenue. Included in trade and other payables of US$69.2 million (2012: US$52.8 million) is US$40.6 million (2012: US$27.9 million) relating to expansion capital additions. Of this US$40.6 million, US$18.5 million is disputed by Kenmare.

Bank loans, comprising the existing Moma project loans and a new corporate bank loan, amounted to US$358.5 million (2012: US$324.4 million) at the end of the period. On 28 February 2013, Kenmare and Absa Bank Limited (“Absa”) entered into an agreement establishing a corporate facility of US$40 million. This facility was fully drawn during the period and matures on 20 March 2014. It is capable of being renewed on the written agreement of Absa and Kenmare and it will need to be renewed or refinanced on or before 20 March 2014. The corporate loan facility bears interest at 1 month LIBOR plus 8% and loan interest of US$0.8 million accrued on this loan during the period.

In relation to the Moma project loans, during the period senior loan interest and principal of US$16.0 million (2012: US$32.9 million) was paid, interest of US$13.6 million (2012: US$26.4 million) accrued, and the Euro-denominated loans decreased by US$2.6 million (2012: increase of US$3.8 million) as a result of the US Dollar strengthening against the Euro. The average interest rate on the Group loans at the period end was 8.7%. On 31 July 2013, the Group entered into an amendment to the Moma project loan agreements with the project lenders. This amendment was agreed as part of on-going management of the Group’s financial resources, taking into consideration the current product market conditions and funding of remaining expansion costs. The amendment includes the effective postponement of the date on which deferred subordinated debt is required to be brought current from 1 August 2014 to 1 August 2015; the deferment of the 1 August 2013 principal instalment of senior debt of US$13 million to 1 August 2014; and an extension in time and quantum of the ability of the Project to fund expansion-related capital expenditures from Project operating cash flows.

Cash and cash equivalents at 30 June 2013 amounted to US$31.0 million (2012: US46.1 million).

## INTERIM MANAGEMENT REPORT (CONTINUED)

### Health, Safety and Community
The Mine's health and safety record remains positive with a lost time injury frequency rate of 0.35 for the twelve months to 30 June 2013. Kenmare remains committed to providing a safe and healthy work environment for its employees.

The Kenmare Moma Development Association (KMAD) continued to support local communities during the period through its economic, social and infrastructure projects.

### Outlook
As the expansion ramp-up progresses, the long period of investment in the facilities at Moma is now complete. The assets that have been constructed give the Mine the ability to supply a significant proportion of the world's titanium feedstock requirement and to do so from a low point on the production cost curve. Titanium feedstocks are critical to the functioning and development of the global economy. Whilst demand has been subdued due to de-stocking and to generally reduced growth in many major markets, as the de-stocking cycle completes and large economies such as the USA move towards more normal growth patterns, demand will improve.

Given the largely fixed cost base, the increase in production from the expanded plant will drive down the unit operating costs. When the market strengthens and delivers improvements in price, increasing production will generate significant free cash flow from operations. During current market weakness, the company will continue to focus on production ramp-up and cost control to maintain liquidity.

### 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 impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected results. These risks are outlined below.

*Market risks*

The Group's revenue and earnings depend upon the demand for and prevailing prices of ilmenite, zircon and 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 beyond the Group's control. Prices for the Group's products are also impacted by the available supply of ilmenite, rutile, other titanium pigment feedstocks, and zircon. 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.

*Concentration and counterparty risk*

A small number of customers account for a significant proportion of the Group's revenue. If any of its major customers ceased dealing with the Group and the Group was unable to sell the product in the market on comparable or superior terms, this would have an adverse impact on the Group's financial condition and results of operations.

Further, the Group's contracts are such that some customers receive title to the product prior to the due date for payment. If any of the customers were unable to or failed to pay for such products, this would have an adverse impact on the Group's revenue generation, result of operations or financial condition.

### *Competition risk*

The mining industry is competitive. The Group faces strong competition from other mining companies in the production and sale of titanium minerals and zircon. Many of these companies have substantially greater financial resources and a longer operating history than the Group. As a result, such companies may have a greater capacity to respond to competitive pressures and market dynamics. There can be no assurance that the Group could be able to successfully respond to such competitive pressure or the competitive activities of other producers.

### *Expansion ramp-up risk*

A failure to achieve post-Phase II Expansion production targets on a timely basis could have a material adverse effect on the Group's production. Successful commissioning and ramp-up of the Phase II Expansion is subject to various factors, many of which are not within the Group's control, including the performance of contractors, suppliers and consultants, and the performance of installed equipment. There is no guarantee that the expanded operations will achieve and maintain the anticipated production volumes on a timely basis, or that the final expansion capital costs or post-expansion operating costs will be in line with those anticipated. Failure to implement the Phase II Expansion as planned may have a material adverse effect on the Group's financial condition and the results of operations, and the Group may be unable to capitalise to the maximum extent on any increase in demand or prices of our products.

### *Operational risks*

The Group's financial condition and results of operations are solely dependent on the success of our operation of the Mine. Any event that materially interferes with our ability to conduct operations at the Mine could have a materially adverse effect on the Group's financial condition and results of operations.

Mining operations are vulnerable to natural events, including drought, floods, fire, storms and the possible effects of climate change. Operating difficulties could be experienced such as a result of unexpected geological variations. Mineral sands dredge mining involves considerable berm construction and geotechnical management. An accident or a breach of operating standards could result in a significant incident which would affect the Group's reputation, and the costs of its operations for indeterminate periods.

The Mine requires reliable roads, ports, power sources and power transmission facilities, and water supplies to conduct its business. The availability and cost of infrastructure affects capital and operating costs, production and sales. In particular, the Mine is dependent on the electricity generation and transmission system in northern Mozambique, and a single 170 km transmission line to the Moma Mine from the Nampula substation. Although the Group has invested in equipment to minimise power interruptions and has been working with the state power transmission utility, Electricidade de Mocambique (EdM) to improve the stability of the electricity supply to the Moma Mine, there is no certainty that it will succeed in minimising or eliminating power fluctuations and interruptions entirely which could adversely affect production. If either the power station at Cahora Basa or the power transmission line to the Moma Mine were to experience prolonged disruptions, production of ilmenite, rutile and zircon would be reduced, which would reduce cash flow, may impact customer relationships, and have an adverse impact on the Group's trading and financial position.

## INTERIM MANAGEMENT REPORT (CONTINUED)

Furthermore, the Mine is reliant on the marine terminal for the shipment of products. Adverse weather conditions can limit the amount of shipments. Extreme weather conditions or accident could result in damage to the marine terminal, rendering the Mine unable to ship its products pending repair. In these situations, the Mine may be unable to meet its commitments to customers to a lesser or greater degree, resulting in reduced revenues, ocean freight penalties and reduced cashflow, with an adverse impact on customer relationships, results of operations and trading and financial condition.

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

The Group's insurance does not cover every potential risk associated with its operations. Adequate cover at reasonable rates is not always obtainable. In addition, the Group's insurance may not fully cover its liability or the consequences of any business interruption such as weather events, equipment failure or labour dispute. The occurrence of a significant event not fully covered by insurance could have an adverse effect on the Group's business, results of operations and financial condition.

*Financing and refinancing risks*

On the 28 February 2013, Kenmare and Absa entered into agreement establishing a corporate facility of US$40 million maturing on 20 March 2014. This facility was fully drawn in the period. It is capable of being renewed on the written agreement of both Absa and Kenmare and it will need to be renewed or refinanced on or before 20 March 2014. Failure to renew or refinance may result in an event of default under the corporate facility as well as under the Moma Project Loans.

The development of the Mine has been partly financed by the Moma Project Loans. The Group's ability to meet its debt service obligations depends on the cashflow generated from operations. The Mine's cashflow, in turn, depends primarily on the Mine's ability to achieve production, product sales volumes and pricing and cost targets. Failure to achieve these targets could result in insufficient funds to meet scheduled interest and principal repayments which would result in an event of default. Senior management monitors achievement of targets and cashflow to ensure sufficient funds are available to meet scheduled repayments.

*Currency risks*

The Group's corporate and Moma project loans are denominated in US Dollars and Euro. At 30 June 2013, the loan balance comprised US$188.1 million denominated in US Dollars and US$170.4 million denominated in Euro. The outstanding loans are due to be repaid in instalments between 2014 and 2019. All the Group's sales are denominated in US Dollars. Euro-denominated loans expose the Group to currency fluctuations which are realised on payment of interest and principal on Euro-denominated loans.

Senior management regularly monitors and reports to the Board on these currency risks. The Board has determined that the Group's current policy of not entering into derivative financial instruments to manage the loan-related currency risks continues to be appropriate in light of the length of, and payment profile over, the loan repayment period.

Group operating and capital costs are denominated in US Dollars, South African Rand, Mozambican Metical, Euro, Sterling, Australian Dollars and Singapore Dollars. Fluctuations in these currencies will impact on the Group's financial results. The operating and expansion capital currency exposure is managed by adjusting the currencies in which the cash used to fund such expenditure is held.

*Interest rate risk*

Interest rates on the Group's bank loans are both fixed and variable. The variable rates are based on one month and six month US Dollar LIBOR. All the Euro loans are fixed rate. The Group is exposed to movements in interest rates which affect the amount of interest paid on borrowings. As at 30 June 2013, 59% of the Group's debt (US$211.6 million) was at fixed interest rates and 41% (US$146.9 million) was at variable interest rates. Any increase in the one month and six month US Dollar LIBOR would increase finance costs and therefore have a negative impact on the Group's profitability. Senior management regularly monitors and reports to the Board on these interest rate risks. The Board has determined that the Group's current policy of not entering into derivative financial instruments to manage such risks continues to be appropriate in light of the length of the loan repayment period, the payment profile over this period and the mix of fixed and variable rate debt.

*Health and safety risks*

The Group is committed to conducting its business in a manner that minimises the exposure of its employees, contractors and the general public to health and safety risks arising from its operations. An accident or a breach of operating standards could result in a significant incident which would affect the Group's reputation, and the costs and viability of its operations for an indeterminate period. The Group's operations worked 4.4 million hours in the six months to 30 June 2013 (2012: 3.3 million hours), with 7 lost-time injuries to employees and contractors (2012: 2 lost-time injuries). Malaria is a key risk at the Mine and the Group continues to develop and implement programmes to minimise its impact on all personnel at the Mine. The Group will also continue to ensure that appropriate health and safety standards are maintained across all its activities.

*Human Resources risks*

The Group's success depends upon the expertise and continued service of certain key executives and technical personnel, including the Executive Directors. The loss of the services of certain key employees, including to competitors, could have a material adverse effect on the results of operations and 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, which is not guaranteed. Due to the increased mining activity in Mozambique in recent years, the Group has encountered increasing competition in attracting experienced mining professionals. Should key personnel leave or should the Group be unable to attract and retain qualified personnel, the Group's business, its results of operations and financial condition may be adversely affected. Certain Mine employees are represented by a union under a collective agreement. The Mine may not be able to satisfactorily renegotiate 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 earnings, financial condition and reputation.

*Litigation risks*

The Group may from time to time face the risk of litigation in connection with its business and/or other activities. Recovery may be sought against the Group for large and/or indeterminate amounts and the

## INTERIM MANAGEMENT REPORT (CONTINUED)

existence and scope of liabilities may remain unknown for substantial periods of time. A substantial legal liability and/or an adverse ruling could have a material adverse effect on the Group's business, results of operation and/or financial condition.

*Political and regulatory risks*
The Mine is located in Mozambique, which has been politically stable for almost two decades. The Group has operated in Mozambique since 1987, and has executed a Mineral Licensing Contract and an Implementation Agreement which each contain certain protections against adverse changes in Mozambican law. Mozambique may, however, become subject to risks similar to those which are prevalent in many developing countries, including extensive political or economic instability, changes in fiscal policy (including increased taxes or royalty rates), nationalisation, inflation, and currency restrictions. 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 development 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 and financial condition of the Group.

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

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

### Events after the balance sheet date
On 31 July 2013, the Group entered into an amendment to the Moma project loan agreements with the project lenders as detailed above and in Note 7.

In August, the Company and the union (SINTICIM) which represents the Mine's unionised workforce reached a long term agreement on remuneration for the next three years.

### 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<br>Michael Carvill | Financial Director<br>Tony McCluskey |
| 27 August 2013 | 27 August 2013 |

# RESPONSIBILITY STATEMENT

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

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

- The Group condensed consolidated financial statements for the half year ended 30 June 2013 have been prepared in accordance with IAS 34 'Interim Financial Reporting', as adopted by the European Union;

- The Interim Management Report includes a fair review of the information required by Regulation 8(2) of the Transparency (Directive 2004/109/EC) Regulations 2007, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed 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<br>Michael Carvill | Financial Director<br>Tony McCluskey |
| 27 August 2013 | 27 August 2013 |

# 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 2013 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 Cashflows 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.

Deloitte.

## 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 2013 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 – Going Concern and Recoverability of Property, Plant and Equipment*

In forming our conclusion on the condensed consolidated financial statements for the six months ended 30 June 2013, which is not modified, we have considered the adequacy of the disclosures made in note 1 of the group condensed consolidated financial statements concerning going concern and in note 5 concerning the recoverability of Property, Plant and Equipment of US$962.9 million which is dependent on the successful development of economic ore reserves, successful operation of the Moma Titanium Minerals Mine ("Mine") including the expansion project and continued availability of adequate funding for the Mine. The group condensed financial statements do not include any adjustments relating to these uncertainties and the ultimate outcome cannot at present be determined.

**Deloitte & Touche**
Chartered Accountants
Dublin

27 August 2013

# GROUP CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## FOR THE SIX MONTHS ENDED 30 JUNE 2013

| | Notes | Unaudited 6 Months 30 June 2013 US$'000 | Unaudited 6 Months 30 June 2012 US$'000 | Audited 12 Months 31 Dec 2012 US$'000 |
|---|---|---|---|---|
| Revenue | 2 | 79,273 | 109,127 | 234,638 |
| Cost of sales | | (62,245) | (53,946) | (134,472) |
| Gross profit | | 17,028 | 55,181 | 100,166 |
| Other operating costs | | (10,152) | (8,181) | (19,730) |
| Operating profit | | 6,876 | 47,000 | 80,436 |
| Finance income | | 210 | 1,330 | 1,706 |
| Finance costs | | (17,689) | (15,200) | (28,714) |
| Foreign exchange gain/(loss) | | 1,370 | 5,663 | (641) |
| (Loss)/profit before tax | | (9,233) | 38,793 | 52,787 |
| Income tax charge | | (993) | - | (3,301) |
| (Loss)/profit for the period/year | | (10,226) | 38,793 | 49,486 |
| Attributable to equity holders | | (10,226) | 38,793 | 49,486 |
| | | Cent per share | Cent per share | Cent per share |
| (Loss)/earnings per share: basic | 4 | (0.40c) | 1.61c | 2.01c |
| (Loss)/earnings per share: diluted | 4 | (0.40c) | 1.60c | 2.00c |

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

# GROUP CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## AS AT 30 JUNE 2013

| | Notes | Unaudited 30 June 2013 US$'000 | Unaudited 30 June 2012 US$'000 | Audited 31 Dec 2012 US$'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 5 | 962,919 | 775,182 | 887,513 |
| Deferred tax asset | | 1,182 | 5,477 | 2,176 |
| | | 964,101 | 780,659 | 889,689 |
| **Current assets** | | | | |
| Inventories | | 34,212 | 27,989 | 22,422 |
| Trade and other receivables | | 20,209 | 44,374 | 35,746 |
| Cash and cash equivalents | | 31,008 | 35,141 | 46,067 |
| | | 85,429 | 107,504 | 104,235 |
| **Total assets** | | 1,049,530 | 888,163 | 993,924 |
| **Equity** | | | | |
| **Capital and reserves attributable to the Company's equity holders** | | | | |
| Called-up share capital | 6 | 205,205 | 196,388 | 205,168 |
| Share premium | 6 | 349,861 | 301,510 | 349,780 |
| Retained earnings | | 19,652 | 18,799 | 29,801 |
| Other reserves | | 22,357 | 19,059 | 20,848 |
| **Total equity** | | 597,075 | 535,756 | 605,597 |
| **Liabilities** | | | | |
| **Non-current liabilities** | | | | |
| Bank loans | 7 | 145,537 | 192,293 | 177,380 |
| Obligations under finance lease | | 1,341 | 1,675 | 1,508 |
| Provisions | 8 | 22,840 | 7,668 | 9,050 |
| | | 169,718 | 201,636 | 187,938 |
| **Current liabilities** | | | | |
| Bank loans | 7 | 212,982 | 127,059 | 147,032 |
| Obligations under finance lease | | 318 | 253 | 286 |
| Provisions | 8 | 276 | 276 | 276 |
| Trade and other payables | | 69,161 | 23,183 | 52,795 |
| | | 282,737 | 150,771 | 200,389 |
| **Total liabilities** | | 452,455 | 352,407 | 388,327 |
| **Total equity and liabilities** | | 1,049,530 | 888,163 | 993,924 |

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

# GROUP CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE SIX MONTHS ENDED 30 JUNE 2013

| | Called-Up Share Capital US$'000 | Share Premium US$'000 | Capital Conversion Reserve Fund US$'000 | Retained Earnings /(Losses) US$'000 | Share Option Reserve US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|
| Balance at 1 January 2012 | 196,347 | 301,391 | 754 | (19,994) | 16,856 | 495,354 |
| Profit for the period | - | - | - | 38,793 | - | 38,793 |
| Share based payments | - | - | - | - | 1,449 | 1,449 |
| Issue of share capital | 41 | 119 | - | - | - | 160 |
| Balance at 30 June 2012 | 196,388 | 301,510 | 754 | 18,799 | 18,305 | 535,756 |
| Profit for the period | - | - | - | 10,693 | - | 10,693 |
| Share based payments | - | - | - | 309 | 1,789 | 2,098 |
| Issue of share capital | 8,780 | 48,270 | - | - | - | 57,050 |
| Balance at 31 December 2012 | 205,168 | 349,780 | 754 | 29,801 | 20,094 | 605,597 |
| Loss for the period | - | - | - | (10,226) | - | (10,226) |
| Share based payments | - | - | - | 77 | 1,509 | 1,586 |
| Issue of share capital | 37 | 81 | - | - | - | 118 |
| Balance at 30 June 2013 | 205,205 | 349,861 | 754 | 19,652 | 21,603 | 597,075 |

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

# GROUP CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS
## FOR THE SIX MONTHS ENDED 30 JUNE 2013

| | Unaudited 6 Months 30 June 2013 US$'000 | Unaudited 6 Months 30 June 2012 US$'000 | Audited 12 Months 31 Dec 2012 US$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| (Loss)/profit for the period/year | (9,233) | 38,793 | 52,787 |
| Adjustment for: | | | |
| Foreign exchange movement | (1,370) | (5,663) | 641 |
| Share-based payments | 1,547 | 1,512 | 3,165 |
| Finance income | (210) | (1,330) | (1,706) |
| Finance costs | 14,827 | 13,693 | 27,157 |
| Depreciation | 11,995 | 8,476 | 18,456 |
| Increase in provisions | 204 | 59 | 1,236 |
| Operating cash inflow | 17,760 | 55,540 | 101,736 |
| (Increase)/decrease in inventories | (11,790) | (2,143) | 3,424 |
| Decrease/(increase) in trade and other receivables | 15,537 | (5,543) | 3,100 |
| Increase/(decrease) in trade and other payables | 3,605 | (4,611) | (4,185) |
| Cash generated by operations | 25,112 | 43,243 | 104,075 |
| Interest received | 210 | 1,330 | 1,706 |
| Interest paid | (3,482) | (3,669) | (7,014) |
| **Net cash from operating activities** | 21,840 | 40,904 | 98,767 |
| **Cash flows from investing activities** | | | |
| Additions to property, plant and equipment | (61,405) | (71,176) | (164,251) |
| **Net cash used in investing activities** | (61,405) | (71,176) | (164,251) |
| **Cash flows from/(used in) financing activities** | | | |
| Proceeds on the issue of shares | 119 | 160 | 57,210 |
| Repayment of borrowings | (12,985) | (12,966) | (25,875) |
| Drawdown of borrowings | 40,000 | - | - |
| Fees paid on drawdown of borrowings | (802) | - | - |
| Decrease in obligations under finance lease | (280) | (280) | (560) |
| **Net cash from/(used in) financing activities** | 26,052 | (13,086) | 30,775 |
| **Net decrease in cash and cash equivalents** | (13,513) | (43,358) | (34,709) |
| Cash and cash equivalents at the beginning of period/year | 46,067 | 77,256 | 77,256 |
| Effect of exchange rate changes on cash and cash equivalents | (1,546) | 1,243 | 3,520 |
| **Cash and cash equivalents at end of period/year** | 31,008 | 35,141 | 46,067 |

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

# NOTES TO THE GROUP CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
## FOR THE PERIOD ENDED 30 JUNE 2013

### 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 2013 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 2012 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 2013. Adoption has resulted in no material impact on the financial statements.

The financial information presented in this document does not constitute statutory financial statements. The amounts presented in the Half Yearly Financial Statements for the six months ended 30 June 2013 and the corresponding amounts for the six months ended 30 June 2012 have been reviewed but not audited. The independent auditors' review report is on pages 12 and 13. The financial information for the year ended 31 December 2012, presented herein, is an abbreviated version of the annual financial statements for the Group in respect of the year ended 31 December 2012. The Group's financial statements have been filed in the Companies Registration Office and the independent auditors issued an unqualified audit report, with an emphasis of matter in the opinion, in respect of those annual financial statements.

There were no other gains or losses during the six months period ended 30 June 2013 other than those reported in the Condensed Consolidated Statement of Comprehensive Income.

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

Key assumptions upon which the forecast is based include a mine plan covering production using the Namalope and Nataka proved and probable reserves, forecast sales and the renewal or refinancing of the Absa corporate loan. The forecast also reflects a revised debt repayment profile for the Moma Project Loans.

Annual production levels at full capacity pre-expansion are approximately 800,000 tonnes of ilmenite per annum plus co-products, rutile and zircon and post-expansion are approximately 1.2 million tonnes of ilmenite per annum plus co-products, rutile and zircon. Product sales prices are based on contract prices as stipulated in marketing agreements with customers, or where contracts are based on market prices or production is not presently contracted, prices as forecast. The forecast is developed using Kenmare's industry knowledge and assumes that the product markets recover from the subdued levels experienced during the first half of 2013 and that Kenmare will sell increasing volumes of all products as the expansion production volumes ramp-up. Operating and capital replacement costs are based on approved budget costs for 2013 and escalated by 2% per annum thereafter and reflecting post-expansion costs from 2013 onwards.

On 28 February 2013, Kenmare and Absa Bank Limited ("Absa") entered into an agreement establishing a corporate facility of US$40 million. This facility was fully drawn during the period, and matures on 20 March 2014. It is capable of being renewed on the written agreement of Absa and Kenmare and the forecast assumes it will be renewed or refinanced on or before 20 March 2014. Absa, a member of Barclays plc, is an existing lender to the Project Companies.

On 31 July 2013, the Group entered into an amendment to the Moma Project Loan agreements with the project lenders. This amendment was agreed as part of on-going management of the Group's financial resources, taking into consideration the current product market conditions and funding of remaining expansion costs. The amendment includes: the effective postponement of the date on which deferred subordinated debt is required to be brought current from 1 August 2014 to 1 August 2015; the deferment of the 1 August 2013 principal instalment of senior debt of US$13 million to 1 August 2014; and an extension in time and quantum of the ability of the Project to fund expansion-related capital expenditures from Project operating cash flows.

## 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 30 June 13 US$'000 | Unaudited 30 June 12 US$'000 | Audited 31 Dec 12 US$'000 |
|---|---|---|---|
| **Segment revenues and results** | | | |
| Moma Titanium Minerals Mine | | | |
| Revenue | 79,273 | 109,127 | 234,638 |
| Cost of sales | (62,245) | (53,946) | (134,472) |
| Gross profit | 17,028 | 55,181 | 100,166 |
| Other operating costs | (7,502) | (5,855) | (14,032) |
| Segment operating profit | 9,526 | 49,326 | 86,134 |
| Central operating costs | (2,650) | (2,326) | (5,698) |
| Group operating profit | 6,876 | 47,000 | 80,436 |
| Finance income | 210 | 1,330 | 1,706 |
| Finance expense | (17,689) | (15,200) | (28,714) |
| Foreign exchange gain/(loss) | 1,370 | 5,663 | (641) |
| (Loss)/profit before tax | (9,233) | 38,793 | 52,787 |
| Income tax charge | (993) | - | (3,301) |
| (Loss)/profit for the period/year | (10,226) | 38,793 | 49,486 |
| **Segment assets** | | | |
| Moma Titanium Minerals Mine assets | 1,024,224 | 867,750 | 957,805 |
| Corporate assets | 25,306 | 20,413 | 36,119 |
| Total assets | 1,049,530 | 888,163 | 993,924 |

# NOTES TO THE GROUP CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2013

## 3. Seasonality of sale of mineral products

Sales of mineral products are not seasonal in nature.

## 4. (Loss)/earnings per share

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

| | Unaudited 30 June 13 US$'000 | Unaudited 30 June 12 US$'000 | Audited 31 Dec 12 US$'000 |
|---|---|---|---|
| (Loss)/profit for the period/year attributable to equity holders of the parent | (10,226) | 38,793 | 49,486 |

| | Unaudited 30 June 13 Number of Shares | Unaudited 30 June 12 Number of Shares | Audited 31 Dec 12 Number of Shares |
|---|---|---|---|
| Weighted average number of issued ordinary shares for the purposes of basic (loss)/earnings per share | 2,531,367,056 | 2,410,081,709 | 2,462,602,902 |
| Effect of dilutive potential ordinary shares Share options | - | 16,773,446 | 9,977,123 |
| Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share | 2,531,367,056 | 2,426,855,155 | 2,472,580,025 |

| | Cent per share | Cent per share | Cent per share |
|---|---|---|---|
| (Loss)/earnings per share: basic | (0.40c) | 1.61c | 2.01c |
| (Loss)/earnings per share: diluted | (0.40c) | 1.60c | 2.00c |

For the six months ended 30 June 2013, the basic loss per share and the diluted loss per share are the same, as the effect of the outstanding share options is anti-dilutive.

## 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 2012 | 343,451 | 16,500 | 181,439 | 248,761 | 790,151 |
| Transfer from construction in progress | 1,134 | 2,047 | (3,181) | - | - |
| Additions during the period | - | - | 68,551 | 989 | 69,540 |
| Balance at 30 June 2012 | 344,585 | 18,547 | 246,809 | 249,750 | 859,691 |
| Transfer from construction in progress | 11,552 | 11,416 | (22,968) | - | - |
| Additions during the period | 170 | - | 121,907 | 234 | 122,311 |
| Balance at 31 December 2012 | 356,307 | 29,963 | 345,748 | 249,984 | 982,002 |
| Transfer to consumable spare inventory | - | - | (3,471) | - | (3,471) |
| Transfer from construction in progress | 15,573 | 2,118 | (17,691) | - | - |
| Additions during the period | 14,833 | - | 76,039 | - | 90,872 |
| **Balance at 30 June 2013** | **386,713** | **32,081** | **400,625** | **249,984** | **1,069,403** |
| **Accumulated Depreciation** | | | | | |
| Balance at 1 January 2012 | 45,659 | 10,919 | - | 19,455 | 76,033 |
| Charge for the period | 4,940 | 807 | - | 2,729 | 8,476 |
| Balance at 30 June 2012 | 50,599 | 11,726 | - | 22,184 | 84,509 |
| Charge for the period | 5,528 | 1,271 | - | 3,181 | 9,980 |
| Balance at 31 December 2012 | 56,127 | 12,997 | - | 25,365 | 94,489 |
| Charge for the period | 6,399 | 2,081 | - | 3,515 | 11,995 |
| **Balance at 30 June 2013** | **62,526** | **15,078** | **-** | **28,880** | **106,484** |
| **Carrying Amount** | | | | | |
| **Balance at 30 June 2013** | **324,187** | **17,003** | **400,625** | **221,104** | **962,919** |
| Balance at 30 June 2012 | 293,986 | 6,821 | 246,809 | 227,566 | 775,182 |
| Balance at 31 December 2012 | 300,180 | 16,966 | 345,748 | 224,619 | 887,513 |

During the period the Group carried out an impairment review of property, plant and equipment. The cash generating unit for the purpose of impairment testing is the Moma Titanium Minerals Mine as this is the operating segment of the Group. The basis on which the recoverable amount of the Moma Titanium Minerals Mine is assessed is its value-in-use. The cash flow forecast employed for the value-in-use computation is a life-of-mine financial model. The recoverable amount obtained from the financial model represents the present value of the future pre-tax and pre-finance cash flows discounted at 10%.

# NOTES TO THE GROUP CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## FOR THE PERIOD ENDED 30 JUNE 2013

### 5. Property, plant and equipment (continued)

Key assumptions include the following:

- A mine plan based on the Namalope and Nataka proved and probable reserves.
- The cash flows assume ramp-up to expanded production levels during 2013. Expected annual production levels at full capacity pre-expansion are approximately 800,000 tonnes of ilmenite per annum plus co-products, zircon and rutile. Expected annual production levels at full capacity post-expansion are approximately 1.2 million tonnes of ilmenite per annum plus co-products, zircon and rutile.
- Product sales prices are based on contract prices as stipulated in marketing agreements with customers, or where contracts are based on market prices or production is not presently contracted, prices as forecast.
- Operating and capital replacement costs are based on approved budget costs for 2013 and escalated by 2% per annum thereafter and reflecting post-expansion costs from 2013 onwards.

As a result of this review no impairment provision is required. The discount rate is the significant factor in determining the recoverable amount and a 1% change in the discount rate results in an 8% change in the recoverable amount.

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

The carrying amount of the Group's plant and equipment includes an amount of US$1.2 million (2012: US$1.2 million) in respect of assets held under finance leases.

Included in construction and progress is US$17.4 million (2012: US$29.3 million) relating to capital projects for existing operations and US$383.2 million (2012: US$316.4 million) relating to expansion capital.

The amount included in payables relating to expansion costs at 30 June 2013 is US$40.6 million (2012: US$27.9 million). Of this US$40.6 million, US$18.5 million is disputed by Kenmare.

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

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

## 6. Share capital

Share capital as at 30 June 2013 amounted to US$205.2 million (2012: US$205.1 million). During the period, 0.5 million ordinary shares in the Company were issued as a result of the exercise of share options. US$0.04 million of these issues have been credited to share capital and US$0.08 million to share premium.

## 7. Bank loans

| | Unaudited 30 June 13 US$'000 | Unaudited 30 June 12 US$'000 | Audited 31 Dec 12 US$'000 |
|---|---|---|---|
| Moma Project Loans | | | |
| Senior Loans | 93,357 | 119,490 | 106,891 |
| Subordinated Loans | 226,028 | 199,862 | 217,521 |
| Total Moma Project Loans | 319,385 | 319,352 | 324,412 |
| Corporate Loan | 39,134 | - | - |
| Total Bank Loans | 358,519 | 319,352 | 324,412 |
| | | | |
| Within one year | 212,982 | 127,059 | 147,032 |
| In the second year | 37,606 | 39,425 | 39,993 |
| In the third to fifth years | 70,871 | 93,945 | 86,725 |
| After five years | 37,060 | 58,923 | 50,662 |
| | 358,519 | 319,352 | 324,412 |
| Less amounts due for settlement within 12 months | (212,982) | (127,059) | (147,032) |
| Amount due for settlement after 12 months | 145,537 | 192,293 | 177,380 |

Bank loans at the period end amounted to US$358.5 million (2012: US$324.1 million). During the period loan interest and principal repayments of US$16.2 million (2012: US$32.9 million) were made, interest of US$14.1 million (2012: US$26.4 million) accrued and Euro-denominated loans decreased by US$2.6 million (2012: increase of US$3.8 million) as a result of the US Dollar strengthening against the Euro during the period. During the period the corporate loan facility of US$40 million was drawn down in full. Fees incurred in relation to the corporate loan amounted to US$1.2 million.

# NOTES TO THE GROUP CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
## FOR THE PERIOD ENDED 30 JUNE 2013

## 7. Bank loans (continued)

### Moma Project Loans

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

Seven Senior Loan credit facilities were made available for financing the Moma Titanium Minerals Mine. The aggregate maximum available amount of the Senior Loan credit facilities was US$185 million plus €15 million which were fully drawn in 2008. As at 30 June 2013 the remaining tenors of the Senior Loans range from 2 years to 5 years. Three of the Senior Loans bear interest at fixed rates and four bear interest at variable rates.

The Subordinated Loans comprise the original Subordinated Loans, the Standby Subordinated Loans and the Additional Standby Subordinated Loans.

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

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

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

Interest and principal on the Subordinated Loans is due to be paid each year in February and August but if cash is insufficient in the Project Companies on any scheduled payment date, interest is capitalised and both interest and principal become payable on the next semi-annual payment date thereafter, in whole or in part, to the extent of available cash. Included in loan amounts due within one year is US$134.1 million (2012: US$118.6 million) in relation to such Subordinated Loans. The final instalments are due on 1 August 2019.

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

Under a Deed of Waiver and Amendment entered into in 2009, interest margins on Subordinated Loans were increased by 3% per annum until Technical Completion and by 1% per annum until Completion. This additional margin is scheduled to be paid after senior loans have been repaid in full but may be prepaid without penalty.

**Moma Project Loan Completion**
The Company and Congolone Heavy Minerals Limited have guaranteed the Moma Project Loans during the period prior to Completion (achievement of both "Technical Completion" and "Non-Technical Completion"). Upon Completion, the Company's and Congolone Heavy Mineral Limited's guarantee of the Moma Project Loans will terminate. Failure to achieve Completion by the Final Completion Date (subject to extension for force majeure) would constitute an Event of Default under the Moma Project Financing.

On 5 September 2011, Technical Completion was achieved. Non-Technical Completion occurs upon the meeting certain financial, legal and permitting requirements, including filling of specified reserve accounts to the required levels as well as certification in respect of the Project Companies having sufficient funds available to repay deferred Subordinated Loan amounts on the next scheduled payment date.

**Amendments to Moma Project Loans**
On 31 July 2013, the Company, Kenmare Moma Mining (Mauritius) Limited (Mozambique Branch) and Kenmare Moma Processing (Mauritius) Limited (Mozambique Branch) entered into an Amendment Agreement with Project Lenders. Among other things, the Amendment Agreement provided as follows:

- A deferral by Senior Lenders of senior principal (US$13 million) due on 1 August 2013 until 1 August 2014; and an agreement that no Subordinated Loans would be paid prior to such date;
- An extension of the final date for achieving Completion to 28 February 2015 (subject to further extension for any subsequent force majeure events). As a result, the effective date on which deferred Subordinated Loan obligations need to be repaid is extended from the 1 August 2014 payment date to the 1 August 2015 payment date;
- An extension of the ability to apply Project operating cashflows to fund remaining expansion costs with the effect that up to US$58 million of available cash flows accruing after 30 June 2013 can be reserved in specified bank accounts until the earlier of the date on which the outstanding completion certificates are delivered and 31 December 2014; and such reserved cash together with the US$5.4 million balance in such accounts as at 30 June 2013 can be applied to expansion capital costs until the later of 31 December 2014 and the date on which the outstanding completion certificates are delivered; this is subject to certain limits on the amounts that may be so applied on or after 1 July 2013, including, other than in respect of certain specified costs, the amount that may be applied in respect of expansion costs shall not exceed US$40.4 million (including US$5.4 million already reserved as at 30 June 2013); and
- In consideration of such amendments, payment to Lenders of a risk/deferral fee in quarterly instalments, in the case of Senior Lenders, to a total of 1.25%, and in the case of Subordinated Lenders, to a total of 2.25%, in each case of the principal amount outstanding as at 31 July 2013; as well as work fees totalling US$180,000, legal fees and out-of-pocket costs incurred by the Project Lenders in negotiating the amendment, and fees payable in connection with certain political risk and other guarantees and insurance policies applicable to the Senior Loans.

## NOTES TO THE GROUP CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**FOR THE PERIOD ENDED 30 JUNE 2013**

### 7. Bank loans (continued)

**Other Group bank borrowings**

On 28 February 2013, Kenmare and Absa entered into agreement establishing a corporate facility of US$40 million maturing on 20 March 2014. This facility was fully drawn in the period. It is capable of being renewed on the written agreement of both Absa and Kenmare and it will need to be renewed or refinanced on or before 20 March 2014. The corporate loan facility bears interest at 1 month LIBOR plus 8%. Absa, a member of Barclays plc, is an existing lender to the Project Companies.

**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 8.7%. The interest rate profile of the Group's loan balances at the period end was as follows:

| | Unaudited 30 June 13 US$'000 | Unaudited 30 June 12 US$'000 | Audited 31 Dec 12 US$'000 |
|---|---|---|---|
| Fixed rate debt | 211,591 | 207,392 | 214,513 |
| Variable rate debt | 146,928 | 111,960 | 109,899 |
| Total debt | 358,519 | 319,352 | 324,412 |

Under the assumption that all other variables remain constant and using the 6 month LIBOR, a 1% change in LIBOR would result in a US$1.1 million (2012: US$1.1 million) change in finance costs for the year.

The currency profile of the bank loans is as follows:

| | Unaudited 30 June 13 US$'000 | Unaudited 30 June 12 US$'000 | Audited 31 Dec 12 US$'000 |
|---|---|---|---|
| Euro | 170,388 | 151,038 | 165,709 |
| US Dollars | 188,131 | 168,314 | 158,703 |
| Total debt | 358,519 | 319,352 | 324,412 |

The Euro-denominated loans expose the Group to currency fluctuations. These currency fluctuations are realised on payment of Euro-denominated debt principal and interest. Under the assumption that all other variables remain constant, a 10% strengthening or weakening of Euro against the US Dollar, would result in a US$1.8 million (2012: US$1.7 million) change in finance costs and a US$17 million (2012: US$16.6 million) change in foreign exchange gain or loss for the year.

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

## 8. Provisions

| | Unaudited 30 June 13 US$'000 | Unaudited 30 June 12 US$'000 | Audited 31 Dec 12 US$'000 |
|---|---|---|---|
| Mine closure provision | 18,478 | 4,704 | 4,907 |
| Mine rehabilitation provision | 2,140 | 1,800 | 1,973 |
| Legal provision | 1,440 | 1,440 | 1,444 |
| Executive Directors' bonus provision | 1,058 | - | 1,002 |
| Total provision | 23,116 | 7,944 | 9,326 |

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 (2012: US$0.2 million) has been recognised in the statement of comprehensive income.

## NOTES TO THE GROUP CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
### FOR THE PERIOD ENDED 30 JUNE 2013

### 8. Provisions (continued)

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

- a discount rate of 3% (2012: 9%) based on a 20 year US Treasury yield rate. This is a change in the assumption from 9% used in the prior year being the average effective borrowing rate for the Moma Titanium Minerals Mine. The reason for the change in assumption is to exclude the risk of the Company and only include risk specific to the liability. The change in the assumption increases the provision as at 30 June 2013 by US$13.3 million and the mine closure asset was increased by the same amount;
- an inflation rate of 2% (2012: 2%);
- an estimated life of mine; and
- an estimated closure cost of US$20.4 million (2012: US$20.4 million) and an estimated post-closure monitoring provision of US$1.9 million (US$1.9 million).

The mine rehabilitation provision was increased by US$0.2 million as a result of additional provision of US$0.4 million for areas disturbed net of US$0.2 million released for areas rehabilitated during the period. US$0.3 million (2012: US$0.3 million) of the mine rehabilitation provision has been included in current liabilities to reflect the estimated cost of rehabilitation work to be carried out over the next year.

### 9. Share-based payments

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

During the period the Group recognised a share-based payment expense of US$1.5 million (2012: US$1.5 million). US$0.05 million (2012: US$0.4 million) of the share based payment was capitalised in property, plant and equipment during the period.

### 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.

## 11. Fair value

The fair value of the Group borrowings of US$332.8 million (2012: US$291 million) has been calculated by discounting the expected future cash flows at prevailing interest rates and by applying period end exchange rates.

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

## 12. Events after the balance sheet date

On 31 July 2013, Kenmare, Congolone Heavy Minerals Limited, Kenmare Moma Mining (Mauritius) Limited (Mozambique Branch) and Kenmare Moma Processing (Mauritius) Limited (Mozambique Branch) entered into an amendment with Project Lenders details of which are set out in Note 7.

In August, the Company and the union (SINTICIM) which represents the mine's unionised work force reached a long term agreement on remuneration for the next three years.

## 13. Information

The Half Yearly Financial report was approved by the Board on 27 August 2013.

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

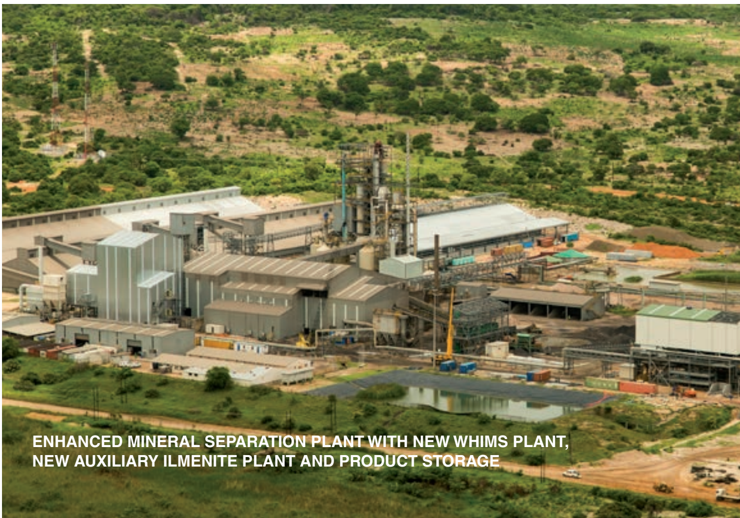

JETTY


MSP AT NIGHT


WCP A WITH WCP B IN BACKGROUND


WCP B


DREDGE DEIRDRE


ENHANCED MINERAL SEPARATION PLANT WITH NEW WHIMS PLANT, NEW AUXILIARY ILMENITE PLANT AND PRODUCT STORAGE

AT THE BEGINNING OF THE SCHOOL YEAR, KMAD DISTRIBUTED SCHOOL MATERIALS TO ALL THE PUPILS ATTENDING THE LOCAL SCHOOLS

KENMARE

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