KENMARE
RESOURCES PLC

# Annual Report & Accounts 2017

# Our business

Kenmare Resources plc is one of the world's largest producers of mineral sands products, accounting for the production of approximately 8% of global titanium feedstocks, and supplying to customers operating in over 15 countries across the globe. The products Kenmare produces are key raw materials, ultimately consumed in everyday "quality-of-life" products such as paints, plastics and ceramic tiles.

Dredges Mary Ann, Katrina and WCP A

## 2017 performance highlights

- Production 1,081kt (up 10%)
- Revenue US$208 million (up 47%)
- Cash costs US$132/tonne (down 3%)
- EBITDA US$60 million (up US$55 million)
- Profit after tax US$19 million (up US$34 million)
- Net debt US$34 million (down US$11 million)

For more information visit:
www.kenmareresources.com

## Strategic report



## Corporate governance



## Financial statements



## Other information



Cover image:
Zircon in the storage warehouse being loaded for shipment.

HMC stock being fed into the MSP assisted
by Gito Ramadane, MSP Relief Superintendent

## Strategic report

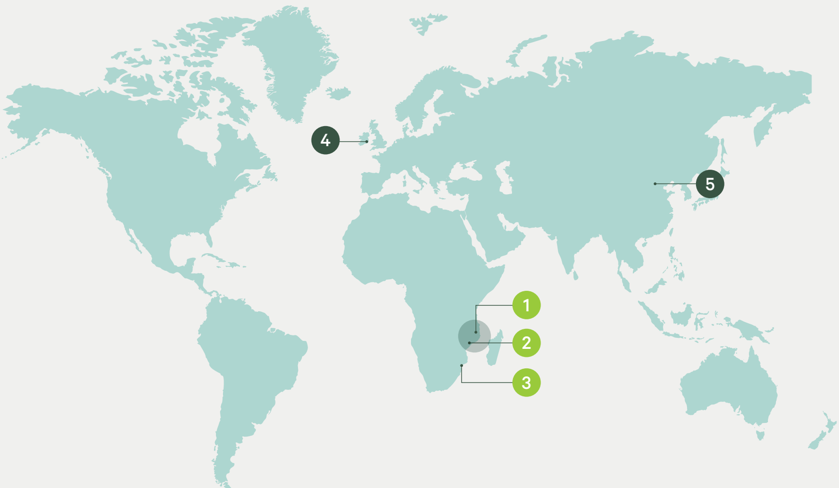


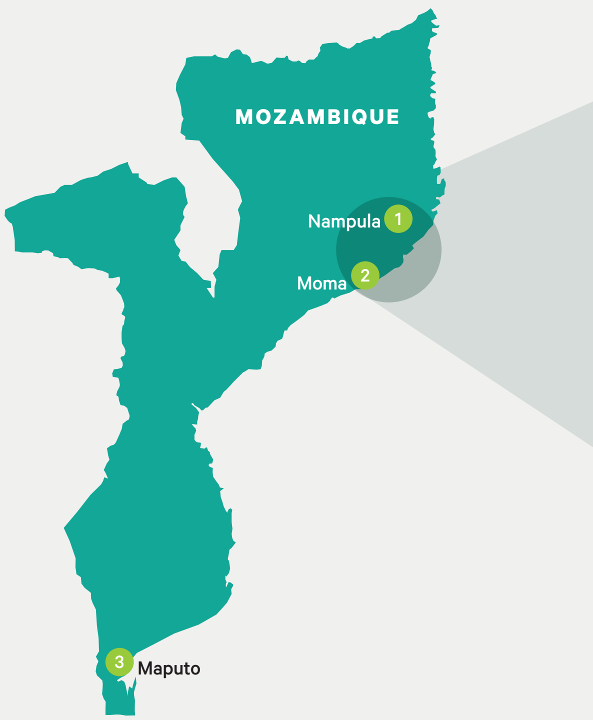
# Group at a glance

The Moma Mine contains globally significant reserves of heavy minerals which include the titanium minerals ilmenite and rutile (primarily used to produce titanium dioxide pigment) as well as the mineral zircon. Titanium dioxide pigment is used to impart whiteness and opacity in the production of paints, paper, plastic and other products. Zircon's principal use is in the manufacture of ceramics.

## Where we operate

The principal activity of the Company is the operation of the Moma Titanium Minerals Mine, located on the northern coast of Mozambique and in commercial operation since 2009. The Group head office is located in Dublin.




1 Nampula – Mozambique regional office
2 Moma – Mine operations
3 Maputo – Mozambique country office
4 Dublin – Group head office
5 Beijing – China representative office

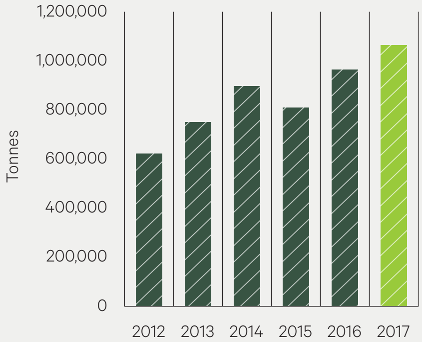
## % of 2017 revenue

| AMERICAS | EUROPE | ASIA |
|---|---|---|
| 18% | 25% | 57% |

## Revenue by product

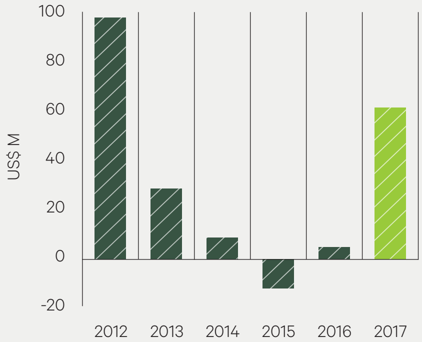

Ilmenite Zircon Rutile

## Production of finished products

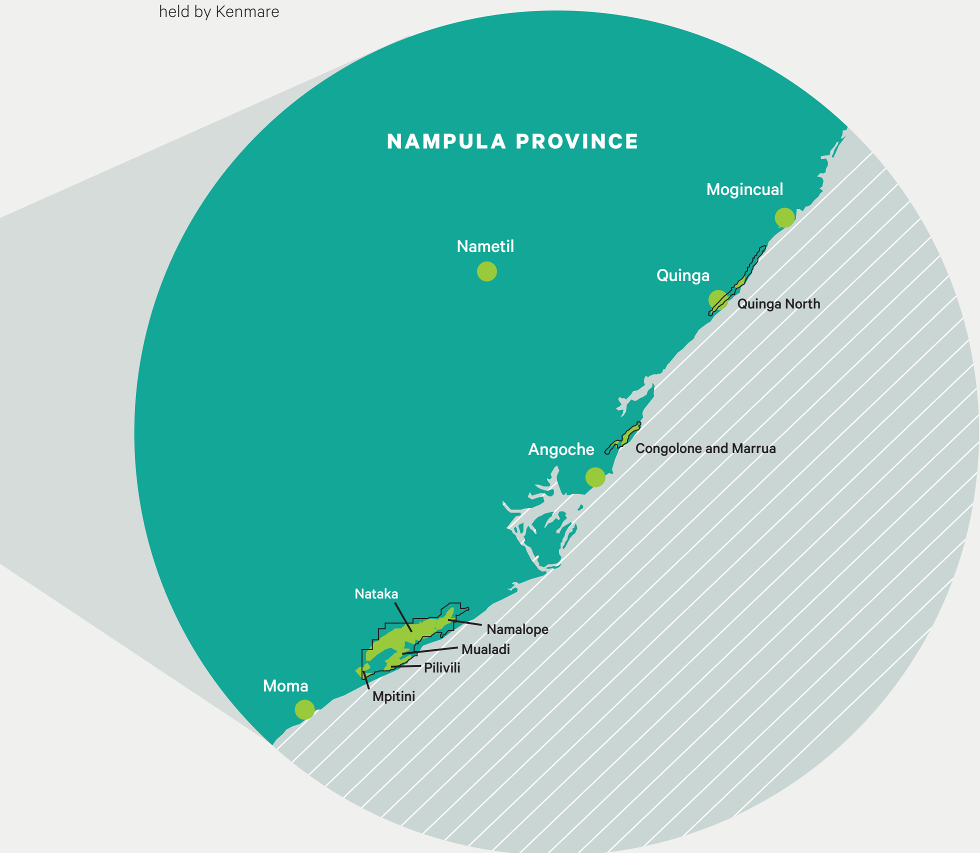



Read more on our operations
**page 10**

## EBITDA



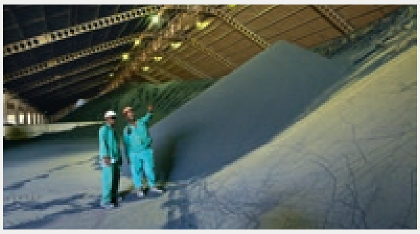

The map shows exploration licences and mining concessions held by Kenmare




Read more in Mineral Reserves and Resources
**page 28**

### ILMENITE AND RUTILE

Ilmenite and rutile are the principal feedstocks used to produce $TiO_2$ pigment, which accounts for ~90% of global feedstock consumption. $TiO_2$ pigment is used to impart a brilliant white colour in the manufacture of paints, plastics and paper, as well as a number of other applications.



### ZIRCON

Zircon is primarily mined as a co-product of titanium minerals mining. It is an important raw material for the ceramics industry as an opacifier and frit compound for decorative wall and floor tiles and sanitary ware. It is also consumed in the foundry and refractory industries and in a growing number of chemical applications.

Read more on our operations
**page 10**

Our strategy

# Strategic Objectives, Priorities and Performance

## Growth

Kenmare's investment at Moma, a series of deposits with a life of over 140 years, provides a robust platform for developing low-capital intensity growth options, in line with market requirements.

Opportunities for diversification of the business are also continuously reviewed.

### Priorities

- Final product output is currently constrained by Heavy Mineral Concentrate (HMC) production levels. The current strategy is to deliver higher HMC (and therefore final product) volumes through:
  1. higher productivity;
  2. increased mining capacity; and
  3. accessing higher grade ore.

### Performance

- 2017 was a year of record production and shipments of all final products.
- Kenmare has delivered increased tonnes mined through increased utilisation of both mining plants and expanded operations at supplemental mining plants.
- At the Mineral Separation Plant (MSP), projects have delivered increased recoveries (particularly for zircon), contributing to higher final production levels.

## Optimisation

In addition to higher production volumes, Kenmare is identifying and targeting new opportunities to reduce costs or generate additional revenues, in order to increase margins.

### Priorities

- Optimising the performance of existing assets is crucial to maximising margins.
- Delivering absolute cost savings by more efficient supply chain management and resource allocation.
- Increasing revenue capture through higher recoveries and additional revenue streams.

### Performance

- Enhanced mining fleet in place to increase the capacity of supplemental mining.
- New specialised procurement team located in the Maputo office will help to streamline existing processes and drive further cost reductions.
- In 2017, Kenmare completed a monazite concentrate feasibility study, a project that is being implemented in 2018.

## Robust balance sheet

Strength and flexibility are at the core of Kenmare's approach to its balance sheet structure. Currently conceived projects are expected to be funded from internally generated cash flows.

### Priorities

- Maintaining low levels of net debt contributes to lower costs, helping to maintain positive free cash flows through economic and commodity cycles.
- Maintaining a prudent level of cash and cash equivalents is a strategic priority. Shipments of products and receipts of cash are not spread evenly throughout the year, due to the nature of the business. A cash buffer helps to insulate the business from unexpected shocks.

### Performance

- At year end 2017, net debt was reduced to US$34 million from US$45 million at year end 2016.
- At year end 2017, cash and cash equivalents increased to US$69 million from US$58 million at year end 2016.


Ali Ali Muranwua, working at the spirals in WCP

# Business model

Kenmare's business model aims to deliver our strategic objectives of growth and optimisation while maintaining a robust balance sheet. Kenmare utilises its key resources of people and assets to generate shareholder value by implementing its business model in a safe and sustainable manner.

## STRATEGIC OBJECTIVES DELIVERED THROUGH OUR BUSINESS MODEL

Growth

Optimisation

## Inputs

### PEOPLE

- Our people are our most important asset as they drive the generation and effective delivery of our strategy.
- We invest in our employees throughout their careers, offering opportunities for development, training and competitive rewards linked to performance.

### ASSETS

- Moma is one of the largest producing mineral sands mines globally, producing approximately 8% of titanium feedstocks.
- The ore zones contained within the Moma resource base are large enough to support production for more than 140 years, at current rates of production.

### FINANCE

- Equity and debt markets have provided the financing necessary to develop the Company.
- Maintaining balance sheet strength and flexibility provides opportunities for shareholder returns and investment for growth.

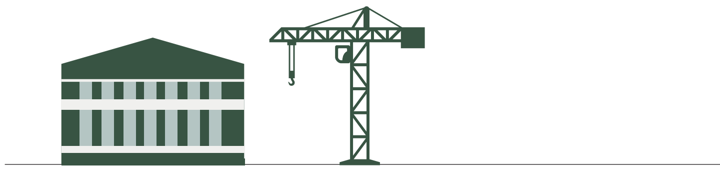
Read more on our operations
**page 10**

Principal risks and uncertainties

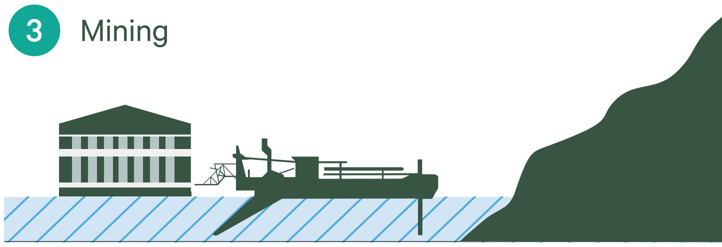
## What we do

1 Ore body definition

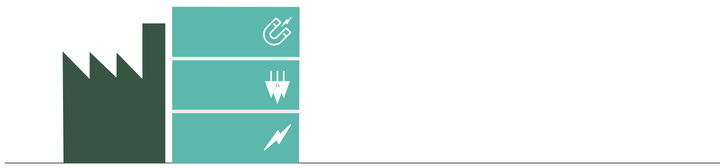
2 Development



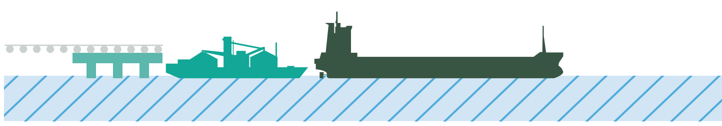
3 Mining



4 Processing



5 Sales and marketing



## Robust balance sheet

Read more on our strategy
page 6

## Outputs

- Defining the size, quantity and grade of mineral resources.
- Determination of technical feasibility.
- Assessment of commercial viability.

- Turning commercially viable reserves and resources into producing assets.

- Dredge mining accounts for the vast majority of our ore mining capacity reducing relative operating costs.
- Supplemental mining provides flexibility when needed.

- Heavy mineral concentrates are processed into finished products using our highly specialised knowledge and equipment.

- We strive for strong and long-term customer relationships for all our marketed products.

Read more on our operations
page 10

### FINANCIAL

#### Value creation

Kenmare aims to increase shareholder value through the implementation of its business strategy.

#### Shareholder returns

Returning cash to shareholders is a key objective for the Company.

Read more in our Finance Review
pages 32 to 35

### SUSTAINABLE BUSINESS

#### Health and safety

Kenmare strives to create and maintain a safe and healthy operating culture. This benefits our people and the environment we work in as well as improving the reliability of our assets.

#### Environment

Responsible operating practices and efficient use of natural resources.

#### Government and community relations

Support from local communities and government is an essential component of our licence to operate.

#### Employees

Ensuring that our employees are healthy, productive and well-trained is key to long-term business sustainability.

Read more in our Sustainability report
page 42

KPIs

# Operational process outline

## Mining – three dredges feeding two Wet Concentrator Plants

### 1 DREDGING

Dredging takes place in two separate artificial freshwater ponds where three dredges feed two floating Wet Concentrator Plants ("WCP A" and "WCP B"). Before dredging, the dredge path is cleared of vegetation and topsoil. The topsoil is recovered for use in re-vegetation. The dredges cut into the ore at the base of the pond, causing the mineralised sand to slump into the mining pond where it is pumped to a WCP. The dredges are supplemented by supplemental mining which uses standard surface mining equipment. The ore from supplemental mining is slurried and pumped to a WCP for processing.

### 2 WET CONCENTRATOR PLANT

The first processing stage at the WCPs consists of rejecting oversize material after which the feed is passed over progressive stages of gravity spirals which separate the heavy mineral concentrate (HMC) from silica sand and clay tailings.

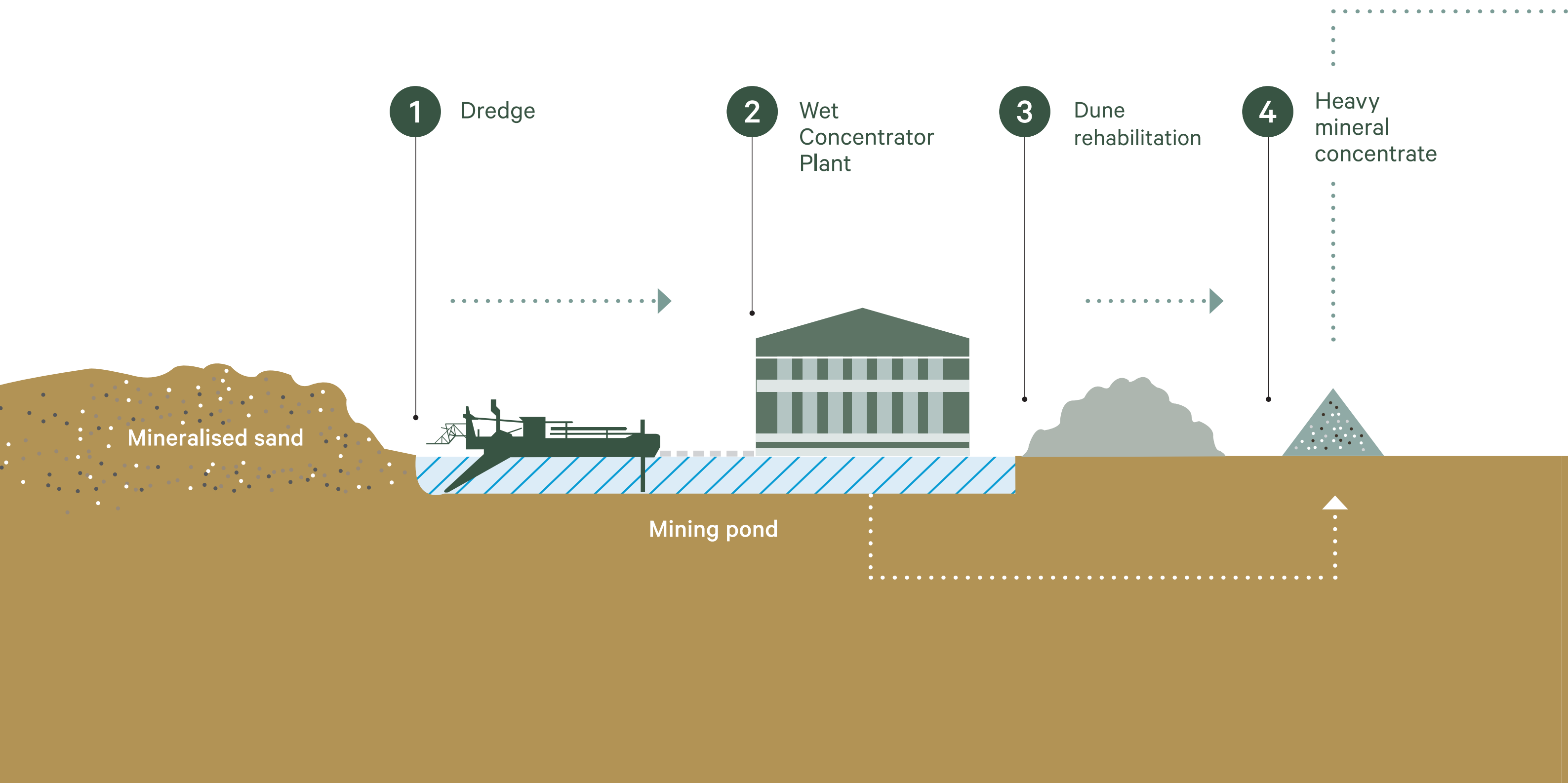
### 3 DUNE REHABILITATION

Tailings consist of a coarse fraction (silica sand) that settles immediately and a fine fraction (clay) that settles less quickly. Both fractions are co-deposited into a series of settling ponds. Thickened fine tails are pumped from these settling ponds to drying paddocks located in the rehabilitation zone where the dried material helps the subsoil retain moisture and nutrients to aid re-vegetation. Tailings are then re-contoured and the previously removed topsoil is redeposited. Rehabilitation is completed by seeding or planting with a variety of native and/or other species of vegetation as well as food crops. The area is then transferred back to the local communities.

### 4 HEAVY MINERAL CONCENTRATE

HMC, representing approximately 5% by weight of the ore mined, is pumped to the Mineral Separation Plant (MSP) where it is stockpiled prior to further processing.

HMC consists of the valuable heavy minerals ilmenite, rutile and zircon, other heavy minerals, and a small amount of light minerals, the bulk of which is silica.



## Processing

### 5 WET HIGH INTENSITY MAGNETIC SEPARATION

HMC is transferred from stockpiles by front-end loaders and fed to the Wet High Intensity Magnetic Separation (WHIMS) plant to separate magnetic from non-magnetic fractions.

### 6 MINERAL SEPARATION PLANT

The MSP uses a series of magnetic, gravity and electrostatic separation circuits to separate valuable minerals and also to produce various ilmenite, rutile and zircon product grades to meet specific customer requirements.

The magnetic fraction of WHIMS output is dried and processed by electrostatic separation in either of two ilmenite plants to produce final ilmenite products.

The non-magnetic fraction of the WHIMS output passes to the wet gravity separation circuit to remove silica and trash minerals. Electrostatic separators are then used to separate the conducting mineral rutile from the non-conducting mineral zircon.

## Storage and transportation

### 7 PRODUCT STORAGE WAREHOUSE

Ilmenite and rutile are stored in a 185kt capacity warehouse, while zircon is stored in a separate 35kt capacity warehouse to reduce the potential for cross-contamination. Both warehouses load product onto a 2.4km long overland conveyor.

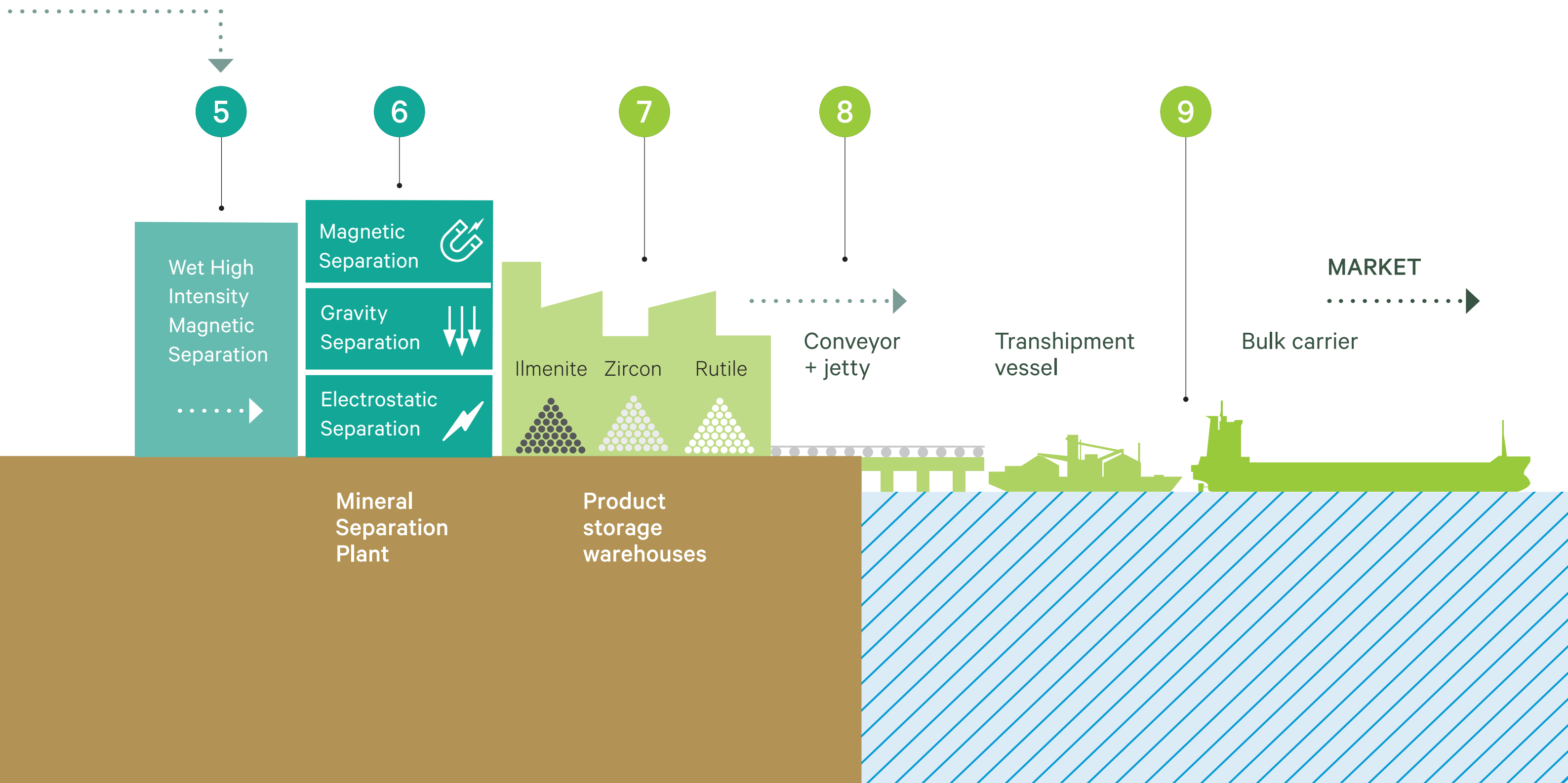
### 8 CONVEYOR AND JETTY

The conveyor transports product to the end of a 400m long jetty, where product is loaded onto transhipment vessels, at a rate of 1,000 tonnes per hour. Kenmare owns and operates two transhipment vessels, the Bronagh J and the Peg.

### 9 TRANSHIPMENT VESSELS

The vessels transport the products to a deep water transhipment point 10km offshore, where they self-discharge into ocean-going bulk carrier vessels. These vessels then transport the final products to multiple destinations around the world.

**Other infrastructure:** Other infrastructure on site includes a 170km 110kV power transmission line, a sub-station, a leased 9.6 MW diesel generator plant, an accommodation village, offices, laboratory, an airstrip, water supply and sewage treatment plants.

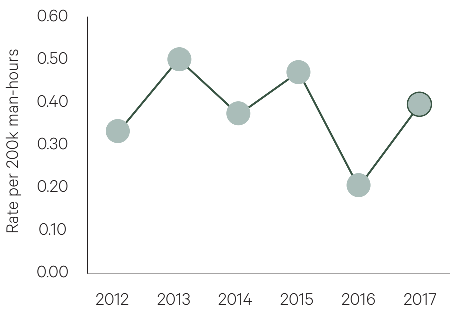


## Key performance indicators

# Measuring our progress

Kenmare uses various financial and non-financial performance measures, linked to our strategic objectives, to help evaluate the ongoing performance of the business. The following measures are considered by management to be some of the most important in evaluating the overall performance of the Group year on year.

**Health & Safety**

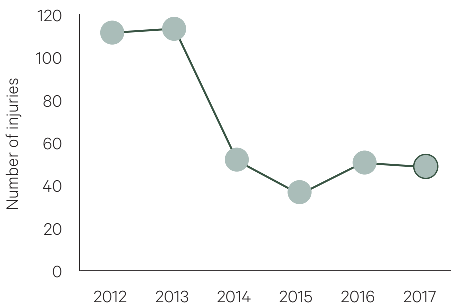



### LTIFR

**Descriptor:** Lost time injury frequency rate.

**Relevance:** Measures the number of injuries per 200,000 man-hours worked at the Mine.

**Performance:** Safety performance continued at the excellent levels of 2016 in H1 2017; however, it declined in H2 2017. Analysing and addressing this trend is a key focus for Kenmare in 2018.




### AI

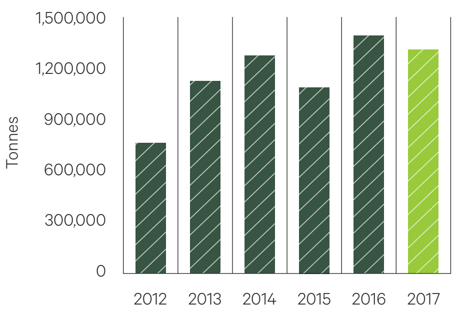
**Descriptor:** All injuries.

**Relevance:** Measures the number of injuries at the Mine in the year.

**Performance:** Despite the rise in the LTIFR, total injuries fell year on year.

Read more in our Sustainability report **page 42**

**Production**

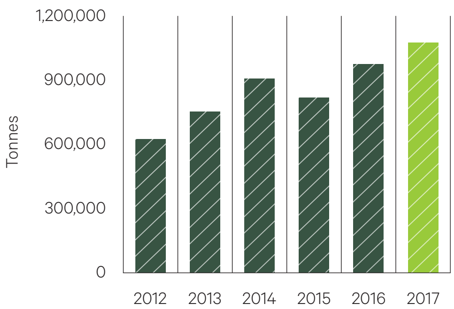



### Mining – HMC

**Descriptor:** Heavy mineral concentrate extracted from mineral sands deposits and which include ilmenite, zircon, rutile and other heavy minerals and silica.

**Relevance:** Provides a measure of heavy mineral concentrate extracted from the Mine, the feedstock for the product suite.

**Performance:** HMC production declined as ore grades declined and slimes increased. Efforts are being made to increase mine throughput and utilisations to offset this trend as well as adding mining capacity.




### Processing – finished products

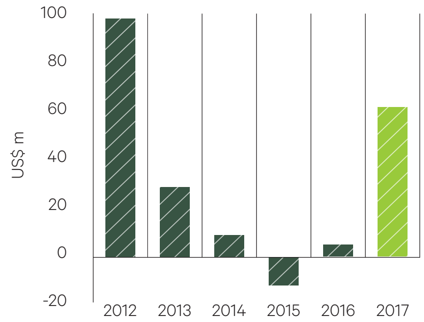
**Descriptor:** Finished products produced by the mineral separation process.

**Relevance:** Provides a measure of finished products produced by the processing plants.

**Performance:** Despite lower HMC production, final product production increased 10% as HMC stockpiles were drawn down and recoveries improved.

Read more in the Operational review **page 22**

**Financial**

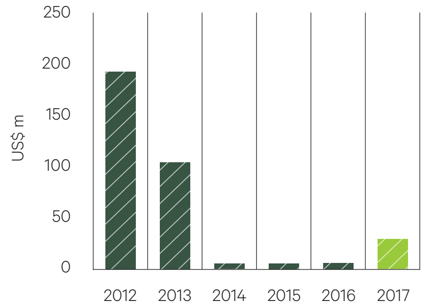



## EBITDA

**Descriptor:** Earnings before interest, tax, depreciation and amortisation.

**Relevance:** Eliminates the effects of financing and certain accounting decisions to allow assessment of the earnings and performance of the Group.

**Performance:** EBITDA improved, mainly as a result of continued positive market momentum and a persistent focus on performance.

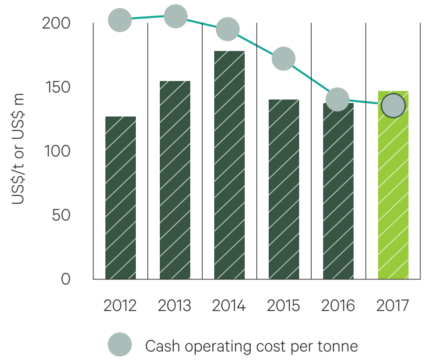



## Capital costs

**Descriptor:** Additions to property, plant and equipment in the period.

**Relevance:** Provides the amount spent by the Company on additions to property, plant and equipment in the period.

**Performance:** Following a number of years of heavily constrained capital expenditure, investment in property, plant and equipment in 2017 increased to meet the Mine's capital replenishment requirements. Kenmare reinvested in key mine infrastructure and mobile equipment and completed the scheduled dry-dock repairs to the main transhipment vessel, in addition to investing in feasibility work to assess medium and longer-term mining options.

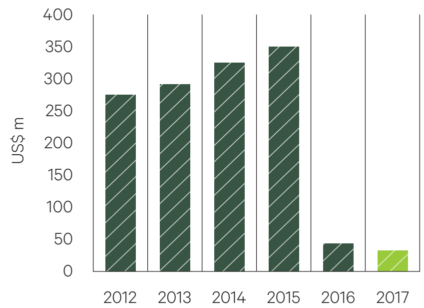



## Cash operating costs

**Descriptor:** Total costs less freight and other non-cash costs, including inventory movements, divided by final product production (tonnes).

**Relevance:** 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.

**Performance:** Cash operating cost per tonne of finished product continued the trend of recent years and decreased by 3% as a result of tight cost control and increased final product production.



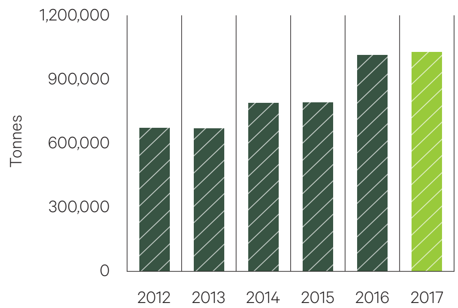

## Net debt

**Descriptor:** Bank loans before loan amendment fees and expenses net of cash and cash equivalents.

**Relevance:** Measures the amount the Group would have to raise through refinancing, asset sales or equity issues if its debts were to fall due immediately, and aids in developing an understanding of the leveraging of the Group.

**Performance:** There were no principal repayments in 2017 as principal repayments commence on 1 February 2018, though net debt reduced due to free cash flow generation.

**Marketing**




## Shipments

**Descriptor:** Finished products shipped to customers during the period.

**Relevance:** Provides a measure of finished product volumes shipped to customers.

**Performance:** 2017 was a record year for shipments, increasing by 2% as both production and demand for our products grew.

Read more in our Market report **page 20**

## Chairman's statement

"Kenmare has returned to profitability following product price increases, effective management focus on cost discipline and operational reliability, leading to productivity gains.

# Focused on sustainable growth

### Dear shareholders,

I am pleased to report robust operational progress and much improved financial results in 2017. Kenmare has returned to profitability following product price increases and effective management focus on cost discipline and operational reliability, which has led to productivity gains.

### Continued market improvement

Global market for our products improved strongly in 2017, continuing the market recovery experienced in 2016. Inventories of titanium feedstocks and zircon, which had been high for several years, declined below normal operating levels during 2017, supporting long-awaited product price increases. The outlook for our products remains positive, particularly so for zircon.

### Maintaining cost discipline

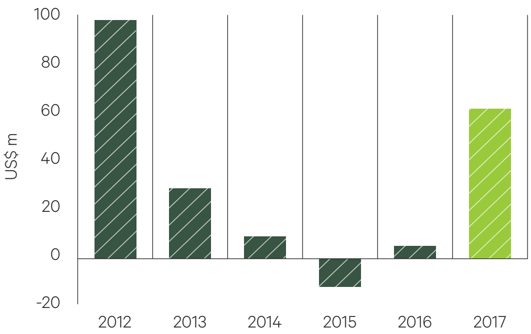
Kenmare has continued to focus on reducing unit operating costs, to ensure the Company will remain a low-cost producer – the best protection against any unforeseen economic or market conditions. Looking forward, whilst retaining the health and safety of our employees as a top priority, Kenmare is developing options to sustain production from our installed facilities despite falling grades and to spread fixed costs over a maximised production base.

### Shareholder returns

The Board of Kenmare is acutely conscious of the need to provide tangible returns on investment to shareholders. Equally, it is of strategic importance to maintain the strength of the Company's balance sheet to provide stability through economic and commodity cycles – taking into account that Kenmare is for the time being a single-asset, single-commodity producer in an emerging market economy.

On 1 February 2018 we commenced debt repayment, in line with the 2016 restructuring, reducing gross debt. The start of dividend payments will be a watershed moment for the Company, to which the Board and management are fully committed. However, the timing of commencement of dividends needs to be carefully assessed in light of the requirement to maintain a robust balance sheet, service our debt obligations and maintain covenant requirements, while also maintaining sufficient capital investment to optimise operational cash flows. Nevertheless, we intend to commence a legal process to facilitate the payment of dividends. This process will require, amongst other things, shareholder approval in due course.

## EBITDA




### Corporate governance and the Board

I am pleased to welcome Peter Bacchus to the Board as Non-Executive Director, following the retirement of Sofia Bianchi after nine years of passionate and dedicated service to the Company, for which the Board would like to convey its sincere appreciation.

Peter brings a high level of corporate, strategic, M&A and investment banking expertise to the Board. He is a globally recognised mining industry specialist, and we are delighted that Kenmare can benefit from his input in coming years.

Read more on our Corporate governance report **page 54**

### Continuing to deliver

Kenmare has made huge progress – increasing production, reducing costs and positioning the business to benefit from the resurgence in product prices. However, there is much more to be done and we look forward to growing the business and maximising value for shareholders from the long-life and diverse resource base in Mozambique.

### Acknowledgements

I would like to thank all of our shareholders for their continued support, and I look forward to updating you in due course on progress with our process to facilitate payment of dividends.

Kenmare is privileged to operate in Mozambique, where we enjoy outstanding support from government, regulatory and regional authorities, as well as our staff and utility suppliers.

Finally, I would like to acknowledge and applaud the exceptional efforts of all employees, executive management and Directors of Kenmare during the past year of significant recovery. Their commitment and professionalism have allowed the Company to consolidate its financial position, plan confidently to capitalise on a unique resource base in Mozambique and benefit from improved global product market conditions.

**Steven McTiernan**
Chairman


1. Cameron Cloete, Diver Marine Operations.

## Managing Director's statement

# Maximising output to drive stable cash flows at higher levels

"

In 2017 operations set new records for production and shipments. In 2018 we will continue to focus on operational improvements and the implementation of further cost reduction measures.

I am pleased to report that in 2017 operations set new records for production and shipments. The significant efforts made in increasing production and sales volumes and reducing unit costs converged with a recovering product market to result in US$59.6 million of EBITDA (2016: US$5.2 million) and US$19.4 million of profit for 2017 (2016: loss US$15.2 million). There is more to be done in 2018, but Kenmare remains on a positive trajectory to grow production and is working on a set of options to deliver this growth.

### Community relations and safety

The health and safety of our employees is a top priority for the Company. In 2017, the lost time injury frequency rate (LTIFR) was 0.39 (per 200k man-hours worked). We are focused on improving this performance and we are working to ensure safer work practices become embedded.

Relations with the community remain strong and a key highlight for 2018 is the completion of a third-level technical school funded by Kenmare Moma Development Association (KMAD) which will provide skills training opportunities.

### Increasing production, reducing costs

Kenmare continued to grow production in 2017, as targeted, with production volumes for all products achieving new records, particularly ilmenite which has been operating at an annualised rate of circa 1 million tonnes per annum since mid-2016. It is planned that production will remain at approximately this level until Wet Concentrator Plant (WCP) B begins mining the Pilivili deposit in 2021 after completion of its mine path in the Namalope ore zone. When WCP B moves to Pilivili, due to the higher grade of minerals there, production of final products is expected to increase beyond 1 million tonnes.

Excellent progress has been made to reduce unit operating costs in recent years, through a combination of higher product volumes and cost-saving measures.

Years of production

10

Life of Mine

>140 years

Global titanium feedstock supply

~8%


However, WCP A and B will encounter lower mineral grades as they enter the later years of their mine paths in the Namalope ore zone. The impact of this reduction in grade will be offset by some additional mining capacity, process improvements and increasing plant operating time, facilitated by enhanced business systems and equipment upgrades, together with continued training and up-skilling of our workforce.

As part of our process improvements, an increase of WCP B capacity is underway and expected to complete in Q3 2018, improving throughput of WCP B by up to 20%. WCP A production will be supplemented with a small additional mining and processing plant in 2019. A feasibility study to facilitate further automation of our dredges is also underway, with the goal of increasing throughput and reducing downtime.

Electricity power supply remained stable throughout 2017, with the diesel-powered generators only operating during the Southern Hemisphere summer months to ensure stable power to the Mineral Separation Plant (MSP).

In 2018 we will continue to focus on operational improvements and the implementation of further cost reduction measures. We have dedicated a significant amount of time in 2017 towards improving our business and information systems. In 2018 we will be rolling out enhanced procurement systems and processes resulting from an extensive review and redesign of this aspect of our business.

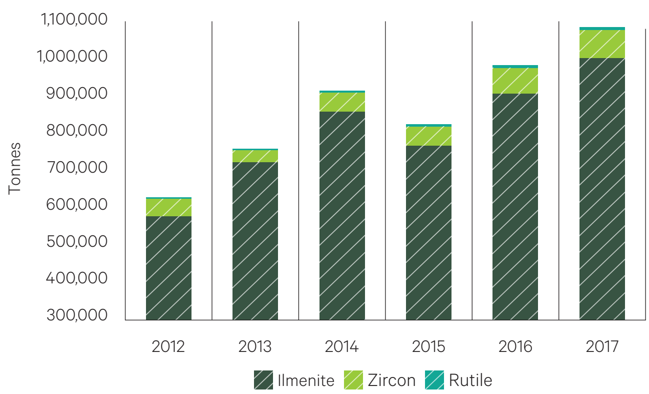
### Robust product markets

Prices for all products continued to increase strongly in 2017, rising from the multi-year low reached in early 2016. The outlook for ilmenite is positive, though price increases moderated in the second half of 2017 following very strong growth in the first half of the year.
The Chinese government's increased commitment to enforcement of environmental regulations and its requirement for environmentally positive process improvements have caused some disruption in this segment of our market as our pigment customers rush to implement required changes. However, we believe this disruption is temporary in nature and is in the interests of building a long-term sustainable titanium value chain in China.

1. Bronagh J transhipment vessel loading at the jetty (photograph by Paulo Magazique, Buyer, Logistics).

## Managing Director's statement continued

### Annual production




> The Company has been exploring the most capital-efficient ways to increase production utilising the installed asset base to its full potential.

The outlook for zircon is particularly strong as inventory levels have reduced globally. This trend looks set to continue in the coming years and bodes well for continued steady product price improvement.

### Maximising value from existing assets

The efficient deployment of capital is a key priority for the Company and we have been examining a range of future mining options with a view to minimising capital required while achieving our production goals.

As Kenmare's dredge mining operations enter the latter years of operation in the Namalope ore zone, we have been carefully assessing options for the next ore zone to be developed. In addition to the enormous resources available at Nataka, Kenmare is fortunate to have a set of high-quality deposits in the portfolio that provide flexibility in our future product suite. Some of these deposits show promise of delivering high grades and favourable mineral assemblages. The Company has been exploring the most capital-efficient ways to increase production utilising the installed asset base to its full potential.

A pre-feasibility study for a new WCP at Pilivili, with the objective of increasing HMC production so as to operate the MSP at its full capacity, showed strong economics. However, the relocation of WCP B to Pilivili, rather than Nataka as previously envisaged, will achieve this objective without the need to build a new WCP. This has the benefit of reducing capital spend and saving operating costs. We are currently working on this solution with Hatch, an engineering firm.

### Outlook

Kenmare will increase emphasis on improving personnel and community safety during the coming year. Delivering consecutive years of unit cost reductions whilst increasing production has been the result of sustained effort by the staff and Board and I would like to thank them for their continued commitment to increasing value for shareholders. The product market continues to show robust growth in demand, helping to support product price increases and providing a strong platform for shareholder returns in the future.

**Michael Carvill**
Managing Director

1. Dredges Mary Ann, Katrina and WCP A (photograph by Paulo Magazique, Buyer, Logistics).
2. Stockpile of HMC.

# Market report

Global demand for ilmenite, Kenmare's primary product, was robust in 2017 as high operating rates at pigment plants, Kenmare's main market, were maintained to meet strong global demand.

## Titanium feedstock markets


Kenmare's average received ilmenite (FOB) price increased 52% in 2017 compared with 2016. Further modest price growth is expected in H1 2018. Contract and spot ilmenite prices rose in H1 2017, incentivising the restart of some supply to help meet demand and facilitating the entrance of some previously stockpiled low-quality ilmenite and concentrates into the market. Some of these sources are not expected to be a source of long-term supply. Ilmenite production from southern India was also halted throughout 2017 due to a mining ban that has continued into 2018.

Chinese demand for imported ilmenite grew in 2017, despite domestic production increasing to levels approaching capacity, as high iron ore prices supported the continued mining of titanomagnetite deposits with ilmenite produced as a by-product. This is China's primary source of ilmenite production.

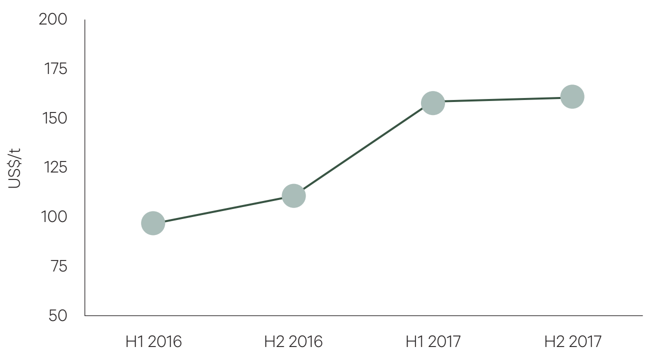
Following strong purchasing in H1 2017, ilmenite offtake in China softened over the summer months as pigment demand slowed due to seasonal factors. Domestic pigment and ilmenite production was impacted by increased environmental regulations and enforcement throughout the year. This caused disruption to the pigment industry, particularly in H2 2017, moderating ilmenite demand and price growth for domestic and imported ilmenite.

Prices of titanium slag (an upgraded ilmenite product) have risen less than ilmenite prices in recent years, principally due to changing global demand and overcapacity in the slag industry. This has reduced the relative economic value of consuming ilmenite compared with slag. However, slag production is currently experiencing a significant cost push due to increased graphite electrode prices.

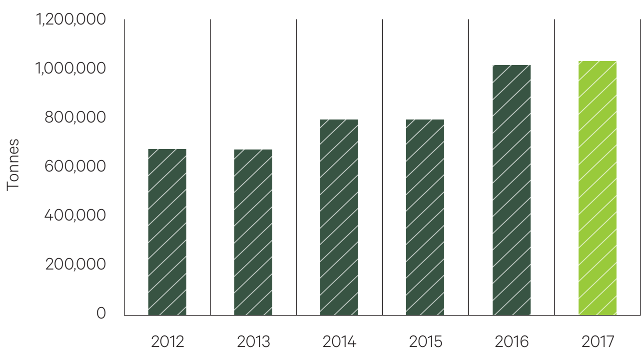
The slag supply–demand outlook has now also tightened, driven by higher pigment plant operating rates and a drawdown of inventory. This is expected to support higher ilmenite prices in 2018 as higher slag prices are passed on to customers.

1. Ilmenite stock in the product storage warehouse at the Mine.

### Ilmenite price per tonne




### Marketing – finished product shipments



## Zircon market

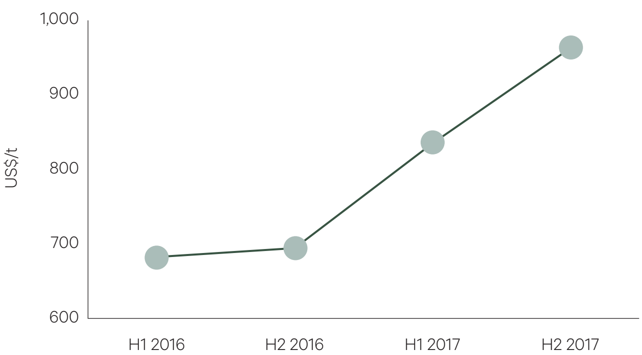
Market conditions for zircon improved significantly in 2017.

The temporary shuttering of some major zircon supply allowed demand to erode industry inventories, creating a supply–demand tension that drove prices higher. Kenmare successfully implemented significant price increases over the course of the year and further price growth is expected in 2018.

The growth outlook is positive for the coming years driven by a recovery in demand in developed and emerging markets.

2. Vanda Mulhanga, Buyer, Logistics and Rodcha van Wyk, MSP Day Crew Supervisor.

### Primary zircon per tonne




## Outlook

The ilmenite pricing outlook for 2018 is positive, supported by favourable supply–demand fundamentals. Demand for titanium dioxide pigment, the main market for ilmenite, has continued to increase with global GDP, supporting increased demand for our products. Similarly, the outlook for zircon in 2018 continues to improve as supply constraints, which persist beyond the short term, become more evident, and demand continues to recover.

Mining, like all extractive industries, is a depletive business that requires continued investment. The development of new mines has been inhibited by the cyclical lows the titanium feedstock industry has experienced since 2012. While prices have risen strongly from the trough of early 2016, they remain substantially below their earlier peaks.

**Eamonn Keenan**
Group General Manager
Sales and Marketing

Operational review

“

I am pleased with the record product outputs in 2017, delivered through continued focus on maximising productivity and cost effectiveness in a safe workplace.

# Higher production and recoveries

## Health and safety

There were no fatalities in the Kenmare operations; however, nine lost time injuries (LTIs) were recorded in 2017.

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Man-hours worked | **4,627,491** | 4,037,186 | 3,852,283 |
| Man-hours worked since last LTI | **12,500** | 1,223,340 | 300,893 |
| Lost time injuries (LTIs) | **9** | 4 | 9 |
| Fatalities (included in LTIs) | **—** | — | — |
| Medical treatment injuries (MTIs) | **3** | 4 | 4 |
| First aid injuries (FAIs) | **37** | 43 | 23 |
| All injuries (AIs) | **49** | 51 | 36 |
| Man-days lost to injuries | **521** | 291 | 391 |
| AI frequency rate (AIFR) | **2.11** | 2.53 | 1.87 |
| LTI frequency rate (LTIFR) | **0.39** | 0.20 | 0.47 |

Safety performance continued at the excellent levels of 2016 in H1 2017; however, it declined in H2 2017 to record nine LTIs for the year, with three of these recorded in December. Despite this, all injuries fell in 2017.

Analysis of the increase in severity of incidents is underway, with the main areas of focus being:

- conducting risk assessments;
- achieving behavioural safety improvements by addressing risk tolerance:
  - developing safety leadership skills; and
  - building employee engagement in safety; and
- reducing significant potential incidents (SPIs), incidents with limited outcomes that had potential to cause an LTI or fatality.

Kenmare safety systems and operating standards continue to improve. Kenmare received the five-star award using the NOSA safety accreditation system for the second consecutive year.

Malaria remains the key health challenge for the operation. A significant reduction of 11% in malaria cases was seen in 2017 compared to the average of the previous two years as a result of improvement of the quality of the anti-malaria programme. Prevention methods such as use of prophylaxis, sprays and environmental fogging in the camp and surrounding villages continue, with all surrounding villages taking part in the spraying and fogging programmes. A vector control review was completed during the year and additional controls are currently being investigated.

## Mining

Mine performance improved again in 2017, with healthy improvements in sand treatment as a result of increasing supplementary mining and good improvements in plant utilisations.

HMC produced during 2017, however, fell 6% from 1,405,500 tonnes in 2016 to 1,323,000 tonnes, as a result of falling grades (4.46% in 2017 versus 5.06% in 2016). The high grades of late 2016 persisted into the first quarter of 2017, although to a moderated level, but reduced in the second half of the year. Poorer mining conditions in the third quarter of 2017 impacted sand treatment rates.

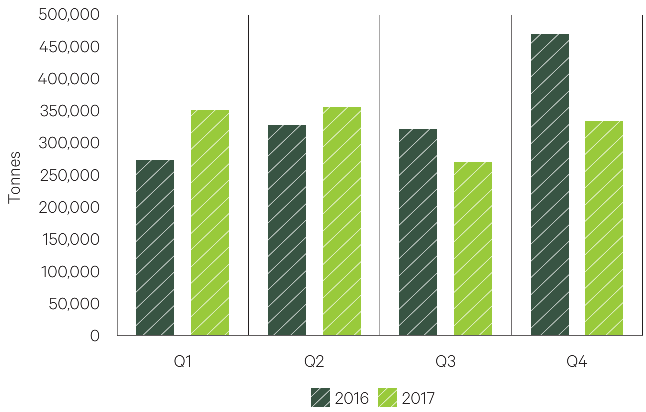
The main compensation for falling grades was a focus on sand treatment – the combination of plant operating times and throughput rates:

- Plant operating times were at record levels and increased through the year. This was as a result of the embedding of planned maintenance systems introduced in 2016, as well as upgrade projects. Dredge upgrades continued with completion of hydraulics cooling and spud carriage upgrades. Upgrading the swing winch rope specification radically reduced rope failures on all dredges. The refurbishment of plant pontoons and launders at WCP A, and a pipe refurbishment programme at WCP B brought additional operating time.

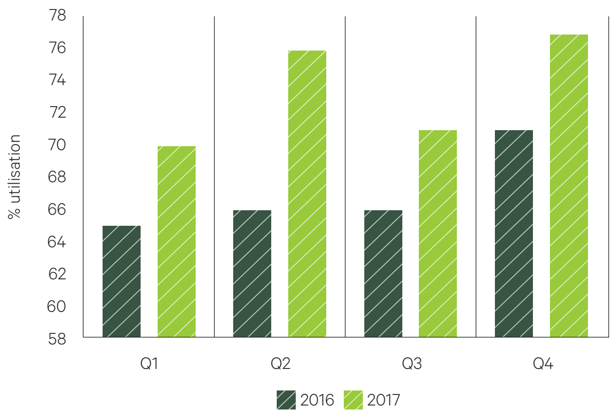
## Rehabilitation performance


Read more in our Sustainability report
**page 42**

## HMC production




## Mine utilisation



# Operational review continued

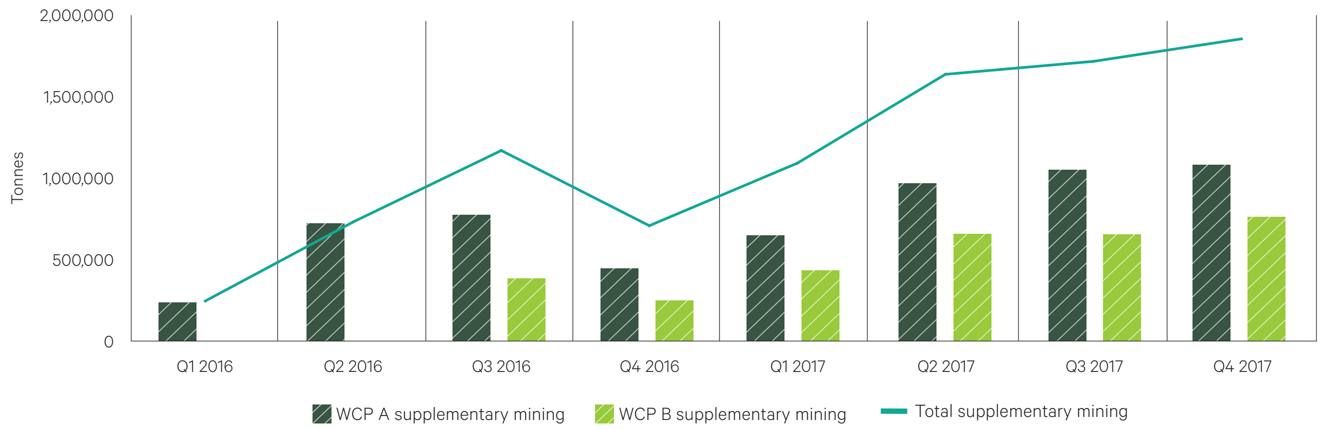
## Mining continued

- During the year dredge throughputs were constrained by elevated slimes levels in the mining ponds, causing harder digging conditions and higher throughput losses from the desliming circuits ahead of the roughers. To counter this, focus was placed on the supplementary mining units. Good treatment rate improvements were seen through the year at both supplementary mining operations. Further improvements are scheduled for 2018. Dredge operator training levels were increased at the mining plants to increase quality of operations, and monitor guns were upgraded to help counter the impact of harder ore.

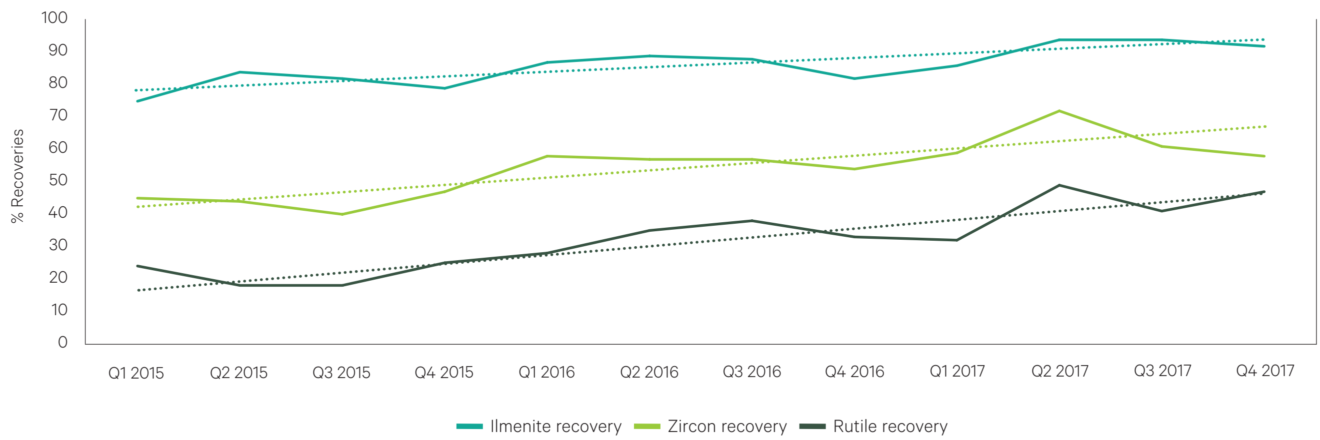
Managing slimes concentrations in the pond became difficult in Q3 2017 as a result of tails stacking constraints at WCP A. At the same time, higher slimes at WCP B impacted mining rates and recoveries. Q3 2017 production suffered but was brought back to standard in Q4. This prompted a drawdown of HMC stocks which, until that point, had allowed the MSP to run at higher capacity with steady feed rates. Hence, at the year end mining was the production-limiting activity of the operation.

In 2017, no major power supply constraints were experienced from the state electrical utility, Electricidade de Mozambique (EdM). Kenmare utilised Aggreko diesel generators at the MSP in the summer wet season (December to March) in order to maintain stable supply during annual thunderstorm activity and associated

## Supplementary mining




## Recoveries



transmission line lightning strikes. In addition, Kenmare's synchronous condenser (Dip Doctor) continued to perform well and rendered harmless more than 80% of power dips. EdM continues to plan improvements in the electricity transmission capacity for the north of Mozambique to mitigate expected long-term consumption increases. In the meantime, its contracted 100 MW power barge continues to moor at Nacala providing approximately 50 MW into the grid.

## Processing

Record ilmenite, zircon and rutile production was achieved for the year.

In 2017, knowing that mining activities and HMC production remained the limiting parameters to production, the strategy was to maximise product recoveries as key to revenue generation. All product recoveries improved during the year.

Ilmenite production was at record levels in 2017, rising 11% to 998,200 tonnes. Higher ilmenite recovery was successfully achieved through focus on plant set-up as well as retreatment projects to reintroduce spillage by trickle-feed, thereby retaining control of the process. Production was stable except for HMC constraints and maintenance in Q4.

In 2017, total zircon production (primary and secondary) improved 9% to 74,000 tonnes. The non-magnetic circuits received significant attention with a defined strategy to increase recoveries of zircon and rutile covering the following key objectives:

1. increase the ratio of primary zircon product to secondary zircon;
2. recover more zircon units from tails into products, thereby increasing overall recovery; and
3. deliver additional rutile to market as a secondary concentrate.

These goals are being achieved through a strategy of removing more gangue mineral (which has no economic value) early in the processing circuits, and removing recirculating loads that impact control. This increased feed grades into circuits, hence raising product grades and recoveries in the main circuit.

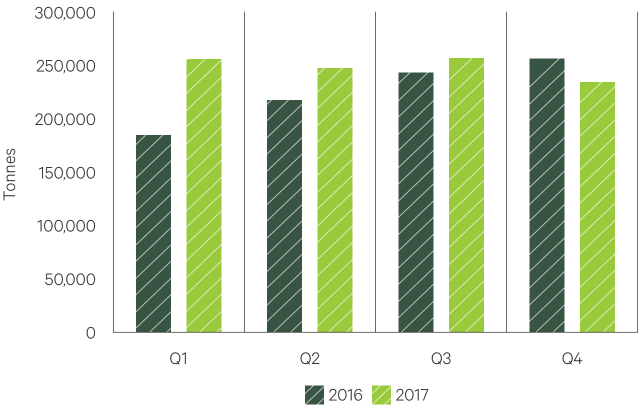
Supporting the strategy, a series of small capital projects have been implemented to increase separability of valuable minerals. These projects include:

- installation of a new up-current classifier (UCC);
- recovery of UCC overflow to primary zircon from secondary zircon;
- development of a non-magnetic mineral scavenger process stream from the ilmenite circuits back to the non-magnetic circuits;
- material handling projects to capture tailings streams with valuable zircon grades and direct those to the secondary zircon feed; and
- optimisation projects on separation equipment.

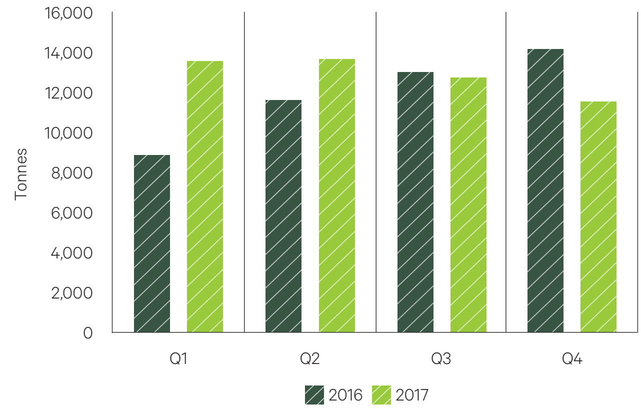
Total final product production increased

10%

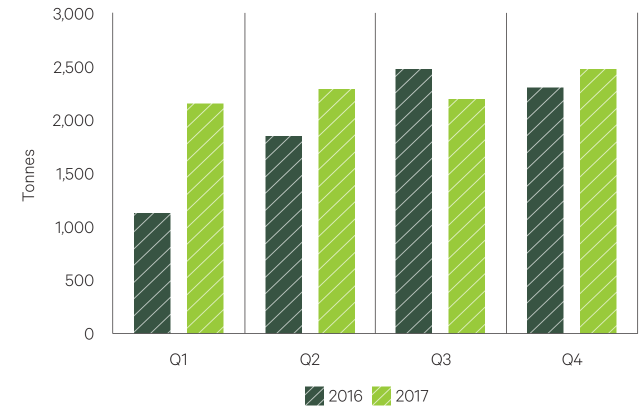
## Ilmenite production




## Primary zircon production




## Rutile production



# Operational review continued

## Processing continued

The resulting primary zircon production increased from 44,900 tonnes to 48,600 tonnes, an increase of 8%. Zircon recoveries increased from 56% in 2016 to 61% in 2017. Further projects are currently underway with commissioning scheduled for 2018.

Secondary zircon production increased by 9% to 25,400 tonnes as material was drawn from previous tailings streams. Gangue mineral streams containing zircon and rutile have been directed towards the secondary zircon circuit, allowing us to realise higher grades and recoveries of zircon and claim $TiO_2$ revenue from secondary zircon products. Further work in 2018 will investigate how to scavenge more secondary zircon back to primary zircon.

The increasing secondary zircon contribution to revenue warrants additional focus and changes in metallurgical reporting will be implemented from 2018. In 2017, secondary zircon accounted for an estimated additional 20% zircon recovery over and above primary zircon.

Rutile production increased 17% to 9,100 tonnes from 2016 levels. Good progress was made on rutile recovery, in addition to recovery in secondary concentrate.

## Shipping

Demand for ilmenite fluctuated throughout the year, being very strong in H1 2017, followed by a quieter Q3 as Chinese markets moderated and the Bronagh J transhipment vessel underwent class refurbishment works in South Africa. On its return, weather delays were abnormally high, resulting in some delayed shipments in Q4.

A total of forty-five customer vessels visited Moma and a record 1,040,400 tonnes of product were despatched from Kenmare's dedicated jetty and transhipment vessels. This comprised 961,800 tonnes of ilmenite, 70,800 tonnes of zircon (including 24,500 tonnes of secondary zircon) and 7,800 tonnes of rutile.

## Cost management

Cost management improved further in 2017. Mining costs reduced from US$136/t to US$132/t on the back of increased outputs whilst containing costs.

The principal cost pressures in the year came from:

- the increased supplementary mining component;
- the strengthened Metical against the US Dollar; and


1. Mine export jetty (photograph by Edson Dario, Junior Metallurgist).

- increased power consumption at the mining operation as both HMC pumping distances to the MSP and slimes management increased.

Capital expenditure to sustain operations increased in 2017 to US$25.9 million (2016: US$6.7 million), including some capital deferrals from the previous year.

The principal expenditure was on:

- heavy mobile equipment (HME) replacement (US$8.1 million) to replace ageing (uneconomic to repair) fleet and rented equipment;
- mine infrastructure (US$4.6 million) to facilitate the continued operation of the mining plants as they move through the orebody; and
- refurbishment of the Bronagh J, one of Kenmare's transhipment vessels (US$3.2 million).

## Mine development

Kenmare seeks to maximise the cost-effective production of ilmenite and co-products. Feed grades in the Namalope zone are expected to decline in the coming years, as this ore zone reaches the end of its life.

This will require additional mining capacity in order to maintain and/or grow finished product outputs. Extensive studies were conducted in 2017 to find the optimal solution considering market demand, capacity additions, timings, capital efficiency and operating cost variables. Approval of capital expenditure by management and the Board will be subject to, inter alia, positive outcomes from feasibility studies, attractive financial returns and supportive market conditions.

### Mitigating grade decline

The principal initiative in 2017 was the completion of studies, Board approval and the commencement of project works to expand WCP B from 2,000tph to 2,400tph. The project has a relatively low capital cost at US$16 million, has low incremental operating cost impacts, and is deliverable in 2018, thereby presenting excellent financial returns. A pre-feasibility study (PFS), followed by a definitive feasibility study (DFS), was completed with Hatch, a globally respected engineering service provider to the mineral sands mining industry. The project is being run on a phased basis to minimise capital expenditure, by debottlenecking existing equipment, adding spiral capacity and densifying equipment, followed by consideration of additional internal circuit pumping needs. The project is expected to be commissioned over the second half of 2018. In addition, increases in supplementary mining capacity are being co-ordinated with the WCP B expansion.

Various opportunities have been examined to further reduce the impact of falling grades and maintain ilmenite production at current levels. Studies have focused on a small modular concentrator in Namalope, close to the MSP, where infrastructure is already in place, thereby minimising capital expenditure. A trade-off analysis of alternative sizes and designs was carried out and indicated that a dredge operation, coupled to a 500tph WCP, would mitigate the grade reduction. PFS costings for the development of the operation are circa US$30 million. The cost estimate has an overall accuracy of +/-25%. A DFS is underway, targeting project delivery in H2 2019.

### Maximising MSP output

The medium-term goal of Kenmare is to have sufficient HMC available to operate the MSP at its full capacity in order to maximise revenues and minimise unit production cost. Work in 2017 focused on the potential development of a mining operation at Pilivili. The Pilivili zone, which is approximately 20km south of the MSP, was chosen as the best location following an assessment of orebodies, on the basis of higher grades, free-flowing sands and high co-product ratio.

Studies were completed during 2017 assessing:

- environmental and social considerations, with the commencement of an Environmental, Social and Health Impact Assessment (ESHIA);
- orebody knowledge: geology, geotechnical considerations, hydrogeology including surface and groundwater considerations and comprehensive mine planning;
- development of a right-sized dredge mining and floating wet plant processing operation;
- transportation of HMC to the MSP; and
- PFS-level costings and economic analysis, including how it fits in the wider Kenmare life-of-mine plan.

The PFS was completed on an independent 1,200tph mining operation, with expansion six years later to 2,000tph, yielding strong financial metrics but with high capital cost and the additional operating costs associated with another mining operation.

A revised PFS has therefore been developed to consider the relocation of WCP B to Pilivili after the completion of mining in Namalope, when relocation of the plant is required. The revised PFS demonstrates that the plant can be relocated intact either over land or by sea. A DFS has commenced based on implementing this relocation in late 2020. It is expected that the outcome of WCP B moving to Pilivili will be to deliver sufficient HMC to meet the MSP capacity ilmenite profile in 2021, whilst optimising capital and operating costs.

### Long-term mining plans

WCP A completes mining in Namalope in approximately 2025, when a move to a new ore zone is required to sustain operations. A PFS is underway to assess mining options at Congolone, an area to the north of the MSP. This is an attractive orebody, with good grades, low slimes, high dunes and high-quality ilmenite, although it may not all be suitable for dredge mining. Economic analysis is underway to determine the merits of relocating WCP A to Congolone, rather than to Nataka as previously considered.

**Ben Baxter**
Chief Operating Officer

# Mineral reserves and resources

The Group's world-class resource is estimated to contain approximately 197 million tonnes of ilmenite (equivalent to around 140 years' production from the current plant) and associated co-products rutile and zircon.

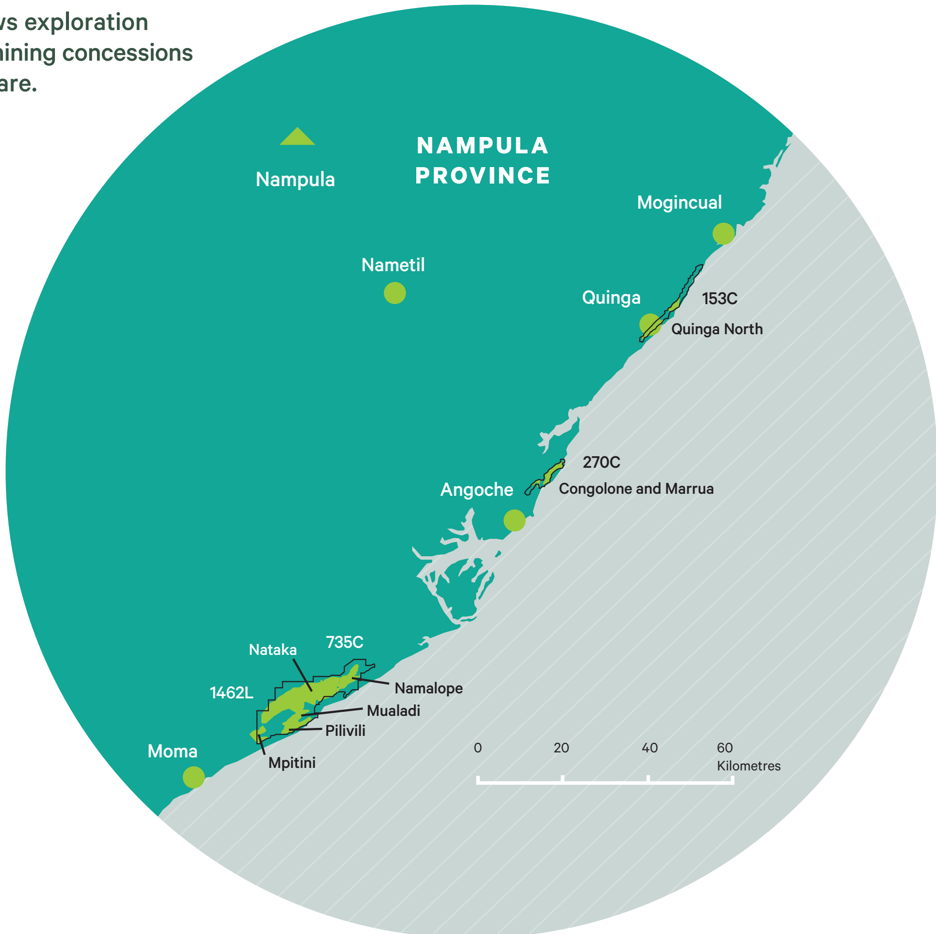
The nature of Kenmare's deposits, with abundant fresh water, no overburden, a good ore grade and attractive products that do not have to be upgraded before being used, gives Kenmare the ability to mine, concentrate and separate its products with relatively low capital and operating costs. Kenmare operates a dedicated port facility adjacent to the MSP, which allows for the shipment of products to customers at minimum cost.

## Summary of reserves and resources

The total proved and probable ore reserves under the Namalope, Pilivili, and Nataka mining concession are estimated as at 31 December 2017 at 1,742 million tonnes, grading 2.8% ilmenite, 0.19% zircon and 0.061% rutile, containing 48 million tonnes of ilmenite, 3.2 million tonnes of zircon and 1.06 million tonnes of rutile. The total ore resource (excluding reserves) held by the Group under a combination of exploration licences and mining concessions is estimated as at 31 December 2017 at 6.3 billion tonnes, grading 2.4% ilmenite, 0.16% zircon and 0.052% rutile, containing 149 million tonnes of ilmenite, 10 million tonnes of zircon and 3.3 million tonnes of rutile.

Read more in the reserve/resource table
**page 30**

**The map shows exploration licences and mining concessions held by Kenmare.**



1. Isabel Moiane GDP Trainee, Mine Planning.

The Namalope deposit continues to support the current two mining operations. Reductions in the reserve statement relate to depletion from mining in 2017 and dredge path revisions that were made during the year to optimise the mine plan. The reserves comprise 274Mt of ore at 3.0% ilmenite, representing 8.4Mt contained ilmenite, 0.21% zircon (0.58Mt) and 0.07% rutile (0.19Mt).

The Nataka deposit represents a large, long-life mining opportunity for the Group. Reserve status was unchanged in 2017 with probable reserves of 1,248Mt of ore at 2.56% ilmenite, representing 32Mt of contained ilmenite, 0.17% zircon (2.11Mt) and 0.06% rutile (0.70Mt).

In 2017 significant progress was made in the definition of other resources to assist with the consideration of potential alternative long-term mine plans. Drilling has continued to focus on the Pilivili and Congolone zones where, as a result of the 2015 and 2016 drilling programmes, larger deposits than previously known, with higher valuable mineral grades, were identified. The 2017 drilling programme focused on improving orebody knowledge for pre-feasibility studies to consolidate the potential value of these zones.

In 2017 a total of 2,843m was drilled in the Pilivili zone as part of the pre-feasibility studies. This included generating bulk samples for metallurgical test work and inserting piezometers to estimate aquifer properties for hydrogeological studies. Orebody hardness studies were done through standard penetration test (SPT) drilling and digging of test pits. An optimised mine path was generated that led to the conversion of 75% of the Indicated Resource to Probable Reserve with contained ilmenite 7.9Mt (3.6%), zircon 0.55Mt (0.25%) and rutile 0.18Mt (0.08%).

Similarly, 2,138m was drilled in the Congolone zone to improve orebody knowledge for pre-feasibility studies including SPT drilling to determine orebody hardness. Piezometers were installed to generate aquifer data for hydrogeological studies. Historical drilling collar data was rechecked to align with the 2015 to 2017 drilling programmes, and an updated resource model was produced. The total ore resource increased by 3% to constitute 7.6Mt of contained ilmenite, 0.60Mt zircon resource and 0.2Mt rutile. Congolone remains an attractive opportunity with quality ilmenite in high dunes with low to medium slimes contents.

# Mineral reserves and resources continued

The following table sets out Kenmare's mineral resources and reserves as at 31 December 2017:

## Reserve/resource table

| Zones | Category | Ore (Mt)** | % THM* | % ilmenite in THM | % ilmenite in ore | % rutile in ore | % zircon in ore | THM (Mt)** | Ilmenite (Mt)** | Rutile (Mt)** | Zircon (Mt)** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Reserves** | | | | | | | | | | | |
| Namalope | Proved | 196 | 3.9 | 81 | 3.2 | 0.07 | 0.22 | 8 | 6.3 | 0.14 | 0.44 |
| Namalope | Probable | 78 | 3.2 | 81 | 2.6 | 0.06 | 0.18 | 2.5 | 2.1 | 0.05 | 0.14 |
| Pilivili | Probable | 220 | 4.4 | 82 | 3.6 | 0.08 | 0.25 | 9.6 | 7.9 | 0.18 | 0.55 |
| Nataka | Probable | 1,248 | 3.1 | 82 | 2.6 | 0.06 | 0.17 | 39 | 32 | 0.70 | 2.11 |
| **Total reserves** | | **1,742** | **3.4** | **82** | **2.8** | **0.061** | **0.19** | **59** | **48** | **1.06** | **3.2** |

| Zone | Category | Sand (Mt)** | % THM* | % ilmenite in THM | % ilmenite in sand | % rutile in sand | % zircon in sand | THM (Mt)** | Ilmenite (Mt)** | Rutile (Mt)** | Zircon (Mt)** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Resources** | | | | | | | | | | | |
| Congolone | Measured | 205 | 3.3 | 80 | 2.7 | 0.07 | 0.22 | 6.8 | 5.5 | 0.1 | 0.4 |
| Namalope | Measured | 103 | 3.5 | 81 | 2.9 | 0.06 | 0.20 | 3.6 | 2.9 | 0.1 | 0.2 |
| Namalope | Indicated | 110 | 2.9 | 81 | 2.3 | 0.05 | 0.17 | 3.2 | 2.6 | 0.1 | 0.2 |
| Congolone | Indicated | 55 | 3.8 | 79 | 3.0 | 0.08 | 0.23 | 2.1 | 1.7 | 0.0 | 0.1 |
| Nataka | Indicated | 1,321 | 3.2 | 84 | 2.7 | 0.05 | 0.17 | 42.9 | 36.0 | 0.7 | 2.2 |
| Pilivili | Indicated | 101 | 3.1 | 77 | 2.4 | 0.05 | 0.17 | 3.1 | 2.4 | 0.1 | 0.2 |
| Congolone | Inferred | 24 | 2.4 | 78 | 1.9 | 0.05 | 0.13 | 0.6 | 0.4 | 0.0 | 0.0 |
| Pilivili | Inferred | 13 | 2.9 | 80 | 2.3 | 0.05 | 0.16 | 0.4 | 0.3 | 0.0 | 0.0 |
| Mualadi | Inferred | 327 | 3.2 | 80 | 2.6 | 0.06 | 0.21 | 10 | 8.4 | 0.2 | 0.7 |
| Nataka | Inferred | 3,637 | 2.6 | 82 | 2.1 | 0.04 | 0.14 | 93 | 77 | 1.6 | 5.0 |
| Mpitini | Inferred | 287 | 3.6 | 80 | 2.9 | 0.07 | 0.24 | 10 | 8.3 | 0.2 | 0.7 |
| Marrua | Inferred | 54 | 4.1 | 80 | 3.3 | 0.19 | 0.19 | 2.2 | 1.8 | 0.1 | 0.1 |
| Quinga North | Inferred | 71 | 3.5 | 80 | 2.8 | 0.14 | 0.28 | 2.5 | 2.0 | 0.1 | 0.2 |
| **Total resources** | | **6,307** | **2.9** | **82** | **2.4** | **0.052** | **0.16** | **180** | **149** | **3.3** | **10** |

* THM is total heavy minerals of which ilmenite (typically 82%), rutile (typically 2.0%) and zircon (typically 5.5%) total approximately 90%. Tonnes and grades have been rounded and hence small differences may appear in totals.

** Mt represents million tonnes.

Resources are additional to reserves. Estimates for Namalope, Nataka and Pilivili reserves and the Namalope, Nataka, Congolone and Pilivili resources comply with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("JORC Code") 2012 edition. Table 1 documentation for these reserves and resources can be found at www.kenmareresources.com. Estimates for all other resources were prepared and first disclosed under the 2004 edition of the JORC Code. They have not been updated to comply with the JORC Code 2012 edition on the basis that the information has not materially changed since they were last reported.

The competent person for the Namalope, Nataka and Pilivili reserves and resources and Congolone resources is Mr Paul Leandri (MAusIMM and MAIG). Mr P Leandri is an employee of Kenmare and does not hold any shares in the Company. The competent person for the other resources is Dr Alastair Brown (FIMMM). Dr A Brown is an independent consultant who is a shareholder in and former employee of Kenmare. Mr P Leandri and Dr A Brown have sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as competent persons as defined in the JORC Code 2012 edition. Mr P Leandri and Dr A Brown consent to the inclusion in this report of the matters based on their information in the form and context in which it appears.

Finance review

# Strong financial performance

> Kenmare is building upon the strong performance of 2017 and, assuming product markets continue to strengthen, expects an improving financial outlook in 2018.

## Overview

Kenmare has delivered a strong financial performance in 2017, reflecting a profitability improvement based on continued positive market momentum, increased production and sales volumes, and a persistent focus on performance which has yielded a fourth consecutive year of unit cost reductions. The key performance metrics were strong for the year, with production and operating costs within guidance.

The strong performance in 2017 represents a significant improvement on the previous year and contributed to EBITDA of US$59.6 million (2016: US$5.2 million) and generated a profit for the year of US$19.4 million (2016: loss US$15.2 million).

In 2017, product markets rebounded from their low point in 2016 with FOB price increases of 52% for ilmenite and 27% for zircon, which were the principal factors driving an increase in revenue for the year to US$208.3 million (2016: US$141.5 million).

Production and shipments of final products increased by 10% and 2% respectively, both of which continue to build on progress in 2016 and set new records for Kenmare. Given these volume increases, cash operating costs for the financial year increased by 7% to US$142.5 million (2016: US$133.4 million), but the cash operating cost per tonne of finished product continued the trend of recent years and decreased by 3% from US$136 per tonne in 2016 to US$132 per tonne. Finance costs of US$6.8 million (2016: US$28.0 million) reflected both the lower quantum and cost of debt following the successful debt restructuring in 2016.

Following a number of years of tightly constrained capital expenditure, investment in property, plant and equipment in 2017 increased to US$29.2 million (2016: US$6.7 million) mainly to meet the Mine's capital replenishment requirements. Kenmare reinvested in key mine infrastructure and mobile equipment and completed the scheduled dry-dock repairs to the main transhipment vessel, in addition to investing in feasibility work to assess medium and longer-term mining options.

## Results

Production, revenue, cost and EBITDA results for 2017 and 2016 were as follows:

| | FY 2017 | FY 2016 | FY change % |
|---|---|---|---|
| Production (tonnes) | | | |
| Heavy mineral concentrate | **1,323,000** | 1,405,500 | -6% |
| Ilmenite | **998,200** | 903,300 | 11% |
| Zircon* | **74,000** | 68,200 | 9% |
| Rutile | **9,100** | 7,800 | 17% |
| Total final products | **1,081,300** | 979,300 | 10% |
| Revenue (US$ million) | **208.3** | 141.5 | 47% |
| Finished products shipped (tonnes) | **1,040,400** | 1,024,200 | 2% |
| Average price per tonne (US$/t) | **200** | 138 | 45% |
| Total operating costs** (US$'000) | **180.7** | 167.6 | 8% |
| Total cash cost (US$'000) | **142.5** | 133.4 | 7% |
| Cash operating cost per tonne of finished product (US$/t) | **132** | 136 | -3% |
| EBITDA (US$ million) | **59.6** | 5.2 | 1,046% |

Note: additional information in relation to these alternative performance measures (APMs) is disclosed in the glossary.

* Included in zircon production is a secondary zircon product.

** Included in operating costs are depreciation and amortisation.

### Production and revenue

In 2017, improved dredge mining operations, a higher supplemental mining contribution and increased plant utilisations enabled Kenmare to increase excavated ore volumes mined by 12% on 2016. Kenmare produced 1,323,000 tonnes of HMC, a 6% decrease on 2016, partly due to a modest grade reduction and increased slimes levels. Finished product volumes for the year included 998,200 tonnes of ilmenite, up 11% on 2016, and 74,000 tonnes of total zircon, up 9% on 2016.

Ilmenite production benefited from improved recoveries as well as a drawdown of HMC and intermediate product stockpiles. Total zircon production includes an 8% increase in primary zircon production, and was contributed to by drawdown of intermediate stockpiles and increased recoveries. Secondary zircon volumes increased by 9% as tailings recovery projects were completed and started to contribute.

During 2017, Kenmare shipped 1,040,400 tonnes of finished products (2016: 1,024,200 tonnes) comprising 961,800 tonnes of ilmenite, 70,800 tonnes of zircon (including 24,500 tonnes of secondary zircon) and 7,800 tonnes of rutile. Revenue for 2017 was US$208.3 million (2016: US$141.5 million), the increase mainly reflecting higher product prices. Average product prices increased to US$200 per tonne in 2017, compared with US$138 per tonne in 2016, representing a year-on-year increase of 45%. Closing stock of HMC at the end of 2017 was 16,800 tonnes, compared with 66,500 tonnes at the start of the year. Closing stock of finished products at the end of 2017 was 231,000 tonnes (2016: 192,300 tonnes), of which 9,200 tonnes has been paid for and is being held for a customer.

### Operating costs

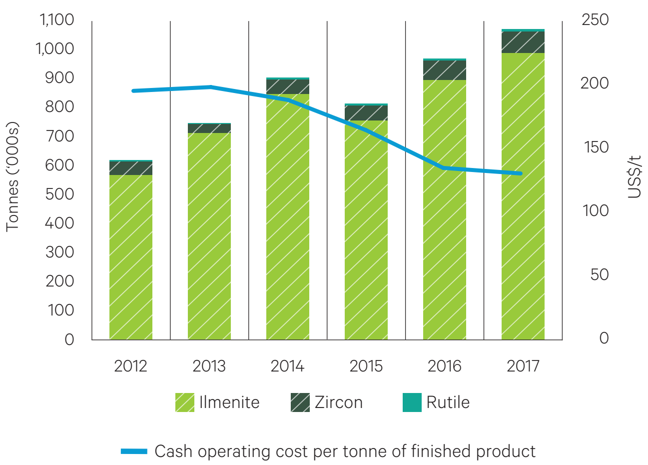
Cost of sales for the financial year amounted to US$156.6 million (2016: US$144.0 million), including depreciation and amortisation of US$27.1 million (2016: US$25.4 million). Production costs of US$129.8 million (2016: US$121.7 million) increased by US$8.0 million in the year, contributed to by increased supplemental mining costs, a stronger Metical exchange rate and additional power costs due to the increased distance of WCP B from the MSP and increased slimes management. Mineral stock value increased by US$0.3 million (2016: increase US$3.0 million).

Other operating costs amounted to US$24.1 million (2016: US$22.8 million), and included: freight costs of US$5.5 million (2016: US$5.4 million), which are either reimbursable by customers or factored into the sales price for product delivered to customers on a cost, insurance and freight basis (CIF) or a cost and freight (CFR) basis; distribution costs of US$11.4 million (2016: US$11.3 million), inclusive of depreciation of US$4.9 million (2016: US$5.3 million); and administration costs of US$3.4 million (2016: US$2.9 million), including a charge of US$1.0 million (2016: US$0.5 million) for share-based payments. Other operating costs include arbitration costs of US$3.8 million (2016: US$3.2 million), which relate to a non-recurring legacy amount arising from a closeout of a contractor dispute.

Adjusting total operating costs for depreciation of US$32.0 million (2016: US$30.6 million), total Group share-based payments of US$1.0 million (2016: credit US$0.4 million), freight reimbursable by customers of US$5.5 million (2016: US$5.4 million) and the increase in mineral product inventory of US$0.3 million (2016: increase US$3.0 million), the Group cash operating costs increased by 7% to US$142.5 million (2016: US$133.4 million).

# Finance review continued

## Cash operating cost per tonne of finished product




### Operating costs continued

The resultant cash operating cost per tonne of finished product decreased by 3% from US$136 per tonne in 2016 to US$132 per tonne in 2017 as a result of good cost control together with increased production of finished products.

### Finance income and costs

Finance income of US$0.1 million (2016: US$0.07 million) consisted of interest on bank deposits.

Outstanding warrants are valued at each reporting date and the increase or decrease in the fair value is recognised as a finance cost or income in the statement of comprehensive income. The fair value of warrants at the statement of financial position date resulted in finance cost of US$0.04 million (2016: finance income US$0.02 million) being recognised in the statement of comprehensive income.

Loan interest and finance fees were US$6.8 million (2016: US$28.0 million). Loan interest of US$6.3 million (2016: US$23.9 million) was recognised in the statement of comprehensive income. The decrease in loan interest reflects the capital restructuring in July 2016.

There was an unwinding of the discount on the mine closure provision of US$0.5 million (2016: US$0.5 million) and finance lease interest of US$0.02 million (2016: US$0.08 million).

At 31 December 2017, Group total debt including accrued interest was US$102.9 million (2016: US$102.6 million). The weighted average interest rate on debt at the financial year end was 5.7% (2016: 5.2%).

### Exchange movements

An exchange loss of US$2.5 million (2016: US$2.2 million) arose during the financial year, principally as a result of the retranslation of Metical and South African Rand trade payables and accruals.

### Deferred tax

As at 31 December 2017, the statement of financial position date, Kenmare Moma Mining (Mauritius) Limited had unused tax losses of US$11.9 million (2016: US$18.5 million). A deferred tax asset was recognised of US$4.2 million (2016: US$3.2 million), as it is anticipated that the losses will be carried forward for offset against future profits. This resulted in a tax credit for the financial year of US$0.9 million (2016: credit US$1.9 million), resulting in a profit after tax for the financial year of US$19.4 million (2016: loss US$15.2 million), which has been carried to retained losses.

### Operating cash flow

Net cash generated in operations in 2017 was US$45.3 million (2016: used US$3.0 million). Investing activities of US$28.1 million (2016: US$6.7 million) in the financial year represents additions to property, plant and equipment. There were no debt repayments in the year (2016: US$179.6 million) as loan repayments commenced on 1 February 2018. There was a net increase in cash and cash equivalents for the financial year of US$11.0 million (2016: US$43.0 million).

### Balance sheet

During the financial year there were additions to property, plant and equipment of US$29.2 million (2016: US$6.7 million). Additions consisted of heavy mobile equipment replacement, investment required in mine infrastructure and the scheduled dry-docking of the Bronagh J, as well as development capital of US$2.6 million. Depreciation during the year increased to US$32.0 million (2016: US$30.6 million) as a result of the increased production. The mine closure provision was increased by US$2.6 million during the year as a result of a change in the discount rate to 2.9% (2016: 3.3%). Capital disposals during the year were US$0.4 million (2016: US$1.0 million).

During the financial year the Group carried out an impairment review of property, plant and equipment. The Group 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 pre-tax, pre-finance cash flows discounted at 11.5%. The discount rate is based on the Group's weighted average cost of capital. This rate is a best estimate of the current market assessment of the time value of money and the risks specific to the Mine, taking into consideration country risk, currency risk and price risk.

Using a discount rate of 11.5%, the recoverable amount is greater than the carrying amount by US$151.3 million and as a result no impairment provision is required.

Inventory at the financial year end amounted to US$52.7 million (2016: US$47.7 million), consisting of intermediate and final mineral products of US$30.9 million (2016: US$30.6 million) and consumables and spares of US$21.8 million (2016: US$17.1 million). Closing stock of finished products at 31 December 2017 was 231,000 tonnes (2016: 192,300 tonnes), including 9,200 tonnes (2016: 60,000 tonnes) being held for a customer who prepaid for this 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$25.4 million (2016: US$23.8 million), of which US$21.2 million (2016: US$19.1 million) are trade receivables from the sale of mineral products and US$4.2 million (2016: US$4.7 million) is comprised of prepayments and other miscellaneous debtors. Trade debtors are a function of shipments made before the financial year end and credit terms specific to the relevant customer. All trade receivables are current and there has been no impairment in trade receivables during the financial year and no allowances for impairment have been provided during or at the financial year end.

Trade and other payables amounted to US$25.3 million (2016: US$30.3 million) at the year end. The amount payable to Aveng in relation to the arbitration at 31 December 2016 of US$4.9 million was settled during the year.

Cash and cash equivalents increased by US$11.0 million during the year and as at 31 December 2017 amounted to US$68.8 million (2016: US$57.8 million).

Bank loans including accrued interest amounted to US$102.9 million (2016: US$102.6 million) at the end of the financial year.

Profit after tax up by

US$34 million

2017: profit US$19 million
2016: loss US$15 million

### Events since the financial year end

There have been no significant events since 31 December 2017 which would have a significant impact on the financial statements of the Group.

### Accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted by the European Union; therefore, the Group financial statements comply with Article 4 of the IAS Regulation. The financial statements have been prepared in compliance with the Irish Companies Act 2014. The Group's significant accounting policies and details of the significant accounting judgements and critical accounting estimates are disclosed in the notes to the financial statements. The Group did not make any material changes to its accounting policies in the financial year ended 31 December 2017.

### Financial outlook

Kenmare is building upon the strong performance of 2017 and, assuming product markets continue to strengthen, expects an improving financial outlook in 2018. Cost control and containment, while providing a safe working environment, will remain central priorities for management again during the coming year especially if the mining industry enters a period of cost inflation. Debt principal payments have commenced with a payment of US$9.5 million in February this year and will continue on a semi-annual basis until debt is fully repaid. Kenmare is investigating economically attractive projects with low capital intensity that will increase HMC production leveraging off the installed asset base at the Moma Mine. Increases in capital investment are expected in 2018 and beyond, but the Company will at all times ensure the maintenance of a robust balance sheet as a core priority. Nevertheless, we are preparing to commence a legal process to facilitate the payment of dividends, which will require shareholder approval in due course. In conclusion, particularly given the favourable supply–demand fundamentals for our products, we can look forward to another positive year in 2018.

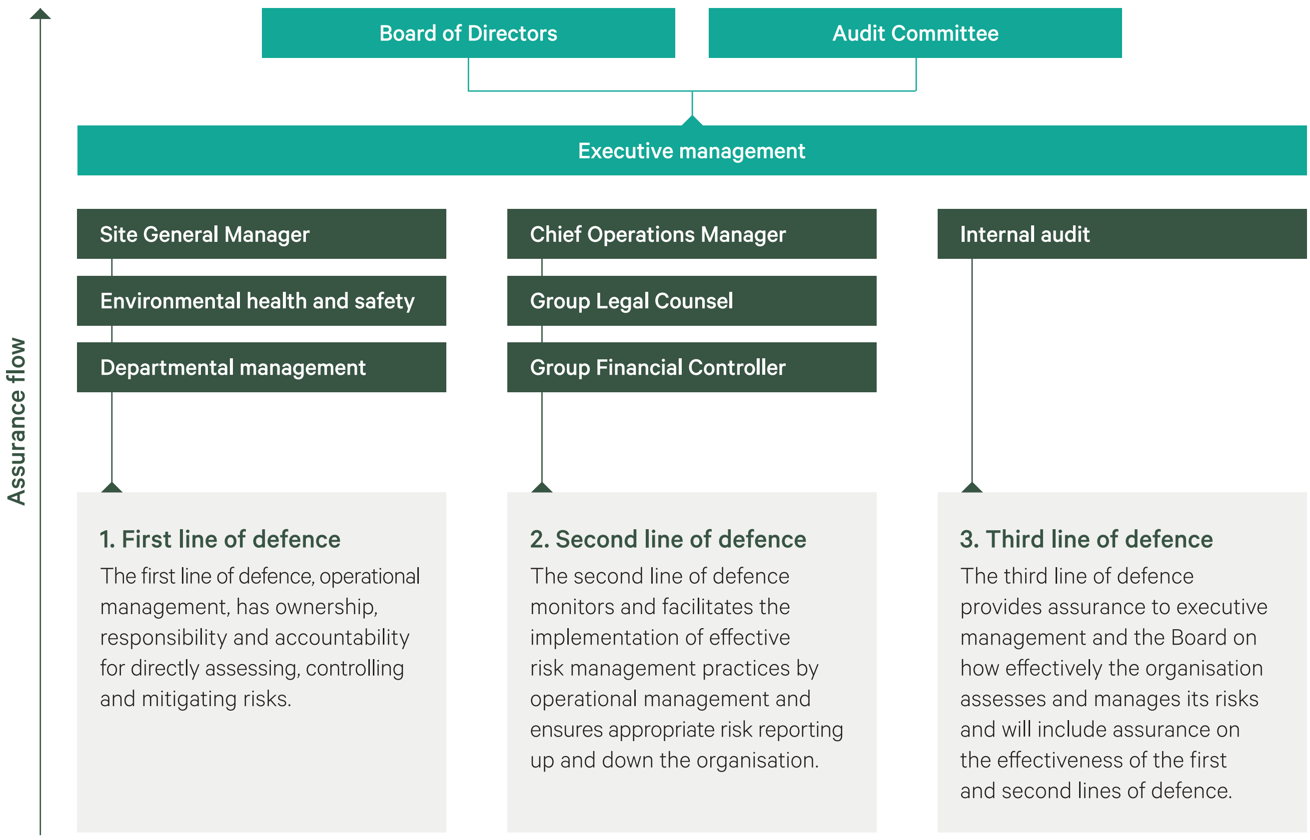
**Tony McCluskey**
Financial Director

# Principal risks and uncertainties

Managing risk is an integral part of our business and Kenmare has a process in place for assessing and managing risks associated with business and strategic corporate decisions. Through this process significant risks faced by the Group are identified, evaluated and appropriately managed.

## Risk management framework

An overview of the risk management and internal control framework, responsibilities within it and the relationship between functions is illustrated below. While the Board is ultimately responsible for risk management within the Group, it has delegated responsibility for the monitoring of the effectiveness of the Group's risk management and internal control systems to the Audit Committee. The Board and Audit Committee receive reports from executive management on the key risks to the business and the steps being taken to mitigate such risks. The Audit Committee reviews the principal risks and uncertainties.




## Risk assessment process

The Group's risk assessment process is based on a co-ordinated, Group-wide approach to the identification and evaluation of risks and the manner in which they are monitored and managed. This process begins with a bottom-up approach involving managers from all departmental areas who, through a programme of workshops, regularly perform a detailed risk review to update the Group risk register. In assessing the potential impact and likelihood of each risk identified, management considers the existing key controls and evaluates the risks in terms of potential residual impact. A standard risk-scoring matrix is used to ensure consistency in reporting across all areas.

Departmental risk registers are consolidated into a Group risk register. Executive management provides input to ensure that there is a top-down view of the key risks facing the Group. Following a review of the Group risk register by senior management, the principal risks identified for the Group and their mitigations are submitted to the Audit Committee and Board for review and approval. These risks are included in the principal risks and uncertainties facing the Group as set out on pages 37 to 41.

## Principal risks and uncertainties

Under Section 327(1)(b) of the Companies Act 2014 and Regulation 5(4)(c)(ii) of the Transparency (Directive 2004/109/EC) Regulations 2007, the Group is required to give a description of the principal risks and uncertainties that it faces. These risks are similar to those faced by many companies in the mining industry. A description of the principal risks and uncertainties, together with any mitigating factors and controls, are set out in the table on pages 37 to 41. This table is not prioritised nor is it an exhaustive list of all risks that may impact the Group, but rather the Board's view of principal risks at this point in time. There are additional risks which are not yet considered material or which are not yet known to the Board but which may assume greater importance in the future.

| Description | Potential impact | How we manage the risk | Risk trend |
|---|---|---|---|
| **Strategic** | | | |
| **Loss of licences** | | | |
| The Group's mining activities require licences and approvals to be in place in the relevant mining areas in northern Mozambique. The Group may lose or not receive the necessary approvals for it to operate in current or future mining licence areas in northern Mozambique. | A loss of or failure to maintain mining licences would significantly affect the ability to operate, cash generation and valuation of the Company's assets. | • Robust foundation agreement (mineral licensing contract) provides the right to be issued licences and approvals.<br>• Maintenance of existing licences in good standing.<br>• The Group continually demonstrates its commitment to the future long-term development of the Mine.<br>• The Group maintains a positive working relationship with the Government of Mozambique through regular contact, promoting open and honest two-way communication.<br>• Engagement with local communities to ensure they benefit economically from the presence of the Mine.<br>• Ongoing actions to develop and maintain environmental and social licence to operate. | Risk is decreased |
| **Country risk** | | | |
| The Group's operations are located entirely in Mozambique. There may be potential adverse financial or operational impacts from changes in the political, economic, fiscal or regulatory circumstances in Mozambique. | Kenmare has operated in Mozambique since 1987; however, it remains subject to risks similar to those prevailing in many developing nations: economic and social instability, changing regulatory requirements and increased taxes, etc. Such events may cause significant disruption to the operation or cause an increase in costs in order to ameliorate their impact.<br><br>Country risk is a factor in determining the economics of the Mine and increasing country risk may have an effect on the Group's financial results. | • Binding foundation agreements are in place with stability clauses and international arbitration provisions.<br>• The Group maintains a positive working relationship with the Government of Mozambique.<br>• Kenmare keeps itself closely informed of any developments in the national environment. | Risk is unchanged |

### Risk trend key:

Risk is unchanged — Risk is increased — Risk is decreased

# Principal risks and uncertainties continued

## Principal risks and uncertainties continued

| Description | Potential impact | How we manage the risk | Risk trend |
|---|---|---|---|
| **Operational** | | | |
| **Geotechnical risk** | | | |
| An external berm failure at the Moma Mine could result in a major slimes/water spill, potentially impacting on local communities and the production plant. | The nature of dredge mining gives rise to the creation of artificial ponds and a potential for failure of the berm system which surrounds the ponds. A failure of a berm could cause loss of life and cessation of the operation of the mining WCPs for a prolonged period. | • Permanently employed geotechnical engineering skills.<br>• Prudent geotechnical design and controls.<br>• Daily inspections.<br>• Interlocking external audits from two separate and independent geotechnical consultants. | |
| **Severe weather events** | | | |
| The location of the Group's operations on the north Mozambican coast gives rise to risk from cyclone activity and severe flooding event. Such events give rise to significant risk to the safety of mine staff, contractors and visitors, as well as to physical damage to the Mine. | In extreme weather circumstances, there is a risk of loss of life. There is a risk of physical damage to the mine plant which may result in an inability to operate the Mine. The probability of adverse weather events is considered low. They are also foreseeable, thereby allowing disaster planning. Less severe adverse weather could impact supply logistics to and from the Mine. | • Mine and associated infrastructure has been designed to an appropriate cyclone rating.<br>• Designated cyclone-proofed buildings at the Mine.<br>• Ongoing weather/cyclone monitoring.<br>• Cyclone readiness plan in place.<br>• Disaster management programme in place.<br>• Insurance cover obtained.<br>• Adequate stocks of materials and supplies on site. | |
| **Uncertainty over physical characteristics of the orebody** | | | |
| Orebody characteristics may not conform to existing geological or other expectations. | An unexpected divergence in physical characteristics of an orebody from expectations may cause reduced production levels or a necessity to incur increased production costs in order to maintain production at the intended level. | • Extensive sample testing carried out.<br>• Extensive orebody drill programme in place.<br>• Test pits/trenching exist.<br>• Growing expertise in managing unexpected mining conditions.<br>• Supplemental mining operations available. | |
| **Power supply and transmission risk** | | | |
| The Moma Mine is reliant on the delivery of stable and continuous electric power from the Cahora Bassa Dam via a power transmission line to the Mine. | Significant disruption to, or instability in, the power supply at the Moma Mine could have a material and adverse affect on the ability to operate the Mine or to operate it in the lowest cost manner, thereby adversely affecting production volumes and/or operating costs. | • Recent significant investment by EdM in power supply and transmission.<br>• On-site diesel-powered generators to maintain part of operations in the event of a loss of grid power.<br>• Robust and open relationship with EdM, under long-term power supply agreement.<br>• Company's synchronous condenser (Dip Doctor) to reduce the effect of grid power instability. | |

### Risk trend key:

Risk is unchanged    Risk is increased    Risk is decreased

| Description | Potential impact | How we manage the risk | Risk trend |
|---|---|---|---|
| **Operational** | | | |
| **Asset damage or loss** | | | |
| The operation of a large mining and processing facility carries an inherent risk of technical failure of equipment, fires and other accidents. | An occurrence of these risks could result in damage to or destruction of key mining, processing or shipping facilities at the Moma Mine. Loss of key assets could result in disruption to production or shipping, significant replacement cost and consequential monetary losses. | • Programme of inspections and planned maintenance.<br>• Standard operating procedures in place.<br>• Fire detection and suppression systems in place.<br>• Annual external risk assessment carried out.<br>• Insurance cover obtained. | |
| **Health, safety and environment (HSE)** | | | |
| The operation of a large mining and processing facility carries a potential risk to the health and safety of mine staff, visitors and the local community. A potential for environmental damage to the surrounding areas also exists. | The improper use of machinery, technical failure of certain equipment or failure to meet and maintain appropriate safety standards could result in significant injury, loss of life or significant negative impact on the surrounding environment and/or communities. | • Prioritisation of HSE management.<br>• Trained staff.<br>• Standard operating procedures in place.<br>• Ongoing hazard identification programme.<br>• Health and safety awareness programme for the Company and community.<br>• Mine clinic and evacuation procedures for staff in place.<br>• Community investment and programmes including health clinic and education programmes.<br>• Compliance with applicable HSE standards and legislation. | |
| **Resource statement risk** | | | |
| A material misstatement in the Mineral Reserves and Resources Statement. | A material misstatement could materially adversely impact on Company valuation. | • Competent person preparing JORC compliant statement.<br>• Ongoing drilling and sampling programme.<br>• Ongoing reconciliation of mining results to resource models. | |
| **IT security risk** | | | |
| The Group is dependent on the employment of advanced information systems and is exposed to risks of failure in the operation of these systems. Further, the Group is exposed to security threats through cyber crime. | A failure in these systems could lead to:<br>• disruption to critical business systems;<br>• loss or theft of confidential information, competitive advantage or intellectual property; and<br>• financial and/or reputational harm. | • Analysis by third-party specialists of potential areas of weakness.<br>• Third-party specialists provide network assurance.<br>• Ongoing strategic and tactical efforts to address the evolving nature of cyber threats. | |

# Principal risks and uncertainties continued

## Principal risks and uncertainties continued

| Description | Potential impact | How we manage the risk | Risk trend |
|---|---|---|---|
| **Financial** | | | |
| **Industry cyclicality** | | | |
| The Group's revenue generation may be significantly and adversely affected by declines in the demand for and prices of the ilmenite, zircon and rutile products that it produces. During rising commodity markets, there may be upward pressure on operating and capital costs. | Failure of the Group to respond on a timely basis and/or adequately to unfavourable product market events beyond its control and/or pressure on operating or capital costs may adversely affect financial performance. | • Global portfolio of customers.<br>• Long-term contracts with certain key customers.<br>• Ongoing cost control and disciplined financial management.<br>• Industry analysis to develop suitable assumptions in our commodity price forecasting used for planning purposes. | Risk is unchanged |
| **Customer concentration** | | | |
| The customer base for the Group's ilmenite, zircon and rutile products is concentrated. | The Group's revenue generation may be significantly affected if there ceases to be demand for its products from existing customers and it is unable to further expand its customer base in respect of the relevant product. | • The Group actively manages its existing customer relationships and seeks to develop new customers.<br>• Market intelligence to track developments in customer demand.<br>• Development of monazite concentrate as an additional co-product stream with different customer base. | Risk is unchanged |
| **Foreign currency risk** | | | |
| The Group's revenues are entirely denominated in US Dollars, whereas costs are denominated in a number of currencies including South African Rands, Mozambican Meticais, Euros and US Dollars. | The nature and location of the Mine and the intrinsic volatility of exchange rates give rise to an ongoing significant probability of occurrence of an adverse exchange rate fluctuation. The impact of such a fluctuation can be large across calendar years. | • Since the recapitalisation, all project debt is denominated in US Dollars.<br>• A natural hedge exists between revenue receipts and US Dollar-denominated costs.<br>• A natural hedge exists between the value of the US Dollar and commodity prices over a long time period. When commodity prices increase, the Group's non-US Dollar-denominated costs tend to increase in US Dollar terms. When commodity prices decrease, the Group's non-US Dollar-denominated costs tend to decrease in US Dollar terms. | Risk is unchanged |

### Risk trend key:

Risk is unchanged

Risk is increased

Risk is decreased

| Description | Potential impact | How we manage the risk | Risk trend |
|---|---|---|---|
| **Financial** | | | |
| **Financing risk** | | | |
| The inability to secure access to funding as required for future development capital expenditure. | Significant development capital expenditures may need to be funded in the medium-term horizon. A failure to generate sufficient operating cash flows or to obtain funding would lead to a failure or delay in executing development projects that could lead to sub-optimal cash generation over the longer term. | • Deferral of development capital expenditures.<br>• Potential alternative funding strategies explored. | |
| **Loan default risk** | | | |
| The inability to meet existing loan repayment obligations as they become due or comply with loan covenants. | Given recent capital restructuring we do not believe a significant risk exists in meeting these current repayment obligations or to comply with loan covenants. | • Low leverage and net debt.<br>• Amortising loan structure.<br>• Two financial covenants (historic debt service cover ratio and capitalisation ratio).<br>• The Group continually monitors liquidity requirements and covenant compliance. | |

# Sustainability report

## Kenmare is committed to operating in a sustainable and responsible manner and has a long-term strategic approach to the conduct of its business with corporate responsibility as a key priority.

Kenmare recognises that its social licence to operate derives from its relationships with all stakeholders, in particular the members of the community in the immediate vicinity of the Mine. Kenmare is committed to conducting all of its activities in a manner that minimises risks to employees, contractors, the general public and the environment.

### Company community interaction

The Company recognises that its licence to operate requires a good relationship with the local community. Kenmare's stakeholder engagement plan (SEP) is updated annually and takes into account any changing dynamics in the relationship between the Mine and the community.

The Mine has a Community Relations Department responsible for the management for the SEP. The department is led by the Corporate Affairs Manager (CAM), who reports to the Mine General Manager. There is also a Junior Community Relations Superintendent, a Community Liaison Officer and two community assistants in the department.

The Community Liaison Department is mandated to deal with issues raised by the local community. Typical issues dealt with include crop compensation, grave relocations, general grievances, employment opportunities, and water and sanitation issues.

Regular meetings were held with representatives of the local community during the year to share information. Minutes are prepared for all meetings and are approved by Kenmare and the community.

Kenmare recognises that the benefits of community engagement include:

- a strengthened sense of community;
- the development of a co-operative working environment;
- the community takes a greater responsibility for what is happening in its area;
- increased conflict management capacities; and
- informed policy-making with local government.

Community members need to be at the centre of the engagement process to ensure that they are empowered and have control over their decision-making processes. Kenmare's approach is therefore to engage frequently and proactively with the communities in the local vicinity of the Mine.

The key criteria that Kenmare focus on to ensure successful engagement are:

- ensuring that a broad range of people and sectors participate in the process;
- striving to resolve complex issues;
- creating a shared vision that achieves results and creates change;
- ensuring collaboration and social inclusion;
- identifying local priorities together with community; and
- reaching a consensus on the resulting actions required from both the Company and the community.

### REHABILITATION

For restoration of mined-out dredge paths, Kenmare continues to follow its Rehabilitation Strategy, so that mined areas can be handed over to local communities in due course. In 2017, as a result of renewal of the rehabilitation mobile equipment fleet, record rehabilitation levels of 292ha were achieved, a year-on-year increase of 139ha. A total area of 246ha was rehabilitated with topsoil, with the natural seed content contributing to the development of mixed trees and grassland rehabilitation. Planting of indigenous trees has supplemented the development of these areas. A further 46ha were planted with casuarina trees, a future commercial forestry crop, using community nurseries to supply saplings. Kenmare continued to optimise the rehabilitation plan by focusing on developing a patchwork of alternative land uses post-mining, including development of agricultural land, forestry, savannah and woodlands, with the tactics of rehabilitation developed according to topography, adjacent ecotypes and availability of topsoil and tailings characteristics.

Kenmare progressed the process of return of land to communities, following a land closure process involving provincial and local government engagement. A total of 170ha has been identified for return and final approvals are awaited. Further land returns will continue in future years, opening up agricultural land for subsistence farming.

**Image:** Mine rehabilitation nursery (photograph by Suzanne Matavele Community Development Officer).

NOSA rating

5 stars

Power demand from hydro power

92%

1. Egrets on cable in mining pond (photograph by Colin Cant, Production Planning Superintendent, Mine Planning).

## Environment

Kenmare is committed to operating in an environmentally responsible manner and to minimising the impact of mining and processing operations on the local environment. We recognise the growing importance of climate change, both to our Company and to our stakeholders.

The Mine is subject to the environmental laws and standards in force in Mozambique, together with international standards and guidelines of the International Finance Corporation (IFC) World Bank, African Development Bank and FMO, as well as its own policies. In 2017 Kenmare addressed action items to update from IFC Performance Standards (2006) compliance to IFC Performance Standards (2012) and Equator Principles compliance, aligned with our environmental management plan (EMP) requirements.

The Mine consistently seeks to apply best practice in all of its activities. The above standards relate to emissions, effluent treatment, noise, radiation, water quality, rehabilitation and management of social impacts, amongst others. Where standards differ, Kenmare has committed to meeting the most stringent standard applicable.

EIA Services, Lda, on behalf of the Ministry of Land, Environment, and Rural Development (MITADER), conducted an independent annual environmental audit at the Mine in 2017, measuring compliance with the Mozambican Government Decree 25/2011 of 15 June 2011, which requires companies to be audited annually by MITADER. No significant findings were registered.

Kenmare subscribes to the NOSA Occupational Health, Safety and Environmental Management System. Kenmare's third NOSA grading audit was conducted in December 2017 and Kenmare was awarded a rating of 5 stars for the second year in a row, reflecting a sustained level of excellence in environmental, health and safety (EHS) management systems.

The objective of the environmental management system is to facilitate and achieve compliance with the commitments in the EMP as well as continual improvement of environmental performance.

This involves monitoring to ensure applicable standards are being observed and, where deviations are encountered, reporting and mitigation occur promptly. The system is modelled in accordance with ISO 14001, which requires environmental objectives and targets to be set annually and regularly reviewed throughout the year, with performance tracked and checked through scheduled internal and external audits and inspections.

A joint community and Company environmental monitoring practice, introduced in 2015, continues to work well. Community engagement is a developing area of focus to involve and educate communities on the needs for environmental management and ensure that the monitoring programmes underway are well understood by all stakeholders.

Kenmare's principal power source is the Cahora Bassa hydroelectrical power station. In 2017, 92% of Kenmare's power demand was produced from a renewable power source (hydropower). The use of hydropower substantially reduces Kenmare's greenhouse gas emissions. Mozambique forms part of the Southern African Power Pool; if Kenmare did not have access to hydropower it would increase current emissions by 2,000 times.

However, in 2017 tonnes of $CO_2$ emissions increased due to the additional use of diesel as a result of higher operational activity levels. The use of Aggreko generators accounted for 21% of total fuel usage.

# Sustainability report continued

Environmental monitoring statistics were:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Greenhouse gas (tonnes $CO_2$) | **73,344** | 65,492 | 61,024 |
| Water extraction (million cubic metres) | **17.50** | 19.95 | 13.48 |
| Rehabilitation: total (ha) | **292** | 186 | 188 |
| Topsoiling (ha) | **246** | 153 | 173 |
| Casuarina plantation (ha) | **46** | 33 | 15 |

Water is an essential resource for operations, with the majority being returned to the ground (minus some evaporation). Kenmare's water requirements change with the geological difference in the orebody. The lack of a clay-rich base layer at WCP B, which necessitated an increase in water extraction in 2016, continued into 2017. However, in an effort to manage the Mine's water demands in 2017, water with an elevated slimes content was transferred from WCP A to WCP B. As a result, a better pond seal was created and water extraction decreased in 2017.

Kenmare implements a number of environmental compliance programmes to manage and reduce our impact on the environment. Key programmes include:

- Kenmare continuously monitors effluent quality at its sewerage treatment plants at the Mine.
- Further progress was made in the development of our waste segregation programme. Training and awareness campaigns continue to promote waste management practices by minimising generation of waste and ensuring adequate segregation at source.
- The mineral sands we mine and our products contain naturally occurring radionuclides. As a result, a radiation management plan is in place and personal exposures are monitored and remain within required exposure limits. A comprehensive review of radiation management was concluded in 2017 to ensure continued compliance to national legislation, the International Commission on Radiation Protection (ICRP) and IFC Performance Standards (2012) requirements.
- Operational noise disturbance levels impacting communities close to the Moma operation were again measured in 2017. Results indicated that related noise levels are within the IFC standard limit of 45dBA.
- Kenmare's air monitoring programme measures particulates at multiple locations on the site on a monthly basis. These measurements are compared to MITADER, African Development Bank (AfDB), and IFC (2012) standards. The results of the PM10 and PM2.5 tests remain within applicable guidelines.

## Employees

Kenmare recognises that employees are the backbone of the business and that a partnership is vital to achieving business objectives.

The Mine's Conditions of Employment Policy is compliant with the International Labour Organisation Labour Convention and FMO Core Labour Standards. It covers hours of work, meal breaks, transport, shift hours, overtime, standby, callouts and payment on Sundays and holidays, amongst others. Employee benefits are also covered, including retirement benefits, health, personal accident and medical benefits. Kenmare does not employ child labour or engage in any forced labour practices.

The Mine's employee statistics at year end are as follows:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Number of employees | **1,324** | 1,323 | 1,344 |
| % Mozambican | **93%** | 93% | 91% |
| % expatriates | **7%** | 7% | 9% |

The total Mine staff complement as at the end of December 2017 was 1,324 permanent employees. There were sixty-four female employees representing 5% of the total workforce, an increase of 1% in 2017. A more rigorous plan is in development to raise the complement of female employees.

Localisation of the workforce continued in 2017. Of the permanent employees, 93% are Mozambicans. The expatriate workforce has reduced to eighty-seven (excluding vacancies). Operator levels are now 100% localised, artisan levels 93%, and supervisory levels 81%, and these will be targeted to reach 100% in 2018. Development of management localisation continues and is now 47%. The sustainability of our localisation programme has been underpinned by successful technical development of local artisans replacing expatriates through our on-site practical training centre, and the continuing success of the graduate development programme bringing in Mozambican graduates to fill line management and specialist roles.

Industrial relations remained strong in 2017, with Kenmare actively and regularly engaging with employees and the union. Successful wage negotiations and the consultative process of changing from twelve-hour to eight-hour shifts were highlights of the year. Employee turnover for the year was 7%.

In 2017, Kenmare further focused attention on the development of leadership behaviours and embedding of management systems, helping to develop business maturity. Visual management processes were improved and further developed to align measures through the business, engage all levels of the workforce and increase accountability for safety and productivity.

## Anti-bribery

Kenmare takes a zero-tolerance approach to bribery and corruption and is committed to acting professionally, fairly and with integrity in all its business dealings and relationships wherever it operates. It is Kenmare's best practice objective that those it does business with take a similar zero-tolerance approach to bribery and corruption.

Kenmare is bound by the laws of Ireland, including the Prevention of Corruption Acts 1889 to 2010 in respect of its conduct both at home and abroad. It must also comply with laws relevant to countering bribery and corruption in the jurisdictions in which it operates.

## Human rights

Kenmare is fully committed to upholding the human rights of all of its stakeholders. The Company therefore supports the UN Universal Declaration of Human Rights and complies with all legislation pertaining to human rights in the countries where it operates.

Kenmare's human rights commitment includes the prohibition of modern slavery in all its forms. This means we have zero tolerance for child labour, forced labour or discrimination, and we respect the right of our workers to form unions. We do not consider there to be a risk of slavery or human trafficking with regards to our operations, due to our rigorous recruitment and pre-employment vetting process, or supply chain, due to our supply chain due diligence processes.

### Supply chain management

Kenmare's procurement department is responsible for managing the Company's inbound supply chain. It performs an important role in terms of delivering on our production and development plans by ensuring that the right goods and services are delivered to the right location at the right time. The team is also accountable for ensuring that our supply chain operates safely, efficiently and according to the high level of ethical conduct that we expect of our business, including full compliance with IFC Performance Standard 2 by establishing policies and procedures for managing the performance of third-party employers and confirming there is no use of child or forced labour in the primary supply chain.


1. Casuarina tree plantation (photograph by Americo Amoda, WCPA Shore Services Tails Superintendent).

### Government payments

Below we have disclosed Kenmare's payments to governments. All of the payments disclosed have been made to national governments, either directly or through a ministry or department of the national government on a cash basis. Payroll taxes consist of income tax withheld at source and employer and employee social security tax.

| | 2017 US$'000 | 2016 US$'000 | 2015 US$'000 | 2014 US$'000 | 2013 US$'000 |
|---|---|---|---|---|---|
| **Mozambique** | | | | | |
| Mining royalty | **2,833** | 2,371 | 2,826 | 3,563 | 3,860 |
| IFZ royalty | **1,517** | 1,538 | 1,486 | 1,868 | — |
| Payroll taxes | **6,998** | 7,405 | 8,551 | 10,564 | 9,499 |
| Withholding taxes | **978** | 695 | 462 | 422 | 459 |
| Licences | **12** | 24 | 123 | 215 | 77 |
| Total | **12,338** | 12,033 | 13,448 | 16,632 | 13,895 |
| **Ireland** | | | | | |
| Payroll taxes | **2,262** | 2,052 | 2,240 | 2,463 | 1,966 |
| Corporation taxes | **5** | 9 | 11 | 2 | 9 |
| Total | **2,267** | 2,061 | 2,251 | 2,465 | 1,975 |
| **UK** | | | | | |
| Payroll taxes | **154** | 234 | 169 | 162 | 119 |
| Total | **154** | 234 | 169 | 162 | 119 |
| Total payments to governments | **14,759** | 14,328 | 15,868 | 19,259 | 15,989 |

Kenmare's Moma Titanium Minerals Mine is a major investment in the north of Mozambique, which we believe serves as a catalyst for further investment and actively supports the Government of Mozambique in promoting investment in the country.

Kenmare does not give donations or contributions to any political party.


**Ben Baxter**
Chief Operating Officer

**Regina Macuacua**
Mine Corporate Affairs Manager

# Kenmare Moma Development Association

Kenmare aims to be a catalyst for positive social and economic improvements in the community neighbouring its operations. In this respect, ensuring effective communication and consultation with all stakeholders is one of the central pillars of Kenmare's development strategy.

One of the ways it achieves this is by supporting the Kenmare Moma Development Association (KMAD), a not-for-profit development organisation, established in 2004 to implement development programmes in the community.

## Community engagement

The community and its needs are at the centre of KMAD's programmes. KMAD's vision is to achieve a community of:

- healthy people living in safe and dignified conditions, free of disease and hazards;
- an independent community, well informed of Kenmare's ongoing operating activity with access to education and opportunity for individuals to reach their potential; and
- cohesive social groups and networks contributing to sustainable development.

KMAD has delivered significant improvements to local infrastructure and improved access to water throughout the community.

KMAD has created direct and indirect employment opportunities, training initiatives have been implemented and numerous development activities started by KMAD have now matured.

KMAD's goal is to:

- **Facilitate the economic development and income generation capacity of the local community.** This includes maximising the benefits of the Mine by creating secondary economic opportunities in the community and generating long-term sustainable economic opportunities independent of the Mine, as well as supporting facilitating mechanisms such as education, adult literacy and vocational training.
- **Improve the wellbeing of the local population.** This includes supporting social development in health, with special focus on community health awareness, sports and the construction of appropriate social infrastructure such as water pumps/distribution systems (accompanied by building the capacity of local water management committees) and educational facilities (including investing in vocational training).

1. School in Mtitcoma built by KMAD in 2016.

KMAD's core values are:

**PARTICIPATION**
Priorities for activities are based on local needs as identified by community members, and only those development initiatives with active local participation are supported by KMAD.

**SUSTAINABILITY**
Investment in the building of skills and capacity will accompany any projects supported by KMAD to ensure their viability and only those initiatives with strong potential for sustainability are supported.

**EQUALITY**
All people and parts of the community have the same rights and are to be treated equally. KMAD particularly promotes the involvement of women in all its activities to achieve this aim.

**EFFICIENCY**
Maximisation of local benefits of resources, leveraging the Mine infrastructure rather than setting up parallel systems and evaluation of activities to look for improvement and effectiveness.

**INTEGRITY, HONESTY AND TRANSPARENCY**
KMAD is open about its allocation and use of resources and in its dealings with all its partners and stakeholders.

## 2016–2018 KMAD strategic plan

The plan was developed and finalised through extensive community consultation during Q1 2016, and detailed in a community agreement signed by the local leaders, the district government, the provincial government, the provincial assembly, NGOs and Kenmare in April 2016.

The strategic plan covers three main areas of intervention:

### Livelihoods and economic development

This includes capacity development and financial support for income-generating initiatives, agriculture/food security and livestock support and economic infrastructures.

### Health development

This includes support for the health sector and capacity development of medical staff, equipment, materials and infrastructure improvements, community health and HIV awareness initiatives, and water and sanitation improvements.

### Education development

This includes support to the education sector such as support for capacity development of teachers, educational materials and equipment, school infrastructures and furniture, vocational training, community environmental awareness and sports.

Four feedback sessions with all signatories of the community agreement and other community representatives were held in 2017, during which progress against the plan was monitored. A further agreement was signed in December 2017 defining the specific activities to be undertaken in 2018 in the areas of livelihood and economic development, health development and education development.

## Organisational development

### Operation

KMAD activities are supervised by the Kenmare Country Manager in co-ordination with the CAM and KMAD Co-ordinator, who is responsible for the day-to-day management of the portfolio of activities. The CAM (a member of the Mine operations team) helps to monitor activities. Financial information is maintained by the Company's Financial Controller.

### Sources of funding

The majority of funding to date has come from donations from Kenmare. Additional resources have been obtained through direct support from partner institutions. Donations have also been received from Kenmare employees through internal fundraising exercises. KMAD has leveraged indirect support by working with partners who have projects in the region and can extend their focus to include KMAD's target area with minimal additional effort.

### Livelihood and economic development projects

The process for developing new initiatives is collaborative. KMAD receives business proposals from the community annually and these proposals are then reviewed for their economic viability.

In 2017, eight new projects were funded: Topuito building material and grocery shops, Mtiticoma wholesale and building material shops, Naholoco grocery shop and vegetable farm, Cabula fishing project and Nathuco grocery shop.

At year end, there were thirty-four operating small-scale business projects supported by KMAD, directly benefiting a total of one hundred and twenty-five project owners (and by extension their families and employees). A further seven local suppliers received technical support to enable them to enter the Mine's supply chain for goods and services.

# Kenmare Moma Development Association continued

## Organisational development continued

### Livelihood and economic development projects continued

These businesses generated revenues of US$302,000 (2016: US$108,000), an increase of approximately 154% in Metical terms compared to 2016 (though the Metical appreciated considerably against the US Dollar in 2017).

The Conservative Agriculture (CA) project continued in 2017; its objective is to transfer skills to local farmers that will enable them to increase their productivity, reduce diseases and grow crops that were previously not viable in the area. At the beginning of the year, KMAD distributed seeds to 167 farmers, but most of them lost their crops due to the inconsistent rainfall that followed a long period of drought. As a result, only 22 farmers managed to harvest any yield. At the end of 2017, 76 farmers had opened their fields. Each farmer had a plot of 0.25ha, covering a total area of 19ha. The approach being used in 2018 is to split farmers' existing fields in two, with farmers planting using the traditional agricultural practices on one side and using CA practices, with mulching and recommended spacing for each crop being planted, on the other. By the end of December 2017, one hundred and twenty-five farmers had registered to participate in the CA project.

### Technical study for a bridge over the River Larde

Under the terms of the agreement signed in August 2016, Kenmare committed to finance a technical study into the construction of a bridge over the River Larde, and once the study is complete, to discuss financing options with the government. A memorandum of understanding for this was signed with the government. The study was completed in February 2018 and is with the government for review.

## Health development projects

### Health clinic

A total of 13,668 (2016: 13,803) people attended the clinic for consultations in 2017. Two more nurses were allocated to the health clinic facility during the year by the government, bringing the total to seven. A total of 8,877 (2016: 6,744) patients had malaria tests, with 1,963 adults and 3,765 children testing positive compared with 4,143 (1,490 adults and 2,653 children) in 2016. Members of the community who presented themselves for HIV and STD testing were tested and all those that tested positive for HIV are now receiving treatment and care.

The maternity block attended a total of 2,282 (2016: 1,845) patients – 938 (2016: 857) pre-natal consultations, 615 (2016: 441) for family planning and 729 (2016: 507) births in the maternity ward. Construction of the child vaccination and consultation building was completed in 2017 and construction of a pharmacy started in Q4. Kenmare also took responsibility for the maintenance of the local ambulance after it fell into disrepair.

Agreement was reached with the community and health authorities to send 35 candidates on a two-and-a-half-year training course for nurses, starting in February 2018, with the government committing to allocating all the nurses that complete the course to health facilities in the district.

### Community health awareness

Management of the community health volunteers, who promote awareness campaigns on health, hygiene and sanitation either using door-to-door sessions or through group discussions, was handed over to the district government to align with national policies at the end of Q1 2017. In Q1 there were a total of 254 group discussions covering 2,160 individuals (1,149 female) and 536 door-to-door discussions targeting 2,708 people (1,549 female) carried out. The topics addressed were water and sanitation, STIs, HIV and malaria prevention. After handover KMAD continued to support refresher training on malaria prevention and net distribution to the group of volunteers in partnership with the health department.

#### WATER AND SANITATION

The Naholoco water system (five public water points with ten taps in total) was completed in 2017, with the village contributing the funds required to connect the system to the electricity grid. This was important to ensure community ownership. Since handover, the village water committee has been managing the collection of monthly contributions to keep the system operational and pay for the electricity bill. In all other villages the water committees have also continuously managed to collect the community contribution for the maintenance of the existing water supply.

Work on improving the water and sanitation situation showed good progress, especially with regards to promoting village clean-up campaigns managed by the community. However, a lot of work is still required with regards to waste management.

**Image:** Koos Grove, General Manager and Ana Paula Banana, District Permanent Secretary at the inauguration of Naholoco water supply system (photograph by Suzanne Matavele Community Development Officer).

1

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KMAD and the Mine have delivered significant improvements to local infrastructure to support social and economic development.

1. KMAD scholarship beneficiaries who attend secondary school in Moma. (photograph by Suzanne Matavele, Community Development Officer).

## Education development projects

A memorandum of understanding between KMAD and the District Education Department for the construction of a technical school was initially signed in 2014. This envisaged KMAD financing the construction and equipping of the school in accordance with a government-approved design whilst the government committed to staffing and running the school once complete.

The construction of the first phase of the technical school was concluded in 2017 and the central government issued the licence for it to open in February 2018. The infrastructure includes electrical, mechanical and civil construction workshops, a classroom block, a bathroom block, two houses for staff and a guard house. The equipment for all the workshops has been ordered, with the civil construction equipment and furniture for the teachers' houses delivered in December. The government has also started the process of recruiting the teachers and the management team for the school and have requested support from KMAD to cover the hiring cost of some teachers for the first years of startup of the school.

Separately, KMAD concluded the repairs of the old school block in Mtiticoma and started construction of a new school block in Tibane village with four classrooms.

## Population influx management

The development of the Mine has led to increased population in the area and significant growth in the size of some of the local villages. As a result of this Kenmare financed the development of an integrated urban management plan for the area to tackle issues such as public service provision, village expansion and waste management. Final approval of the influx management plan was given by the government in 2015. It is now a District of Larde plan, with the district responsible for implementation. KMAD provides support in the form of materials and in 2017 the district government recruited a technician to supervise the implementation of certain aspects of this plan. KMAD agreed to cover the salary costs associated with this for a three-year period.

## Government support

KMAD financed two consultative council sessions held by the district government and two workshops facilitated by a civil society organisation called Livaningo, one on good governance and one training session in association and project development.

## Local radio

KMAD continued providing support to Moma radio with training provided to the radio personnel. The intent is for the programmes to cover KMAD development programmes, community and government initiatives through interviews and also live programmes. Kenmare also intends to use the radio to engage directly with its employees and their families.

## Additional information

Additional information on the approach to corporate social responsibility and activities undertaken during the year can be found in the KMAD 2017 Annual Report available at www.kenmareresources.com.

**Gareth Clifton**
Mozambique Country Manager

**Hlaleleni Matolo**
KMAD Co-ordinator

## Corporate governance



# Board of Directors

## 1 Steven McTiernan
**N** / R

### Chairman and Non-Executive Director

Steven McTiernan has over forty-five years of diverse natural resources industry and investment banking experience with Amoco, BP, NatWest Markets, CIBC and the Chase Manhattan Bank, where he was Senior Vice President. He served as Senior Independent Director of Tullow Oil plc and was a Non-Executive Director for eleven years until January 2013, was an Independent Director at First Quantum Minerals Ltd. until June 2012, and was an Independent Director at Songa Offshore SE until January 2014. He received an MA in Natural Sciences from the University of Cambridge. He was appointed to the Board in March 2013.

## 2 Michael Carvill

### Managing Director

Michael Carvill is a Fellow of the Institute of Engineers of Ireland (FIEI). He holds a BSc in Mechanical Engineering from Queen's University Belfast and an MBA from the Wharton School of the University of Pennsylvania. He worked as a contracts engineer in Algeria and as a project engineer at Tara Mines, Ireland. He has been the Managing Director of Kenmare since 1986.

## 4 Tony McCluskey

### Financial Director

Tony McCluskey has worked with Kenmare since 1991. He was originally appointed as Company Secretary and Financial Controller, before becoming Financial Director in 1999. He holds a Bachelor of Commerce degree from University College Cork and is a Fellow of the Institute of Chartered Accountants. Before joining Kenmare, he worked for a number of years with Deloitte as a Senior Manager in Dublin. He has worked on a part-time basis as a lecturer with Chartered Accountants Ireland and has worked overseas.

## 5 Peter Bacchus
A / R

### Non-Executive Director

Peter Bacchus is the Chairman and Chief Executive of Bacchus Capital Advisers Ltd, an independent investment banking boutique based in London. Prior to establishing Bacchus Capital, he served as European Head of Investment Banking at US investment bank Jefferies, Global Head of Mining & Metals at Morgan Stanley, and Head of Investment Banking, Industrials and Natural Resources at Citigroup, in Asia and Australia. He has over twenty years' experience in investment banking, with a focus on the global natural resources sector and has, over this period, led a number of transformational transactions in the industry. He is a Non-Executive Director of US and South African listed Gold Fields and Australian listed Galaxy Resources. He is a Member of the Institute of Chartered Accountants, England & Wales, and holds an MA in Economics from the University of Cambridge, United Kingdom. He was appointed to the Board as a Non-Executive Director in May 2017.

## 7 Tim Keating

### Non-Executive Director

Tim Keating is Head of Mining Investments Private Equity at the State General Reserve Fund (SGRF), a sovereign wealth fund of the Sultanate of Oman. Prior to joining SGRF in 2015, he was CEO of African Nickel Limited, a nickel sulphide development company, where he grew the business through several acquisitions, project development and fund raisings. He also worked at Investec Bank for the Commodities and Resource Finance Team (2004–2010), and at Black Mountain Mine, owned by Anglo American plc, in South Africa. He is a Non-Executive Director of Kore Potash Limited. He has a BSc in Mining Engineering from West Virginia University, a BComm in Economics & Law from University of Witwatersrand, South Africa, and a Mine Manager's Certificate of Competency. He was appointed to the Board as a Non-Executive Director in October 2016.

## 8 Graham Martin
**R** / N

### Non-Executive Director

Graham Martin is an experienced natural resources executive and brings a wealth of relevant expertise, having served as an Executive Director, General Counsel and Company Secretary at Tullow Oil plc, an oil and gas exploration and production company listed on the London, Irish and Ghanaian stock exchanges. From 1997 until 2016, he was heavily involved in the growth of Tullow into a FTSE 100 business, and in the company's active M&A programme. Prior to Tullow, he was a partner at the US energy law firm Vinson & Elkins LLP. He is Chairman of United Oil and Gas plc. He holds a degree in Law and Economics from the University of Edinburgh. He was appointed to the Board as a Non-Executive Director in October 2016.

### 3 Terence Fitzpatrick
Technical Director

Terence Fitzpatrick is a graduate of Ulster University (Mech. Eng.). He worked as Project Manager and then Technical Director of Kenmare from 1990 to 1999. He was responsible for the development of the Ancuabe Graphite Mine in Mozambique, which achieved completion on schedule and budget in 1994. He was appointed to the Board of Kenmare in 1994. He served as a Non-Executive Director from 2000 to 2008. He was appointed as Technical Director in February 2009.

### 6 Elizabeth Headon
A / N / R

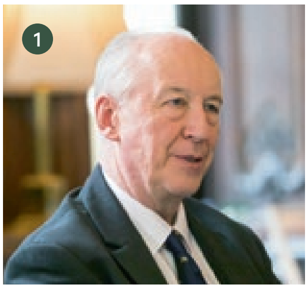
Non-Executive Director

Elizabeth Headon has over twenty years' experience in communications, corporate affairs and social responsibility. Based in Dublin, she sits on the boards of a number of non-listed and state companies and is an Executive Director of Gibney Communications. Previously she was Chief Executive of the Digicel Haiti Foundation and worked in Mozambique on the Kenmare Moma Development Association. She has a BA, MA and MBA from the National University of Ireland. She was elected to the Board as a Non-Executive Director in May 2011. She is the Senior Independent Non-Executive Director.

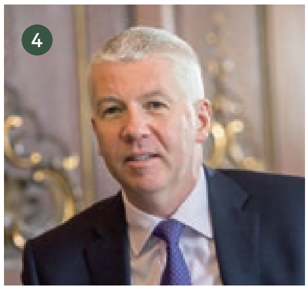
### 9 Gabriel Smith
**A** / N / R

Non-Executive Director

Gabriel Smith, a Norwegian national, has considerable executive experience and has been on several boards representing companies in different industries. He began his career as a Loan Officer at Citibank London. He was Managing Director of a technical trading company before joining Tinfos, a Norwegian silicomanganese, pig iron and titanium dioxide producer, as Chief Executive Officer from 1990 to 2007. From 2003 to 2006 he held the position of Chairman of Pan Fish, and from 2007 to 2009 he held the position as Chairman of Lighthouse Caledonia, both public companies in the seafood sector. He sits on the Board of Tinfos, now restructured as a hydro company, and since 2015 he is also on the board of ECO Energi, the second largest Norwegian hydro power company. He received his undergraduate degree in Economics from Dartmouth College and has an MBA from Amos Tuck School in the US. He was appointed to the Board in March 2013.

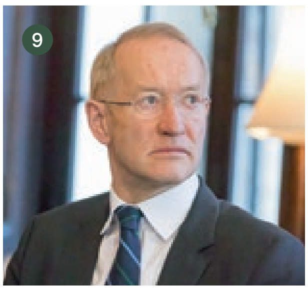









### Committee key
A / Audit Committee
N / Nomination Committee
R / Remuneration Committee
**X** / Committee Chairman

# Corporate governance report

## Corporate governance

The Directors recognise the importance of corporate governance and ensure that appropriate corporate governance procedures are in place. In the financial year under review, the Directors have applied the principles of the UK Corporate Governance Code (the "Code") issued by the UK's Financial Reporting Council (FRC) in April 2016, a copy of which can be obtained from the FRC website, www.frc.org.uk. The Company has complied with all relevant provisions of the Code in the financial year under review.

## The Board of Directors

Kenmare Resources plc is led by a strong and effective Board of Directors. Directors' biographical details, including each Director's date of appointment, are set out on pages 52 and 53. The Board consists of nine Directors, of which three are Executive and six are Non-Executive. The majority of the Board is made up of Non-Executive Directors. The Chairperson is required to be a Non-Executive. The Nomination Committee is responsible for reviewing the structure, size and composition of the Board and considers the size and composition to be appropriate. The Board recognises that after nine years' service Non-Executive Directors may be regarded as non-independent and may therefore be requested to step down at such time. The Board has delegated to the Nomination Committee the responsibility to identify any need to renew the Board, taking into account the challenges and opportunities facing the Company and the skills and expertise therefore needed on the Board in the future.

In May 2017, Ms S Bianchi, who had served as a Non-Executive Director for more than nine years, retired from the Board and Ms E Headon was appointed the Senior Independent Non-Executive Director. Also, in May 2017, Mr P Bacchus was appointed to the Board as a Non-Executive Director.

The roles of the Non-Executive Chairman (Mr S McTiernan) and the Chief Executive (Mr M Carvill) are separate.

## Culture

Kenmare's values of safety, integrity, partnership and excellence are integral to the way the Board operates. These characteristics are the basis of the tone that the Board sets for management and employees generally. They are strongly reinforced by the Board's governance structures which have as a focus: communicating the business model and strategy in a clear manner; actively monitoring and managing our key risks; aligning the interests of management with investors; making decisions in the long-term interests of shareholders; and taking the views of wider stakeholders into account.

## Diversity

The Board seeks to ensure the right balance of skills, knowledge and experience is retained on our Board, enabling us to maximise our corporate potential. The benefits of greater Board diversity, not just gender specific, are clear but all appointments to the Board will continue to be made on merit and not subject to specific diversity targets.

## Operation of the Board

The Board is responsible for the leadership, oversight, control, development and long-term success of the Group. It is also responsible for instilling the appropriate culture, values and behaviour throughout the organisation. The Board has delegated responsibility for the management of the Group through the Chief Executive to executive management, but has reserved certain items for its consideration and decision. These include approval of the strategic plans of the Group, financial statements, the annual budget, major acquisitions, significant contracts, major investments, interim and preliminary results announcements, circulars to shareholders, review of the Group's system of internal control, and appointment of Directors and the Company Secretary.

Since 2010, the Board has adopted the practice that all Directors offer themselves for re-appointment at the Company's Annual General Meeting.

Directors may take independent advice in the furtherance of their duties at the Company's expense.

## Meetings

The Board and its Committees met regularly throughout 2017. Details of the Directors' and Secretary's attendance at Board and Committee meetings are set out below.

| | Full Board | | Audit Committee | | Remuneration Committee | | Nomination Committee | |
|---|---|---|---|---|---|---|---|---|
| | A | B | A | B | A | B | A | B |
| **Non-Executive Directors** | | | | | | | | |
| S McTiernan (Chairman) | 6 | 6 | | | 5 | 5 | 4 | 4 |
| P Bacchus | 3 | 2 | 2 | 1 | 1 | 1 | | |
| S Bianchi | 3 | 3 | 3 | 3 | 4 | 4 | 3 | 3 |
| E Headon | 6 | 6 | 5 | 5 | 5 | 5 | 4 | 4 |
| T Keating | 6 | 6 | | | | | | |
| G Martin | 6 | 6 | | | 5 | 5 | 1 | 1 |
| G Smith | 6 | 6 | 5 | 5 | 5 | 5 | 4 | 4 |
| **Executive Directors** | | | | | | | | |
| M Carvill | 6 | 6 | | | | | | |
| T Fitzpatrick | 6 | 6 | | | | | | |
| T McCluskey | 6 | 6 | | | | | | |
| **Company Secretary** | | | | | | | | |
| D Corcoran* | 6 | 6 | 5 | 5 | 5 | 5 | 4 | 4 |

* In attendance only.

Column A – indicates the number of meetings held during the period the Director was a member of the Board and/or Committee.
Column B – indicates the number of meetings attended during the period the Director was a member of the Board and/or Committee.

In addition to formal meetings, the Executive Directors have regular contact with the Non-Executive Directors regarding developments within the Group. The Board and its Committees are circulated with Board or Committee papers, as appropriate, in advance of meetings.

### Independence of Non-Executive Directors

The Board has carried out an evaluation of the independence of its Non-Executive Directors, taking account of the relevant provisions of the Code and whether the Non-Executive Directors discharge their duties in a proper and consistently independent manner and constructively challenge the Executive Directors and the Board.

In October 2016, Mr T Keating was appointed to the Board. On 18 June 2016, African Acquisition Sarl and Kenmare Resources plc entered into a subscription agreement providing for the subscription of African Acquisition Sarl for new ordinary shares of US$100 million. The subscription agreement included an undertaking that a Non-Executive Director be appointed. Mr T Keating was appointed to the Board as Non-Executive Director in satisfaction of this requirement. As a result, Mr T Keating is not considered to be independent.

All the other Non-Executive Directors fulfil the independence requirements of the Code.

Mr S McTiernan has been Chairman of the Company since June 2014. On his appointment, Mr S McTiernan met the independence criteria as set out in the Code.

### Performance appraisal

The Board conducts an annual evaluation of its performance and that of its Committees. It also conducts an annual performance evaluation of individual Directors. Ms E Headon, the Senior Independent Director, conducted a performance review of the Directors and, in consultation with the Directors, an evaluation of the Board and its Committees. This was achieved through the completion of a survey questionnaire by each Director. It was concluded that all Directors continue to contribute effectively and to demonstrate commitment to their roles and that the Board and Committees have functioned effectively in delivering their objectives during the year. It was also concluded that the Chairman continues to contribute effectively and to demonstrate commitment to his role.

### Committees

The Board has established Audit, Remuneration and Nomination Committees. Each Committee of the Board has written terms of reference that set out its authorities and responsibilities. These terms of reference are available for review at the Company's registered office and summaries are available on the Company's website, www.kenmareresources.com.

### Internal control

The Board of Directors has responsibility for the Group's system of internal control. This involves an ongoing process for identifying, evaluating and managing the significant risks faced by the Group and reviewing the effectiveness of the resultant system of internal control that has been in place throughout the financial year and up to the date of approval of the Annual Report and Accounts.

The Board has delegated to management the planning and implementation of the system of internal control throughout the Group. The system of internal control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and accords with Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (September 2014). The key elements of the system include the following:

- the Board, in conjunction with management, identifies the major risks faced by the Group and determines the appropriate course of action to manage these risks;
- risk assessment and evaluation is an integral part of the management process throughout the Group. Risks are identified, evaluated and appropriate risk management strategies implemented;
- the Board maintains control and direction over appropriate strategic, financial, organisational and compliance issues, and has put in place an organisational structure with defined lines of responsibility and authority; and
- capital expenditures are controlled centrally and, if in excess of predefined levels, are subject to approval by the Board.

The Board conducted a review of the effectiveness of the Group's risk management and internal controls systems, including financial, operational and compliance controls, as part of which it obtained a report from the internal auditor. In the course of this review the Board did not identify nor was it advised of any failings or weaknesses which it determined to be significant.

### SGRF relationship agreement

Although SGRF currently does not fall within the definition of controlling shareholder under the Listing Rules, as it holds less than 30% of Kenmare's equity, the Company and African Acquisition Sarl, the vehicle through which SGRF invested in the Company, have entered into arrangements equivalent to those as would be expected to be in place between a listed company and its controlling shareholder to ensure the independence of the company from that shareholder. In particular, the Company entered into a subscription and relationship agreement, dated 18 June 2016, with African Acquisition Sarl that, amongst other things, sets forth the relevant arrangements.

### Communication with shareholders

Communications with shareholders are given high priority and regular meetings take place with institutional shareholders. The Company's Annual General Meeting affords individual shareholders the opportunity to question the Chairman and the Board. Annual Reports and Accounts announcements are sent to shareholders, and other announcements are released through a regulatory information service and on the Company's website, www.kenmareresources.com.

**Steven McTiernan**
Chairman
28 March 2018

# Audit Committee report

**Gabriel Smith**
Chairman of the Audit Committee

## Composition of the Audit Committee

The Audit Committee consists of the Non-Executive Chairman, Mr G Smith, and Non-Executive Directors Mr P Bacchus and Ms E Headon. In 2017, following Ms S Bianchi's retirement from the Committee, the Committee determined that Mr G Smith is the Committee's financial expert. As outlined in the Directors' biographical details, set out on pages 52 and 53, members bring considerable financial and accounting experience to the work of the Committee with Mr P Bacchus being a Chartered Accountant.

## Summary of role of the Audit Committee

The main responsibilities of the Committee include:

- monitoring the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance and reviewing significant financial reporting judgements contained in them;
- monitoring the effectiveness of the Group's internal control and risk management systems;
- making recommendations for the Board to put to the shareholders for their approval in General Meetings regarding the appointment, remuneration and terms of engagement of the external auditors;
- reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements and, in particular, the appropriateness of the provision of non-audit services;
- reviewing the plans, work and performance of the internal audit function and management's actions on findings to gain assurance as to the effectiveness of the internal controls in the Group;
- monitoring and reporting to the Board on the statutory audit of the financial statements; and
- reporting to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken.

## Meetings

The Committee met five times during the year ended 31 December 2017. Details of the Directors' and Secretary's attendance at Audit Committee meetings are set out on page 54. Audit Committee meetings generally coincide with the release of the Group's preliminary results, Annual General Meeting (AGM) and half yearly results.

## Significant issues related to the financial statements

The Committee reviewed the 2017 Annual Report in March 2018. The significant issues identified were the recoverability of property, plant and equipment and revenue recognition. The Committee reviewed the realisation of property, plant and equipment, taking account of the cash flow forecast and assumptions as detailed in Note 13, Property, plant and equipment. Based on this review, at the statement of financial position date, the recoverable amount of property, plant and equipment exceeded its carrying amount and as a result no impairment provision is required. The Committee reviewed the recognition of revenue taking into account the accounting policy on revenue as detailed in Note 1 Statement of accounting policies and Note 2 Revenue. As a result of this review the Committee are satisfied that the amount and disclosures related to revenue recognised are adequate.

The Committee has received a report from the external auditors on their audit of the financial statements. This report includes the auditors' review of the areas of audit risk and focus in relation to the financial statements.

The Committee reviewed the 2017 Half Yearly Financial Report issued by the Company in August 2017. The significant issue identified was the recoverability of property, plant and equipment. The auditors included an Emphasis of matter paragraph in their review report drawing the reader's attention to this issue.

The Committee received a report from the external auditors on their review of the Half Yearly Financial Report. This report included the auditors' key areas of review.

## External audit

The Company's external auditors are Deloitte. They have been the external auditors for over twenty-five years and during this time there has been no tender. The current engagement partner, Kevin Sheehan, is to rotate from this engagement in 2019. KPMG provide the external audit and taxation services to the subsidiary undertakings Kenmare Moma Mining (Mauritius) Limited and Kenmare Moma Processing (Mauritius) Limited and their respective branches.

The Committee plans to put the external audit contract to tender on or before 2019. There are no contractual obligations that restrict the choice of external auditors.

The Committee closely monitors the level of audit and non-audit services that the audit firms provide to the Group. The Committee has adopted a policy on the provision of non-audit services by the external auditors on the basis they may provide such services where the engagement will not compromise their audit objectivity and independence, they have the understanding of the Group necessary to provide the service and they are considered to be the most appropriate to carry out the work. All non-audit services provided by audit firms must be approved by the Committee.

The Committee agreed the fees and audit plan of the external auditors for their audit of the 2017 Annual Report and Accounts and their review of the 2017 Half Yearly Financial Report. The Committee reviewed the safeguards designed to avoid the possibility that the auditors' objectivity and independence could be compromised. The Committee is satisfied that the appropriate policy is in place in respect of services provided by external auditors.

The Company Secretary, the external audit lead partner and, from time to time, the Finance Director attend meetings at the invitation of the Committee. At least once each year, the Committee and the external auditors discuss, without management present, matters relating to its remit and any issues arising from the audit. The external auditors have unrestricted access to the Chairman of the Audit Committee.

### Risk management

The Group has identified and documented critical risks to the business, including key operational risks and related controls in its risk register. The Mine operational risks to the business are reviewed quarterly and updated and the Group's risk register amended. The Group's operational risks are reviewed annually and the corporate and business risks on the Group's risk register are updated. The critical/high risks identified as a result of this process are reviewed by the Audit Committee. These risks are included in the principal risks and uncertainties facing the Group as set out on pages 36 to 41. As part of the internal audit function, controls identified in the risk register are tested to ensure they are operating effectively.

The Company has a whistleblowing policy in place and a third-party service provider is engaged to provide a confidential 24/7 whistleblowing service allowing all employees to contact it and report any wrongdoing in the workplace. Five reports were received in 2017 and these were dealt with by the Company Secretary and the internal auditor. The service does not replace the internal processes within the organisation, but seeks to provide an alternative for those employees who for any reason do not wish to use the internal processes.

The Audit Committee Chairman can receive in confidence complaints in writing on accounting, risk issues, internal controls, auditing issues and related matters for reporting to the Audit Committee.

During the year the Audit Committee reviewed a summary of the key Group insurance policies. 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 business interruption due to risks such as weather events, equipment failure or labour dispute. Taking into account the above factors, the Audit Committee was satisfied there is adequate cover in place to mitigate the Group's exposure to insurable risks.

### Internal audit

In April and November 2017, internal audits took place at the Mine. The key findings from these reviews were reported to the Audit Committee during 2017. The recommendations from these reviews have been or are being implemented by management.

### Financial reporting

The Directors are responsible for preparing the Annual Report and the financial statements. The Directors have delegated to management the planning and implementation of the system of internal control over financial reporting. Internal control over financial reporting is a process designed by management to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of the Group's published financial statements for external reporting purposes in accordance with IFRS. The Group's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures are being made only in accordance with the authorisation of management.

The Audit Committee monitors the integrity of the financial statements of the Group and any formal announcement relating to the Group's financial performance, reviewing significant financial reporting judgements contained in them. The Audit Committee reviewed the 2017 Annual Report and the 2017 Half Yearly Financial Report and also the Committee received a report from the external auditors for the audit of the 2017 Annual Report and their review of the 2017 Half Yearly Financial Report. The Board reviews and approves the financial statements of the Company and the consolidated financial statements of the Group.

**Gabriel Smith**
Chairman of the Audit Committee
28 March 2018

# Nomination Committee report

**Steven McTiernan**
Chairman of the Nomination Committee

## Composition of the Nomination Committee

The Nomination Committee consists of the Non-Executive Chairman, Mr S McTiernan, and Non-Executive Directors Ms E Headon, Mr G Martin and Mr G Smith.

## Summary of role of the Nomination Committee

The main responsibilities of the Committee include:

- identifying and nominating for the approval of the Board candidates to fill Board vacancies as and when they arise;
- before making an appointment, evaluating the balance of skills, knowledge and experience on the Board and, in light of this evaluation, preparing a description of the role and capabilities required for a particular appointment;
- reviewing periodically the time required from a Non-Executive Director. Performance evaluation is used to assess whether the Non-Executive Director is spending enough time to fulfil his or her duties;
- giving full consideration to succession planning in the course of its work, taking into account the challenges and opportunities facing the Company and what skills and expertise are therefore needed on the Board in the future;
- regularly reviewing the structure, size and composition (including the skills, knowledge, independence, diversity and experience) of the Board and making recommendations to the Board with regard to changes considered advisable; and
- keeping under review the leadership needs of the organisation, both Executive and Non-Executive, with a view to ensuring the continued ability of the Group to compete effectively in the marketplace.

The standard terms of contract with the Non-Executive Directors are available on request from the Company Secretary, at the Company's registered office during normal business hours, and at the AGM (for fifteen minutes prior to the meeting and during the meeting).

## Meetings

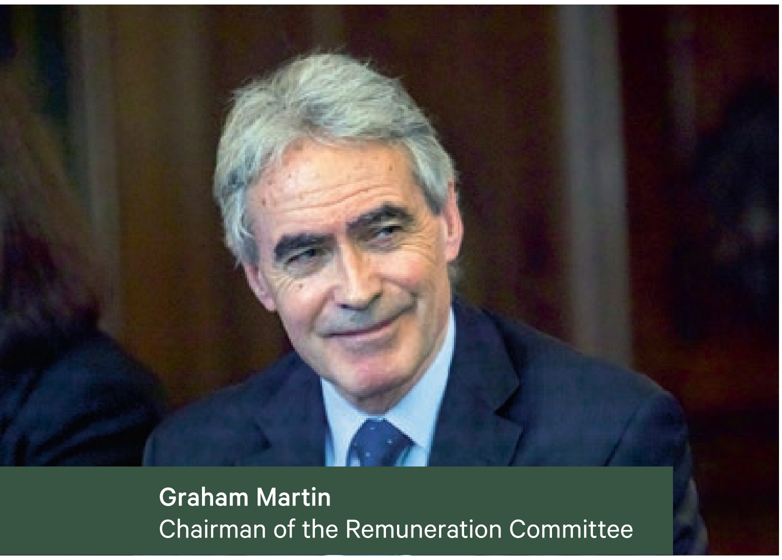
The Committee met four times during the year ended 31 December 2017. Details of the Directors' and Secretary's attendance at Nomination Committee meetings are set out on page 54.

The Committee considered the retirement of Ms S Bianchi and the appointment of Mr P Bacchus as a Non-Executive Director. An external recruitment consultant, Armstrong Bonham Carter LLP (which; other than my having acted previously as an unpaid member of its advisory Board; has no other connection with the Company), was engaged to assist the Nomination Committee with a recruitment process, the result of which was the co-option of Mr P Bacchus to the Board in May 2017.

The Committee also considered Board composition and succession planning including the experience required, the search process and the identification of candidates to fill the role of an independent Non-Executive Director. The Committee discussed the process of Board training and induction and, as a result, the Committee will ensure that all new Directors undertake an appropriate induction programme to ensure that they are fully informed about strategic and commercial issues affecting the Company and the markets in which it operates. The Committee reviewed the terms of reference set for the Committee and, as a result, revised terms of reference were adopted by the Board in March 2017.

**Steven McTiernan**
Chairman of the Nomination Committee
28 March 2018

# Directors' remuneration report



Graham Martin
Chairman of the Remuneration Committee

### Dear shareholders,

On behalf of the Board, I am pleased to present to you the Remuneration Committee's report for 2017 on Directors' remuneration.

### Summary of the work of the Committee in 2017

The early part of 2017 was spent liaising with the Executives and our major shareholders in finalising the terms of a proposed new Directors' remuneration policy, which was then submitted to shareholders for approval at the 2017 AGM. I am very pleased that this new policy was approved by shareholders and we are grateful for your support. Thereafter in 2017 the major work of the Committee focused on monitoring the performance of the Company, on a quarterly basis, against the key performance metrics set for the Executives' bonus scheme.

The Committee met five times during the year and there were also a number of less formal communications between me and members of the Committee. In November, the Committee received a presentation from PwC, the Company's remuneration advisers, covering matters such as current trends in remuneration practices, the benchmarking of the Company and the status of proposed governance reforms affecting remuneration.

### Performance and reward for 2017

Under the new remuneration policy, the Executive Directors receive a base salary (which has been frozen since 2010 other than for inflationary adjustments), pension contributions, certain other benefits, an award of shares under the Kenmare Restricted Share Plan (KRSP) and the opportunity to earn a cash bonus depending on the outcome of certain key performance criteria.

As noted by the Chairman and the Managing Director in their respective reports, 2017 has been an excellent year for the Company in terms of improved financial results, setting record production levels and reducing costs while at the same time remaining focused on health and safety, environmental protection and community relations. These results are reflected in the outcome of the Executives' bonus.

The performance criteria set by the Committee under the bonus scheme reflected a mixture of quantitative targets (67.5% of the maximum 100% opportunity) and qualitative targets (32.5%) and were set at stretching levels for the maximum award. The quantitative targets covered various metrics reflecting production, financial results and safety and environmental matters, while the qualitative targets covered other areas determined by the Committee to be important for the Company in 2017 in aligning incentives with the Company's strategy and ensuring the long-term viability of the Mine and the Company. These qualitative measures, which are reported on more fully later in this report, included: substantially progressing development options for the Mine; developing new products and markets; progressing the changes in the capital structure of the Group to facilitate the payment of dividends at the appropriate time; progressing succession and development plans for the Executives and other staff; upgrading IT and other systems and reporting procedures; and taking steps to improve liquidity in the Company's shares.

The outcome of the Committee's assessment of performance against these criteria resulted in the Executives receiving a cash bonus of 59.01% of their respective base salaries in the case of the Managing Director and Financial Director, and 35.41% in the case of the Technical Director, which in each case the Committee considers a fair result for the year.

### Conclusion

The objective when proposing the new remuneration policy to shareholders last year was to have a remuneration structure which was simple, flexible and motivating while allowing sufficient discretion to the Committee to make any adjustments necessary to take into account all matters which had affected the Company or its performance during the year. We firmly believe that this has been achieved in 2017 and that the remuneration structure will remain suitable for 2018, with certain adjustments to the performance metrics as described later in this report.

I would like to thank my fellow members of the Remuneration Committee for their support and guidance throughout the year, the Executive Directors for their positive and constructive engagement with me and the Committee, and Deirdre Corcoran for her invaluable role as Secretary to the Committee.

I hope you will vote in support of the remuneration report at the forthcoming AGM. Should you have any questions, comments or feedback on remuneration matters at Kenmare I would be very pleased to discuss them with you. I can be reached via the Company Secretary at dcorcoran@kenmareresources.com.

**Graham Martin**
Chairman of the Remuneration Committee
28 March 2018

# Directors' remuneration report continued

Annual report on remuneration 2017

## Composition and role of the Remuneration Committee

The Remuneration Committee comprises five independent Non-Executive Directors: Mr G Martin (Chairman), Ms E Headon, Mr P Bacchus, Mr S McTiernan and Mr G Smith. Further details regarding the members of the Remuneration Committee, including their biographies and lengths of service are set out on pages 52 and 53. The Company Secretary acts as Secretary to the Committee. The Managing Director may be invited to attend meetings of the Committee, except when his own remuneration is being discussed. No Director is involved in consideration of their own remuneration.

The role and responsibilities of the Remuneration Committee are set out in its written terms of reference, which are available on request and a summary is available on the Company's website, www.kenmareresources.com.

The Committee is responsible for determining the policy for the remuneration of the Executive Directors and for monitoring and reviewing the level and structure of remuneration throughout the Group. In this regard the Committee gives full consideration to legal and regulatory requirements, to the principles and provisions of the UK Corporate Governance Code and to related guidance. The Committee also seeks to ensure that risk is properly considered in the setting of the remuneration policy, by ensuring that targets are appropriately stretching but do not lead to the taking of excessive risk.

The Committee determines the remuneration packages of the Executive Directors, including salary, bonuses, share awards, pension rights and other benefits.

The Remuneration Committee seeks independent advice when necessary from external remuneration consultants. During the year, the Committee received independent external advice from Pricewaterhouse Coopers (PwC), which has no other connection with the Company. PwC charges fees on a time and materials basis and during the year ended 31 December 2017 the total fees payable to PwC in respect of these services was £88,000. PwC is a member of the Remuneration Consultants Group and a signatory of the group's Code of Practice for remuneration consultants. The Committee reviews the services and advice provided by PwC each year and is satisfied that the advice it receives is independent and objective.

The Committee met five times during the year ended 31 December 2017. Details of the Directors' and Secretary's attendance at Remuneration Committee meetings as well as individual attendance at all Board and Committee meetings are set out on page 54.

The main agenda items included remuneration policy, remuneration trends and benchmarking, performance metrics, KIP and KRSP awards, service contracts and remuneration packages of the Executive Directors, and a review of the Committee's terms of reference.

## Directors' remuneration

The following table sets out the total remuneration for Directors for the year ended 31 December 2017 and the prior year. There was no increase in the base salary of Executive Directors during 2017 (differences in figures in the table reflect movements in conversion rates between Euros and US Dollars at the relevant dates).

| | Salary and fees | | All taxable benefits | | Cash bonus and deferred shares | | Total Emoluments | | LTIP | | Pension | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 US$'000 | 2016(i) US$'000 | 2017 US$'000 | 2016 US$'000 | 2017 US$'000 | 2016(v) US$'000 | 2017 US$'000 | 2016 US$'000 | 2017(vi) US$'000 | 2016 US$'000 | 2017 US$'000 | 2016 US$'000 | 2017 US$'000 | 2016 US$'000 |
| **Executive Directors** | | | | | | | | | | | | | | |
| M Carvill | **621** | 781 | **12** | 10 | **366** | 488 | **999** | 1,279 | **467** | — | **62** | 61 | **1,528** | 1,340 |
| T Fitzpatrick | **304** | 304 | **5** | 5 | **108** | 141 | **417** | 450 | **138** | — | **30** | 30 | **585** | 480 |
| T McCluskey | **410** | 577 | **6** | 6 | **242** | 322 | **658** | 905 | **308** | — | **41** | 40 | **1,007** | 945 |
| **Subtotal** | **1,335** | 1,662 | **23** | 21 | **716** | 951 | **2,074** | 2,634 | **913** | — | **133** | 131 | **3,120** | 2,765 |
| **Non-Executive Directors** | | | | | | | | | | | | | | |
| P Bacchus(ii) | **47** | — | **—** | — | **—** | — | **47** | — | **—** | — | **—** | — | **47** | — |
| S Bianchi(ii) | **40** | 89 | **—** | — | **—** | — | **40** | 89 | **—** | — | **—** | — | **40** | 89 |
| J Ensall(iii) | **—** | 54 | **—** | — | **—** | — | **0** | 54 | **—** | — | **—** | — | **—** | 54 |
| E Headon | **86** | 83 | **—** | — | **—** | — | **86** | 83 | **—** | — | **—** | — | **86** | 83 |
| T Keating(iv) | **65** | 13 | **—** | — | **—** | — | **65** | 13 | **—** | — | **—** | — | **65** | 13 |
| A Lowrie | **—** | 37 | **—** | — | **—** | — | **0** | 37 | **—** | — | **—** | — | **—** | 37 |
| G Martin(iv) | **82** | 16 | **—** | — | **—** | — | **82** | 16 | **—** | — | **—** | — | **82** | 16 |
| S McTiernan | **214** | 208 | **—** | — | **—** | — | **214** | 208 | **—** | — | **—** | — | **214** | 208 |
| G Smith | **93** | 91 | **—** | — | **—** | — | **93** | 91 | **—** | — | **—** | — | **93** | 91 |
| **Subtotal** | **627** | 591 | **—** | — | **—** | — | **627** | 591 | **—** | — | **—** | — | **627** | 591 |
| **Total** | **1,962** | 2,253 | **22** | 21 | **716** | 951 | **2,701** | 3,225 | **914** | — | **133** | 132 | **3,748** | 3,356 |

(i) The figures for 2016 include payments in settlement of acrued and unused holiday leave which was built up over a number of years and amounts in relation to life assurance and income protection.

(ii) Mr. P. Bacchus was appointed to the Board as Non-Executive Directors on 25 May 2017 and Ms. S. Bianchi stepped down from the Board on that date. The fees set out in the table above relate to the period of their respective directorship.

(iii) Mr. J. Ensall was appointed to the Board as a Non-Executive Director on 27 July 2015. The 2016 remuneration for Mr. J. Ensall relates to the period of his directorship. During 2016, US$0.06 million of fees were paid to Lemna Limited, a company connected with Mr. J. Ensall, for services provided by him. Mr. J. Ensall is not a director or shareholder of Lemna Limited.

(iv) Mr. T. Keating and Mr. G. Martin were appointed to the Board as Non-Executive Directors on 14 October 2016. The fees set out in the table above relate to the period of their respective directorship.

(v) 2016 includes the KIP deferred shares earned in the year. Awards under the KIP were normally delivered 30% in cash, and the balance in shares, with 75% of those shares being performance shares subject to further total shareholder return (TSR) performance conditions. The number of deferred shares are determined using the average share price for the year and are valued based on the share price at the year end. Performance shares awarded will be included in the Directors' Remuneration table in the year of vesting.

(vi) The LTIP for 2017 is the KRSP incentives earned in the year. Awards under the KRSP are made 100% in shares which vest, subject to continued employment, 60% on the third anniversary of grant and 20% on each of the fourth and fifth anniversary of grant.

(vii) No share options were exercised in 2017 or 2016.

(viii) The underlying currencies of Directors' emoluments are Euros and US Dollars.

(ix) This disclosure forms an integral part of the financial statements.

There was no increase in the Non-Executive Directors' fees in 2017.

Executive and Non-Executive Directors' fees for services as Directors provided to the Company and the entities controlled by the Company are US$3.1 million (2016: US$2.8 million) and US$0.6 million (2016: US$0.6 million) respectively. These figures have been calculated based on the requirements of the UK's Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the "Regulations"), to which the Company has regard. Consultancy fees paid to Ms S Bianchi are for non-executive services as a Director provided to the Group.

# Directors' remuneration report continued

Annual report on remuneration 2017

## 2017 annual bonus award

The performance metrics of the 2017 annual bonus award sought to deliver continuous and stretching progress in relation to operational performance, cost efficiency and capital expenditure management, health and safety initiatives, and corporate objectives. Performance targets for 2017 were identical for all Executive Directors.

The maximum opportunity under the annual bonus award for 2017 was 100% of base salary for the Managing Director and Financial Director and 60% of base salary for the Technical Director.

Performance targets and outcomes for the 2017 financial year were as follows:

| | | Performance needed for pay-out at | | |
|---|---|---|---|---|
| 2017 annual bonus outcome | Weighting | Threshold (25% of maximum vests) | Target (50% of maximum vests) | Stretch (100% of maximum vests) |
| **Operational** | | | | |
| **Ilmenite production (tonnes)** | 15% | 903,300 | 1,002,000 | 1,102,200 |
| **Rutile production (tonnes)** | 5% | 9,000 | 10,000 | 11,000 |
| **Zircon production (tonnes)** | 5% | 69,840 | 77,600 | 85,360 |
| **Primary zircon production (tonnes)** | 5% | 28,350 | 31,500 | 34,650 |
| **Financial** | | | | |
| **EBITDA** | 15% | $29m | $58m | $87m |
| **Direct production costs** | 10% | $143m | $130m | $117m |
| **Cost per tonne** | 5% | $138 | $125 | $113 |
| **HSE** | | | | |
| **LTIFR per 200,000 man-hours** | 5% | 0.40 | 0.30 | 0.20 |
| **Safety – other** | 2.5% | This included maintaining the Company's NOSA 5-star industry safety rating and a material reduction in malaria incidents. | | |
| **Environmental breaches** | 2.5% | This included ensuring no material spills of hazardous waste. | | |
| **Environmental – other** | 5% | This included continuing progress with the rehabilitation plan and regular, constructive engagement with the local community on environmental issues. | | |
| **Strategic** | | | | |
| **Mine optimisation, etc.** | 15% | These included metrics around projects geared to long-term mine optimisation, business development and increasing shareholder returns. | | |
| **Other strategic targets** | 10% | These were targets considered to be of key importance in 2017, including: succession planning, corporate and social responsibility projects, IT and other systems upgrades, improvement in supply chain processes and increasing liquidity in the Company's shares. | | |
| **Total** | | | | |

Overall, the outcome of the scorecard was 59.01%. The outcome for Mr M Carvill and Mr T McCluskey was therefore 59.01%, out of their maximum 100% of respective salary, and for Mr T Fitzpatrick it was 35.41%, being 59.01% of his maximum 60% of salary. The 2017 annual bonus award was delivered 100% in cash.

| Performance achieved | Proportion of element vesting % | Formulaic level of award % maximum %(i) |
|---|---|---|
| | | |
| 998,200 | 49 | 7.36 |
| 9,100 | 28 | 1.38 |
| 74,000 | 38 | 1.92 |
| 30,800 | 44 | 2.22 |
| | | |
| $59.6m | 53 | 7.97 |
| $134.1m | 42 | 4.21 |
| $131.6 | 37 | 1.87 |
| | | |
| 0.39 | 27.6 | 1.38 |
| The demanding NOSA 5-star rating was maintained and malaria statistics trended below the previous two years, resulting in considerably less lost time. | 100 | 2.50 |
| There were no material spills of hazardous waste and a successful external environmental audit was concluded. | 100 | 2.50 |
| The rehabilitation plan exceeded target by 18% resulting in a record closure of open areas (i.e. areas of land yet to be rehabilitated and returned to the community), and there was successful engagement with the local community on matters such as relocation of housing and resolving issues around new development areas. | 100 | 5.00 |
| | | |
| Various mine development options and iterations were considered, some of which are now underway and some still in progress; a new monazite project is underway; new markets were developed and new customers engaged; consideration was given to diversification of the business; and good progress was made on preparing the route to dividends. | 86.2 | 12.90 |
| Excellent progress was made on staff training and development plans; some CSR projects were successful, some remain works in progress; some systems were upgraded; Board reporting was improved; material improvements were made in supply chain processes with substantial savings identified; however, liquidity in trading of the Company's shares remains a work in progress. | 78 | 7.80 |
| | | **59.01** |

(i) Formulaic level of award equates to the weighting multiplied by the proportion of element vesting.

# Directors' remuneration report continued

Annual report on remuneration 2017

## Total pension entitlements

Pension provision for the Executive Directors was made in 2017 based on 10% of base salary, in line with the remuneration policy. Fees paid to Non-Executive Directors are not pensionable. No Director has a prospective entitlement to a defined benefit pension by reference to their service as a Director.

## Scheme interests vested during the year

During the year the three-year performance period set to determine the vesting of the initial KIP award and the 2014 KIP award ended. Kenmare's total shareholder return (TSR) for the relevant period was below median, relative to the constituents of the FTSE 250 Index and relative to the FTSE/MSCI Mining Index, and consequently no vesting occurs under the initial KIP award or the 2014 KIP award.

## Scheme interests awarded during the year

During the year awards in respect of 2016 were made under the KIP. The table below sets out details of the scheme interests awarded to the Executive Directors during the year which are subject to TSR performance conditions. The number of shares awarded under the KIP in respect of a performance year is based on the average share price over the relevant performance year which was €2.47 for 2016. These awards will vest on 31 March 2020.

| | Award | Date of grant | Number of shares | Share price at date of grant € | Face value of award € | Exercise price | Date to which performance is measured | Performance conditions* | Percentage of interests receivable if minimum performance is achieved* |
|---|---|---|---|---|---|---|---|---|---|
| M Carvill | 2016 KIP | 31/03/2017 | 193,976 | 3.55 | 688,615 | Nil | Three years to 31/12/2019 | Absolute TSR and relative TSR to FTSE 250 and FTSE/MSCI Mining Index | 100% |
| T McCluskey | 2016 KIP | 31/03/2017 | 128,017 | 3.55 | 454,460 | Nil | Three years to 31/12/2019 | Absolute TSR and relative TSR to FTSE 250 and FTSE/MSCI Mining Index | 100% |
| T Fitzpatrick | 2016 KIP | 31/03/2017 | 56,134 | 3.55 | 199,276 | Nil | Three years to 31/12/2019 | Absolute TSR and relative TSR to FTSE 250 and FTSE/MSCI Mining Index | 100% |

* Two-thirds of the performance shares awarded under the 2016 KIP awards are subject to performance against absolute TSR performance targets, while one-sixth are subject to the achievement of TSR performance targets relative to the FTSE 250 and the remaining one-sixth are subject to the achievement of TSR performance targets relative to the FTSE/MSCI Mining Index. In each case the performance condition is an underpin so that if it is met the award vests in full and if it is not met the award lapses.

During the year deferred share awards in respect of 2016 were made under the KIP to the Executive Directors, which are subject to continued employment and no performance conditions. These total 64,659 deferred shares for Mr M Carvill, 42,672 deferred shares for Mr T McCluskey and 18,711 deferred shares for Mr T Fitzpatrick.

In addition, share awards were made under the KRSP on 26 May 2017 as set out on page 66. These awards represent 75% of base salary for Mr M Carvill and Mr T McCluskey and 45% of base salary for Mr T Fitzpatrick based on a share price of £2.68 at the date of award.

## Payments for loss of office

No payments for loss of office were made during the year.

## Payments to past Directors

There were no payments to former Directors during the year.

## Directors' and Secretary's shareholdings

The interests of the Secretary and Directors who held office at 31 December 2017, and their spouses and minor children, in the ordinary share capital of the Company were as follows:

| | Shares held 26 March 2018 | Shares held 31 December 2017 | Shares held 1 January 2017 |
|---|---|---|---|
| P Bacchus | — | — | — |
| S Bianchi | 374,484 | 374,484 | 374,484 |
| M Carvill(i), (ii) | 77,575 | 77,575 | 77,575 |
| T Fitzpatrick(ii) | 10,122 | 10,122 | 10,122 |
| E Headon | 5,033 | 5,033 | 5,033 |
| T Keating | — | — | — |
| G Martin | 57,820 | 37,320 | 19,230 |
| T McCluskey(ii) | 35,334 | 35,334 | 35,334 |
| S McTiernan | 69,596 | 69,596 | 69,596 |
| G Smith | 20,078 | 20,078 | 10,078 |
| D Corcoran (Secretary) | 6,334 | 6,334 | 6,334 |

(i) 3,750 shares held by a Carvill family trust for the children of Mr M Carvill are included in his holding.

(ii) Shareholding requirements of 250% of salary apply for the Managing Director and Financial Director and a shareholding requirement of 150% of salary applies for the Technical Director. This shareholding can be built up over the period to 25 May 2022.

## Directors' and Secretary's share options, KIP and KRSP

Details of the share options of the Secretary and Executive Directors who held office at 31 December 2017, granted in accordance with the rules of the share option scheme, are as follows:

| | 1 Jan 2017 | Granted during 2017 | Exercised or transferred during 2017 | Lapsed during 2017 | 31 Dec 2017 | Average option price € | Option price range from € | Option price range to € |
|---|---|---|---|---|---|---|---|---|
| M Carvill | 39,973 | — | — | (25,000) | 14,973 | 110.95 | 107.72 | 113.55 |
| T Fitzpatrick | 7,500 | — | — | (2,500) | 5,000 | 110.63 | 107.72 | 113.55 |
| T McCluskey | 27,267 | — | — | (17,250) | 10,017 | 110.40 | 107.72 | 113.55 |
| D Corcoran (Secretary) | 13,000 | — | — | (6,250) | 6,750 | 77.98 | 66.42 | 92.43 |

The latest exercise date for the share options shown in the table above is September 2020. The share option period may be extended at the discretion of the Board.

The share price at the year end was £2.77 and the share price range for the year was between £2.40 and £3.44.

Details of the Executive Directors' outstanding KIP interests as at 31 December 2017 including those awarded in 2017 in respect of 2016 referred to above are as follows:

| | | Unvested KIP interest subject to performance conditions | Date of vesting | Unvested KIP interest not subject to performance conditions | Date of vesting | Vested KIP interest |
|---|---|---|---|---|---|---|
| M Carvill | 2014 KIP award | 5,961 | 06-Jul-19 | 1,987 | 06-Jul-19 | — |
| | 2015 KIP award | 20,627 | 06-Jul-19 | 18,663 | 06-Jul-19 | — |
| | 2016 KIP award | 193,976 | 31-Mar-20 | 64,659 | 31-Mar-20 | — |
| T McCluskey | 2014 KIP award | 4,576 | 06-Jul-19 | 1,525 | 06-Jul-19 | — |
| | 2015 KIP award | 16,573 | 06-Jul-19 | 14,994 | 06-Jul-19 | — |
| | 2016 KIP award | 128,017 | 31-Mar-20 | 42,672 | 31-Mar-20 | — |
| T Fitzpatrick | 2014 KIP award | 1,818 | 06-Jul-19 | 606 | 06-Jul-19 | — |
| | 2015 KIP award | 6,699 | 06-Jul-19 | 6,061 | 06-Jul-19 | — |
| | 2016 KIP award | 56,134 | 31-Mar-20 | 18,711 | 31-Mar-20 | — |

None of the Non-Executive Directors held share options during the period.

# Directors' remuneration report continued

Annual report on remuneration 2017

## Directors' and Secretary's share options, KIP and KRSP continued

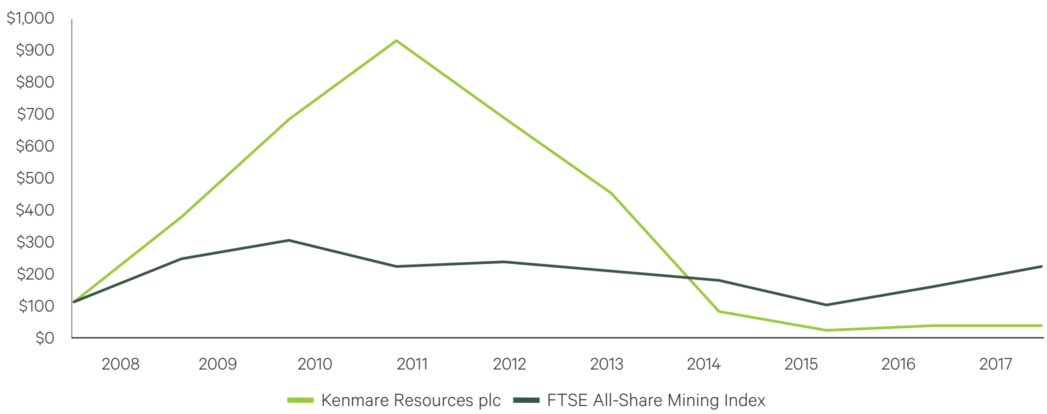
Details of the Executive Directors' outstanding KRSP interests as at 31 December 2017 are as follows:

| | Unvested KRSP interests | Vested KRSP interests |
|---|---|---|
| M Carvill | 134,466 | — |
| T McCluskey | 88,743 | — |
| T Fitzpatrick | 39,737 | — |

The above KRSP awards were made on 26 May 2017 and vest subject to continued employment, 60% on 26 May 2020, 20% on 26 May 2021 and 20% on 26 May 2022.

## Performance graph and table

The value at 31 December 2017 of US$100 invested in 2008 compared with the value of US$100 invested in the FTSE All Share Mining Index is shown in the graph below:




The remuneration paid to the Managing Director in the past eight years is set out below:

| Year | Name | Single figure of total remuneration US$'000 | Bonus pay-out (as % maximum opportunity) | Long-term incentive vesting rates (as % maximum opportunity) |
|---|---|---|---|---|
| 2017 | M Carvill | 1,528 | 59% | — |
| 2016 | M Carvill | 1,340 | 66%(i) | N/A |
| 2015 | M Carvill | 744 | 22%(i) | N/A |
| 2014 | M Carvill | 967 | 26%(i) | N/A |
| 2013 | M Carvill | 809 | — | — |
| 2012 | M Carvill | 783 | — | N/A |
| 2011 | M Carvill | 1,035 | 37% | N/A |
| 2010 | M Carvill | 784 | 48% | N/A |
| 2009 | M Carvill | 896 | 86% | N/A |

(i) Amount shown reflects the cash and deferred share award under the KIP, part of which is conditional on long-term performance.

In line with the Regulations, to which the Company has regard, figures shown in the table above relate to remuneration for performance each year.

## Percentage change in Managing Director remuneration

The table below compares the percentage change in the Managing Director's salary, taxable benefits and annual bonus with the whole employee population, comparing 2017 with 2016.

| | Salary % change | Taxable benefits % change | Bonus % change[i] |
|---|---|---|---|
| Managing Director | — | 20 | (25) |
| Average employee pay | 6 | — | 11 |

(i) The 2016 bonus includes deferred shares awarded.

The underlying currency of the Managing Director's salary is the Euro.

## Relative importance of spend on pay

| | Disbursements from profit | | Change |
|---|---|---|---|
| Significant distributions | 2017 US$'000 | 2016 US$'000 | US$'000 |
| Overall spend on pay including Directors | 37,865 | 34,766 | 3,099 |
| Profit distributed by way of dividend or share buyback | — | — | — |
| Group cash operating costs | 142,500 | 133,400 | 9,100 |

Employee numbers throughout the Group increased from 1,344 in 2016 to 1,365 in 2017.

Group cash operating costs have been included in the table in order give a context to spend on pay relative to the overall cash operating costs.

## Statement of implementation of policy in 2018

### Base salary

The base salaries for the forthcoming year are set out below:

| Executive Director | 2018 US$'000 | 2017 US$'000 | % change |
|---|---|---|---|
| M Carvill | **621** | 621 | — |
| T Fitzpatrick | **304** | 304 | — |
| T McCluskey | **410** | 410 | — |

The underlying currency of Mr M Carvill and Mr T McCluskey's base salaries is the Euro. The US Dollar figures shown above for 2018 have been calculated using the average 2017 Euro to US Dollar exchange rate. The final US Dollar figure for 2018 will vary depending on exchange rate movements.

The incentive opportunity for the Executive Directors under the incentive scheme for 2018 will be as follows:

### Annual bonus

| Executive Director | On-target incentive (% of salary) | Maximum incentive (% of salary) |
|---|---|---|
| M Carvill | 50% | 100% |
| T Fitzpatrick | 30% | 60% |
| T McCluskey | 50% | 100% |

# Directors' remuneration report continued

Annual report on remuneration 2017

### Statement of implementation of policy in 2018 continued

**Annual bonus** continued

The performance metrics for 2018 annual bonuses and their associated weightings are as follows:

| Area | Measure | Weight |
|---|---|---|
| Operational | Ilmenite, rutile and zircon production volumes | 25% |
| Financial | EBITDA | 15% |
| | Direct production costs | 5% |
| | Cost per tonne | 5% |
| | Total shareholder return | 10% |
| Safety and environment | Safety – LTIFR and community | 10% |
| | Environment | 5% |
| Strategic | Quantitative: efficient execution of approved capital projects; | 7.5% |
| | Qualitative: various metrics, including substantial progress on projects to maximise the utilisation of the Mine and its infrastructure | 17.5% |

The performance metrics as set out above seek to deliver ongoing progress in relation to operational performance, cost efficiency, health and safety initiatives, and strategic corporate objectives. Full details of the performance targets associated with these measures are considered by the Directors to be commercially sensitive and are not disclosed in advance. Target levels of performance and actual outcomes relative to the targets will be disclosed retrospectively in next year's Directors' Remuneration Report.

### Kenmare Restricted Share Plan (KRSP)

The KRSP was introduced last year as part of the Directors' remuneration policy in order to provide the executives with the opportunity to build up over five years a meaningful shareholding in the Company and so to provide alignment with the shareholders and the long-term sustainable performance of the business. Having considered the original objectives of the KPSP, the Company's and the Executives' performance in 2017 and other relevant factors the Remuneration Committee has determined that the award levels for the Executive Directors under the KRSP in 2018 will be as follows:

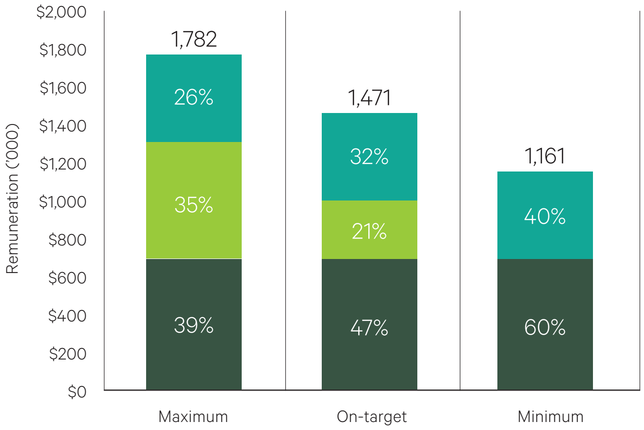
| Executive Director | Award level (% of salary) |
|---|---|
| M Carvill | 75% |
| T Fitzpatrick | 45% |
| T McCluskey | 75% |

### Illustrations of application of remuneration policy

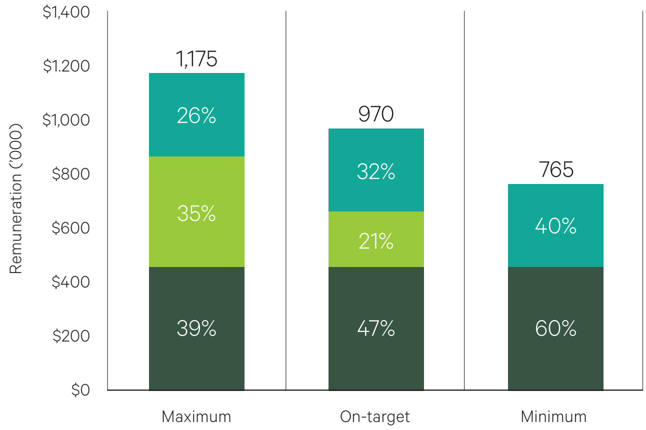
The total remuneration opportunity in 2018 for each of the Executive Directors is shown below under three different performance scenarios: (i) minimum; (ii) on-target; and (iii) maximum. The elements of remuneration have been based on the policy for 2017 as set on pages 70 to 74 and have been categorised into three components: (i) salary, benefits and pension; (ii) annual bonus; and (iii) share awards under the KRSP, with the assumptions set out below:

| Element | Minimum | On-target | Maximum |
|---|---|---|---|
| Salary, benefits and pension | Included | Included | Included |
| Annual bonus | No variable payable | 50% of the maximum opportunity | 100% of the maximum opportunity |
| Share awards under the KRSP | 100% of the maximum opportunity | 100% of the maximum opportunity | 100% of the maximum opportunity |

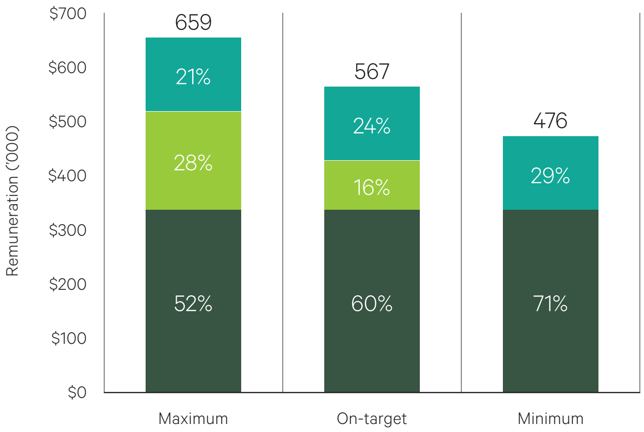
### Managing Director




### Financial Director




### Technical Director




Salary, benefits and pension
Bonus
KRSP

### Statement of voting at Annual General Meeting

The table below shows the outcome of the advisory vote on the Directors' Remuneration Report (DDR) and Directors' remuneration policy at the 2017 AGM.

| Item | Votes for | % | Votes against | % | Votes withheld |
|---|---|---|---|---|---|
| Advisory vote on 2016 DRR | 81,032,679 | 96.26 | 3,146,061 | 3.74 | 15,121 |
| Advisory vote on 2017 Directors' remuneration policy | 77,522,058 | 92.08 | 6,667,480 | 7.92 | 4,324 |

This report was approved by the Board of Directors and signed on its behalf by:

**Graham Martin**
Chairman of the Remuneration Committee
28 March 2018

# Directors' remuneration report continued

Directors' remuneration policy report

### Introduction

The Directors' remuneration policy (the "policy") as summarised below was approved by a shareholder vote at the Annual General Meeting on 25 May 2017 and applies for the period of three years from the date of approval. For clarity, a summary of the policy is included in this report. The full policy can be found in the 2016 Annual Report, which is available under the Investors section of our website, www.kenmareresources.com.

### Principles

Kenmare's Group-wide remuneration policy is designed to ensure that:

- the Company can attract, develop and retain high-performing and motivated employees in a competitive international market;
- employees are offered a competitive and market aligned remuneration package; and
- employees are incentivised to create sustainable results and are rewarded for high performance.

Applying these Group principles to the Executive Directors, the Board seeks to align the long-term interests of Executive Directors with those of shareholders, within the framework set out in the UK Corporate Governance Code.

The Remuneration Committee seeks to ensure:

- that Executives are rewarded in a fair and balanced way for their individual and team contribution to the Group's performance;
- that Executives receive a level of remuneration that is appropriate to their scale of responsibility and individual performance;
- that the overall approach to remuneration has regard to the sector within which the Group operates and the markets from which it draws its Executives; and
- that risk is properly considered in setting the remuneration policy and in determining remuneration packages, with a focus on simplicity, transparency and the promotion of long-term alignment with shareholders.

### Remuneration policy for 2017 onwards

The remuneration policy set out on pages 70 to 74 covers the three-year period between the 2017 AGM and the 2020 AGM and its presentation complies, on a voluntary basis, with the relevant regulations set out in the UK's Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

The main components of the remuneration policy and how they are linked to and support the Company's business strategy are summarised in the table below.

| Element of remuneration | How the element supports our strategic objectives | Operation of the element including any provision for malus or clawback | Maximum potential value | Performance metrics, weighting, minimum pay-out and time period (where applicable) |
|---|---|---|---|---|
| **Base salary** | Supports the recruitment and retention of Executive Directors, recognising the scope and responsibility of the roles and the individual's skills and experience. | Reviewed annually with increases generally effective from 1 January.<br>When determining levels, consideration is given to:<br>• Company performance;<br>• the performance of the Executive over the previous twelve months;<br>• the salary review for all employees for the coming year;<br>• retention risk and the ability to replace higher-value skills if needed in the market;<br>• benchmark data of other UK and Irish listed companies of similar market capitalisation and practice in the global mining sector; and<br>• inflation. | Base salaries for Executive Directors are at the discretion of the Remuneration Committee but will generally be increased with the cost of living and with consideration to general Company increases. The only exceptions to this rule are where:<br>• there is a significant movement in the benchmark data for that role; or<br>• an individual is brought in below market level with a view to increasing base pay over time to reflect proven competence in role; or<br>• there is a material increase in scope or responsibility of the Executive Director's role. | None. |

| Element of remuneration | How the element supports our strategic objectives | Operation of the element including any provision for malus or clawback | Maximum potential value | Performance metrics, weighting, minimum pay-out and time period (where applicable) |
|---|---|---|---|---|
| Annual bonus | To ensure market competitive package and to incentivise Executive Directors to achieve the Company's business objectives. | Based on the level of performance over the financial year, the annual bonus will be paid in cash shortly after the end of the relevant financial year up to a maximum cash payment of 75% of base salary. Where the annual bonus achieved exceeds 75% of base salary, Executive Directors will, in respect of the excess, be granted restricted shares under the KRSP, which will vest three years from the start of the annual bonus performance period.<br><br>The Remuneration Committee will have the discretion to adjust the results of the outcome of the scorecard if it believes this does not accurately reflect the underlying performance or align with the experience of shareholders. If the Remuneration Committee, in exceptional circumstances, believes that payment in cash is not appropriate it will instead be able to make an award of restricted shares of equivalent value. Such restricted shares would not be subject to forfeiture but would be subject to a minimum retention period.<br><br>Clawback in each case, only if malus is applicable, will apply to cash annual bonus awards for two years from the date of payment.<br><br>Annual bonus awards made in the form of restricted shares will be subject to malus during the vesting period. Clawback in each case, only if malus is applicable, will apply to these for two years post-vesting. | The maximum annual opportunity is 100% of base salary or, in the case of the Technical Director, 60% of base salary. | Performance is measured over the financial year.<br><br>Performance metrics and targets are determined at the start of each year by the Remuneration Committee and will consist of a balanced scorecard of financial and non-financial measures. The Remuneration Committee has the discretion to vary the weighting of the metrics or to substitute different measures over the lifetime of the policy to take account of changes in business strategy and/or external market conditions, but a significant proportion of the bonus scorecard must be weighted towards financial and operational metrics.<br><br>The targets and actual levels of performance will be disclosed retrospectively within the Implementation section of the Company's Directors' Remuneration Report. |

# Directors' remuneration report continued

## Directors' remuneration policy report

### Remuneration policy for 2017 onwards continued

| Element of remuneration | How the element supports our strategic objectives | Operation of the element including any provision for malus or clawback | Maximum potential value | Performance metrics, weighting, minimum pay-out and time period (where applicable) |
|---|---|---|---|---|
| **Share awards under the Kenmare Restricted Share Plan (KRSP)** | To increase shareholder alignment by providing Executive Directors with longer-term interests in shares. | Annual awards of shares will be made under the KRSP.<br>The awards will vest subject to continued employment as follows:<br>• 60% vests on the third anniversary of grant;<br>• 20% vests on the fourth anniversary of grant; and<br>• 20% vests immediately after the fifth anniversary of grant.<br>Awards will be subject to malus during the vesting period. Clawback will apply for two years post-vesting in the case of malus.<br>Awards made under the KRSP may carry an entitlement to dividend equivalents in respect of dividends paid between granting and vesting. | The maximum award level in any year is 75% of base salary or, in the case of the Technical Director, 45% of base salary. | None.<br>In relation to awards for 2018 onwards, the Remuneration Committee will use its discretion to consider the appropriate level of award (including making no award if it believes this is appropriate) in light of the Company's performance at the time of making of the award, including financial, operational or share price performance.<br>The share price used to determine the award levels will normally be the share price shortly before the date of grant. However, for the current Executive Directors only, the share price used will not be less than £2.32 (the open offer price for the 2016 capital raise). |
| **Pension** | To provide a market competitive remuneration package by facilitating long-term saving for retirement. | Each Executive Director is entitled to receive a payment into the Company's personal pension plan or their private pension arrangements. | The maximum pension contribution is 10% of salary. | None. |
| **Other benefits** | Provides market competitive benefits to support Executive Directors in carrying out their duties. | Benefits include holiday and sick pay, family health insurance, permanent health insurance, life assurance and an annual health check.<br>The Managing Director has a company car.<br>The Group also reimburses the Executive Directors in respect of all expenses reasonably incurred by them in the proper performance of their duties.<br>The Company may introduce new benefits that are, or become, prevalent in a jurisdiction in which it operates and in which a Director is located. | Set at a level appropriate to the individual's role and circumstances.<br>The maximum opportunity will depend on the type of benefit and cost of its provision, which will vary according to the market and individual circumstances. | None. |

| Element of remuneration | How the element supports our strategic objectives | Operation of the element including any provision for malus or clawback | Maximum potential value | Performance metrics, weighting, minimum pay-out and time period (where applicable) |
|---|---|---|---|---|
| **Shareholding requirement** | To strengthen the alignment between the interests of Executive Directors and those of shareholders. | Executive Directors' shareholdings measured after the five-year period from the 2017 AGM (or date of appointment if later). | • Managing Director: 250% of salary.<br>• Financial Director: 250% of salary.<br>• Technical Director: 150% of salary. | |
| Legacy incentive awards | | | | |
| **Kenmare Incentive Plan 2014** | To align the interests of Executive Directors with those of shareholders. | The Kenmare Incentive Plan was replaced by the annual bonus and the Kenmare Restricted Share Plan from the date of the 2017 AGM.<br>The final awards under the Kenmare Incentive Plan (KIP) were made in respect of performance in 2016. Unvested share awards made under the KIP will continue under their original terms and conditions. | Maximum awards are:<br>• Managing Director: 250% of salary.<br>• Financial Director: 250% of salary.<br>• Technical Director: 150% of salary. | The share element vests after three years with part of the shares subject to a further two-year holding period. The share element is subject to vesting conditions as follows:<br>• Continuation of employment: 25%.<br>• Median relative TSR: 25% (equal weighting against FTSE 250 and FTSE/MSCI Mining Index).<br>• Absolute TSR exceeding a future target: 50%. |

## Notes to the remuneration policy table

### Performance measures and targets

The Remuneration Committee will select performance conditions for the annual bonus which reflect the Company's overall strategy and are the key metrics used by the Executive Directors to oversee the operation of the business. The performance targets are determined annually. The Remuneration Committee is of the opinion that the performance targets for the annual bonus are commercially sensitive in respect of the Company and that it would be detrimental to the interests of the Company to disclose them fully before the start of the financial year. The targets will therefore be disclosed after the end of the relevant financial year in that year's Remuneration Report.

Share awards under the KRSP do not have explicit performance conditions, though in relation to share awards for 2018 onwards, the Remuneration Committee will use its discretion to consider the appropriate level of award (including making no award if it believes this is appropriate) in light of the Company's performance at the time of making the award, including financial, operational or share price performance.

The Committee believes that the KRSP will provide an opportunity for the Executive Directors to rebuild meaningful shareholdings in the Company and so align the longer-term experience of shareholders and management. This increases the simplicity of our remuneration arrangements without requiring the setting of long-term targets, which is challenging in the economic environment in which the Company operates. The absence of long-term performance conditions is reflected in the significantly decreased remuneration opportunity under the new policy as compared to the KIP.

## Approach to recruitment remuneration

The Committee's approach to recruitment remuneration is to pay competitively to attract the appropriate high-calibre candidate to the role. Our principle is that the pay of any new recruit would be assessed following the same principles as for the existing Executive Directors.

## Service contracts

The Company's policy is that Executive Directors should have a notice period of no more than twelve months. Other than in the case of termination by an Executive Director on change of control, the notice periods are, in the case of Mr M Carvill and Mr T McCluskey, twelve months' notice from the Company and three months' notice from the Executive Director and, in the case of Mr T Fitzpatrick, six months' notice from the Company and three months' notice from the Executive Director.

In the event of termination, the Remuneration Committee will seek to agree an appropriate termination payment for the relevant individual reflecting the circumstances, service and existing contractual terms and conditions.

# Directors' remuneration report continued

Directors' remuneration policy report

### Service contracts continued

Kenmare has the right, or may be required in certain circumstances, to make a payment in lieu of notice of termination, the amount of that payment being base salary and benefits that would have accrued to the Executive Director during the contractual notice period. In addition, the Remuneration Committee reserves the right to allow continued participation in the Company's incentive arrangements during the notice period.

Upon a change of control, each Executive Director has the right to terminate his employment by notice and be entitled to receive an amount equal to twelve months' (or, in the case of the Technical Director, six months') salary, cash equivalent of benefits and pension contributions, subject to such amount being reduced by the equivalent amounts in respect of any months worked by the Executive Director after his giving of notice. Such payment would be in settlement of all claims that the Executive Director may have against the Group, but shall not affect the Executive Director's entitlement to accrued but unpaid salary, deferred bonus or similar incentive payments and certain other amounts.

Mr M Carvill serves as a Director of a number of private companies. Mr T Fitzpatrick serves as a Director of Born 2 Run Events Limited. Neither Mr M Carvill nor Mr T Fitzpatrick receives a fee for his services. No other Executive Directors serve as Non-Executive Directors elsewhere.

### Policy on payment for loss of office or change of control

When determining any loss of office or change of control payment for a departing individual, the Committee will protect the Company's interests and reflect the circumstances in place at the time, having taken into consideration terms of Executive Directors' service agreements.

In the event of a compromise or settlement agreement, the Committee may make payments it considers reasonable in settlement of potential legal claims. The Committee may also include in such payments reasonable reimbursement of professional fees in connection with such agreements.

The reimbursement of repatriation costs or fees for professional or outplacement advice may also be included in the termination package, as deemed reasonable by the Committee, as may the continuation of benefits for a limited period.

### Remuneration Committee discretions

In addition to assessing and making judgements on the meeting of performance targets and the appropriate incentives payable, the Remuneration Committee has certain operational discretions available that can be exercised in relation to Executive Directors' remuneration, including but not limited to:

- amending the outcome of the relevant scorecard if the Committee believes the formulaic outcome of the scorecard does not reflect the true underlying performance of the Company or the experience of shareholders;
- deciding whether some or all cash bonus amounts should be settled in restricted shares;
- deciding whether to apply malus or clawback to an award;
- determining whether a leaver is a "good leaver" under the Company's incentive plans; and
- amending performance conditions following a major corporate event or in circumstances in which the Committee considers that the impact of external influences is such that the original metrics are no longer appropriate.

Where such discretion is exercised, it will be explained in the next Directors' Remuneration Report.

### Consideration of employment conditions elsewhere in the Company

The Committee does not directly consult with employees when formulating the Executive Director pay policy. However, the Committee does take into consideration information on pay arrangements for the wider employee population when determining the pay of Executive Directors.

### Consideration of shareholder views

The Remuneration Committee considers shareholder feedback received in relation to the AGM each year and guidance from shareholder representative bodies more generally. This feedback, together with additional feedback received during meetings from time to time, is then considered as part of the Company's review of remuneration policy.

In formulating the policy for 2017 onwards, the Committee consulted with a number of the Company's significant shareholders regarding their views on remuneration practice and policies. The views expressed during these consultations were taken into consideration when setting the current remuneration structure.

### Non-Executive Directors' remuneration

The Non-Executive Directors are remunerated entirely through fees and associated benefits. They are not eligible to receive any performance-related remuneration nor do they hold share options. The fees paid to the Non-Executive Directors are set at a level to attract individuals with the necessary experience and ability to make a significant contribution to the Group's activities, while also reflecting the time commitment and responsibility of the role. Additional per diem rates may be paid to Non-Executive Directors when the meeting load has significantly exceeded what would be expected in the normal course of business.

None of the Non-Executive Directors had a beneficial interest in any contract to which the Company or any of its subsidiary undertakings was a party during the financial year.

Non-Executive Directors are not entitled to any compensation on the termination of their appointment. All Directors are subject to annual re-election. No compensation is payable to Non-Executive Directors if they are not re-elected.

Jetty at the mine.

## Financial statements

# Directors' report

The Directors present their report and the audited financial statements for the financial year ended 31 December 2017.

## Principal activities

The principal activity of Kenmare Resources plc and its subsidiary undertakings is the operation and further development of the Moma Titanium Minerals Mine in Mozambique.

## Strategic Report

A Strategic Report, including a financial and risk review and likely future developments of the Group, set out on pages 4 to 49, forms part of the Directors' Report and is incorporated by reference.

## Key performance indicators

The Group's key performance indicators are detailed on pages 12 to 13 and a glossary of alternative performance measures is detailed on pages 129 to 130.

## Statement of results

During 2017, the Group sold 1,040,400 tonnes (2016: 1,024,200 tonnes) of ilmenite, zircon and rutile to customers at a sales value of US$208.3 million (2016: US$141.5 million). Cost of sales for the financial year was US$156.6 million (2016: US$144.0 million), resulting in a gross profit of US$51.7 million (2016: loss US$2.5 million).

Other operating costs were US$24.1 million (2016: US$22.8 million), comprising distribution costs for the financial year of US$11.4 million (2016: US$11.3 million), freight and demurrage costs of US$5.6 million (2016: US$5.4 million), administration costs of US$3.3 million (2016: US$2.9 million), and arbitration costs of US$3.8 million (2016: US$3.2 million).

There was finance income of US$0.1 million (2016: US$0.09 million), consisting of deposit interest of US$0.1 million (2016: US$0.07 million).

Loan interest and finance fees were US$6.8 million (2016: US$28.0 million) during the financial year, the decrease as a result of the capital restructuring in July 2016 detailed in Note 23. There was a gain of US$38.3 million in 2016 on the extinguishment of debt outstanding on 28 July 2016. This gain is made up of debt written off of US$68.6 million net of finance fees amortised of US$30.3 million.

There was a foreign exchange loss for the financial year of US$2.5 million (2016: gain US$2.2 million) as a result of losses on the retranslation of the non-US Dollar-denominated cash and bank deposits and trade payables and accruals. The resultant profit before tax for the financial year was US$18.5 million (2016: loss US$17.1 million).

As at 31 December 2017, the statement of financial position date, Kenmare Moma Mining (Mauritius) Limited had unused tax losses of US$11.9 million (2016: US$18.5 million). A deferred tax asset was recognised of US$4.2 million (2016: US$3.2 million) as it is anticipated that the losses will be carried forward for offset against future profits. This resulted in a tax credit for the financial year of US$0.9 million (2016: credit US$1.9 million), resulting in a profit after tax for the financial year of US$19.4 million (2016: loss US$15.2 million) which has been carried to retained losses.

Additions to property, plant and equipment amounted to US$29.2 million (2016: US$6.7 million). There was an adjustment to the mine closure provision of US$2.6 million during the year, principally as result of a change in the discount rate from 3.3% to 2.9%. Depreciation and amortisation increased to US$32.0 million (2016: US$30.6 million) during the financial year as a result of the increase in the production.

The Group had total debt of US$102.9 million as at 31 December 2017 (2016: US$102.6 million). During 2017, loan interest payments amounting to US$6.1 million (2016: US$2.8 million).

## Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 4 to 49. The financial position of the Group, its cash flows and liquidity position are also described in the Finance Review on pages 32 to 35. In addition, Note 28 to the financial statements includes the Group's policy for managing its capital.

Based on the Group's cash flow forecast (the "Group Forecast"), the Directors believe that the Group has adequate resources for the foreseeable future and continue to adopt the going concern basis of accounting in preparing the annual financial statements.

## Viability statement

The Directors have assessed the prospects of the business and its ability to meet its liabilities as they fall due over the three-year period 2018 to 2020. The Directors concluded that three years is an appropriate period for the assessment as they have reasonable clarity over the cash flow forecast assumptions over this period.

The Group Forecast has been prepared by management with best estimates of production, pricing and cost assumptions over the period.

## Viability statement continued

Key assumptions upon which the Group Forecast is based include a mine plan covering production using the Namalope reserves as set out in the reserves and resources table. Production levels for the purpose of the forecast are approximately 0.9 million tonnes per annum of ilmenite plus co-products, zircon and rutile, over the next three years. Assumptions for product sales prices are based on contract prices as stipulated in marketing agreements with customers or, where contract prices 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 approved budget costs for 2018, taking into account the current running costs of the Mine and escalated by 2% per annum thereafter. Capital costs are based on the capital plans and include escalation at 2% per annum.

Sensitivity analysis is applied to the assumptions above to test the robustness of the cash flow forecasts for changes in market prices, demand, operating and capital cost assumptions. These potential changes in assumptions could affect the level of sales and profitability of the Group and the amount of capital required to deliver the projected production levels.

As a result of this assessment, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the aforementioned three-year period.

## Directors

The Directors who held office during 2017 were as follows:

| | | | | |
|---|---|---|---|---|
| S McTiernan (Chairman) | Non-Executive | N/A | * | + |
| S Bianchi | Non-Executive | Δ | * | + |
| P Bacchus | Non-Executive | Δ | N/A | + |
| M Carvill | Executive | N/A | N/A | N/A |
| T Fitzpatrick | Executive | N/A | N/A | N/A |
| E Headon | Non-Executive | Δ | * | + |
| T Keating | Non-Executive | N/A | N/A | N/A |
| G Martin | Non-Executive | N/A | * | + |
| T McCluskey | Executive | N/A | N/A | N/A |
| G Smith | Non-Executive | Δ | * | + |

Δ: Member of the Audit Committee, chaired by Mr G Smith.

+: Member of the Remuneration Committee, chaired by Mr G Martin.

*: Member of the Nomination Committee, chaired by Mr S McTiernan.

Ms S Bianchi, who served as a Non-Executive Director for more than nine years, retired from the Board in May 2017. In May 2017, Mr P Bacchus was appointed to the Board as a Non-Executive Director.

## Directors' and Secretary's shareholdings, share options and share awards

The interests of the Directors and Secretary of the Company, their spouses and minor children, in the ordinary share capital of the Company, and details of the share options and share awards granted in accordance with the rules of the share option scheme, the Kenmare Incentive Plan (KIP) and the Kenmare Restricted Share Plan (KRSP) are detailed in the Directors' Remuneration Report on pages 65 and 66.

## Share option scheme, KIP and KRSP

It is the policy of the Company to award share options to certain employees and consultants. In the past share options were awarded to Executive Directors but this practice ceased with the introduction of the KIP in 2014. In 2017, the KIP was replaced by the KRSP together with an annual bonus scheme.

Any offer to grant options will specify the consideration payable on acceptance, the number of shares comprised in the option, and the mode of acceptance, together with the latest date for acceptance and for payment of the said consideration. Upon receipt by the Board of such acceptance and consideration, the option will be granted and the option certificate delivered. The options generally vest over a three-year period, in equal annual amounts. At 31 December 2017, there were options in issue that had been granted under the share option scheme dated 15 May 1987 to persons (other than Directors and the Secretary) to subscribe for a total of 55,750 shares, exercisable at an average price of US$81 per share.

At 31 December 2017, 542,765 performance-based shares and 214,382 deferred shares, the vesting of which is subject to continued employment, have been awarded under the KIP.

At 31 December 2017, 445,154 shares have been awarded under the KRSP.

# Directors' report continued

## Share capital

As at 31 December 2017, ordinary shares each with a nominal value of €0.001 accounted for 0.06% of the total share capital and deferred shares each with a nominal value of €0.059995 accounted for 99.94%.

The ordinary shares of €0.001 rank equally in all respects and carry no special rights. They carry voting and dividend rights. There are no restrictions on the transfer of the Company's shares or voting rights.

On 26 July 2016, the deferred shares of €0.059995 each were created as part of the capital restructuring. The deferred shares have no voting rights or dividend rights and, in effect, no rights on a return of capital. The deferred shares may be acquired by the Company for no consideration and cancelled.

The Company did not hold, purchase, sell or cancel any of its own shares (ordinary shares of deferred shares) during the year.

## Authority to allot

The Directors have been given the authority by shareholders to allot shares up to an amount equal to the authorised but unissued share capital of the Company.

## Takeover directive

In the event of a change in control, directly or indirectly, of the Company or any affiliate of the Company including both Kenmare Moma Mining (Mauritius) Limited and Kenmare Moma Processing (Mauritius) Limited, the Project Lenders may require payment in full of debt obligations. The KIP and KRSP contain change of control provisions that provide for accelerated crystallisation of awards and vesting of shares (including by way of exercise of nil-paid options) in the event of a change of control of the Company. Similarly, the Company's share option scheme provides for an acceleration of the right to exercise an option in connection with a change of control of the Company.

Other than as described in the Directors' Remuneration Report on pages 59 to 69, there are no agreements between the Company and its Directors or employees providing for predetermined compensation for loss of office or employment that would occur in the event of a bid for the Company, save that certain Executives, not being Directors, have service contracts that either provide for extended notice periods or fixed payments on termination following a change in control of the Company.

## Corporate governance

For the purpose of Section 1373 of the Companies Act 2014, the following disclosure form part of the Corporate Governance Report in respect of the financial year to which this report relates and are hereby incorporated by reference.

The annual Corporate Governance Report on pages 54 to 74 is incorporated by reference.

## Substantial interests

As at 21 March 2018, the Company has been notified of the following shareholdings in excess of 3% of the issued ordinary shares of the Company:

| | No. of ordinary shares | % of issued share capital |
|---|---|---|
| African Acquisition Sarl | 31,928,480 | 29.1% |
| Prudential plc | 21,849,170 | 19.9% |
| Majedie Asset Management Ltd | 10,930,056 | 10.0% |
| European Investment Bank | 7,839,031 | 7.2% |
| The Capital Group Companies, Inc. | 7,129,660 | 6.5% |

## Powers of the Directors

Under the Articles of Association of the Company, the business of the Company is to be managed by the Directors who may exercise all the powers of the Company subject to the provisions of the Companies Acts, the Memorandum and the Articles of Association of the Company and to any directions given by resolution of a General Meeting not being inconsistent with the Companies Acts and the Articles of Association. The Articles further provide that the Directors may make such arrangement as may be thought fit for the management of the Company's affairs including the appointment of such attorneys as they may think fit with such powers, authorities and discretions (not to exceed those vested in or exercisable by the Directors under the Articles) and for such period and subject to such conditions as they may think fit.

## Appointment and removal of Directors

The Articles of Association empower the Board to appoint Directors but also require Directors to retire and submit themselves for re-election at the first Annual General Meeting following their appointment. Under the Articles of Association, a third of the Board must retire annually but may offer themselves for re-election. However, in accordance with the provisions contained in the UK Corporate Governance Code, the Board has decided that all Directors should retire annually at the Annual General Meeting and offer themselves for re-election.

Directors are appointed and removed by the shareholders in a General Meeting of the Company and may be co-opted by the Board.

## Corporate governance continued

### Memorandum and Articles of Association

The Company's Memorandum and Articles of Association set out the objects and powers of the Company and may be amended by shareholders at a General Meeting of the Company by special resolution (requiring the resolution to be passed by 75 per cent of the eligible votes).

### General Meetings and shareholders' rights

Under the Articles of Association, the power to manage the business of the Company is generally delegated to the Directors. However, the shareholders retain the power to pass resolutions at a General Meeting of the Company which may give directions, not being inconsistent with the Companies Act and the Articles of Association, to the Directors as to the management of the Company.

The Company must hold a General Meeting in each year as its Annual General Meeting, in addition to any other meetings in that year. The Annual General Meeting will be held at such time and place as the Directors determine. All General Meetings, other than Annual General Meetings, are called Extraordinary General Meetings. The Directors may at any time call an Extraordinary General Meeting. Extraordinary General Meetings shall also be convened by the Directors on the requisition of members holding, at the date of the requisition, not less than 5% of the paid up capital carrying the right to vote at General Meetings.

No business may be transacted at any General Meeting unless a quorum is present at the time when the meeting proceeds to business. Three members present in person or by proxy and entitled to vote at such meeting constitutes a quorum.

The shareholders have the right to receive notice of a General Meeting. In the case of an Annual General Meeting or of a meeting for the passing of a Special Resolution, twenty-one clear days' notice at the least, and in any other case fourteen clear days' notice at the least, needs to be given in writing in the manner provided for in the Articles to all the members (other than those who, under the provisions of the Articles or the conditions of issue of the shares held by them, are not entitled to receive the notice) and to the auditors at the time being of the Company.

The shareholders also have the right to attend, speak, vote and ask questions at General Meetings. In accordance with Irish company law, the Company specifies record dates for General Meetings, by which date shareholders must be registered in the Register of Members of the Company to be entitled to attend. Record dates are specified in the notes to the notice of a General Meeting. Shareholders may exercise their right to vote on some or all of their shares by appointing a proxy or proxies, by electronic means or in writing. The requirements for the receipt of valid proxy forms are set out in the notes to the notice convening the meeting. A shareholder, or a group of shareholders, holding at least 3% of the issued share capital of the Company, has the right to put an item on the agenda of the AGM or to table a draft resolution for inclusion in the agenda of a General Meeting, subject to certain timing requirements presented by the Companies Act and any contrary provision of Irish company law.

All business that is transacted at an Extraordinary General Meeting is deemed special. All business that is transacted at an Annual General Meeting is also deemed special, with the exception of declaring a dividend, considering the accounts, statements of financial position and reports of the Directors and auditors, electing Directors in the place of those retiring, re-appointing retiring auditors and fixing the remuneration of the auditors.

Voting at any General Meeting is by a show of hands unless a poll is properly demanded. On a show of hands, every member who is present in person or by proxy has one vote regardless of the number of shares they hold. On a poll, every member who is present in person or by proxy has one vote for each share they hold. A poll may be demanded by the Chairman of the meeting or by at least three members having the right to vote at the meeting or by a member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or by a member or members holding shares in the Company conferring a right to vote at the meeting, being shares on which an aggregate sum has been paid up equal to and not less than one-tenth of the total sum paid up on all shares conferring that right.

### Deadlines for exercising voting rights

Voting rights at General Meetings of the Company are exercised when the Chairman puts the resolution at issue to a vote of the meeting. Where a person is appointed to vote for a shareholder as proxy, the instrument of appointment must be received by the Company not less than forty-eight hours before the time appointed for holding the meeting or adjourned meeting at which the appointed proxy proposes to vote, or, in the case of a poll, not less than forty-eight hours before the time appointed for taking the poll.

### Accounting records

The Directors have employed appropriately qualified accounting personnel and have maintained appropriate accounting systems to ensure that proper accounting records are kept in accordance with Sections 281 to 285 of the Companies Act 2014. The books of account are kept at the Company's office at 4th floor, Styne House, Hatch Street Upper, Dublin 2, Ireland.

### Audit Committee

The Board of the Company has established an audit committee. See pages 56 to 57 for the Audit Committee report for the financial year under review.

### Auditors

The auditors, Deloitte, Chartered Accountants and Statutory Audit Firm, continue in office in accordance with Section 383(2) of the Companies Act 2014. The auditors were appointed in 1987.

# Directors' report continued

## Disclosure of information to statutory auditors

In accordance with the provisions of Section 330 of the Companies Act 2014, each of the persons who are Directors of the Company at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information (as defined in the Companies Act 2014) of which the statutory auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information (as defined) and to ensure that the statutory auditors are aware of such information.

## Statutory compliance statement

The Directors acknowledge that they are responsible for securing the Company's compliance with the Company's "relevant obligations" within the meaning of Section 225 of the Companies Act 2014 (described below as "Relevant Obligations").

The Directors confirm that they have:

a) drawn up a compliance policy statement setting out the Company's policies (which are, in the opinion of the Directors, appropriate to the Company) in respect of the Company's compliance with its Relevant Obligations;

b) put in place appropriate arrangements or structures that, in the opinion of the Directors, provide a reasonable assurance of compliance in all material respects with the Company's Relevant Obligations; and

c) during the financial year to which this report relates, conducted a review of the arrangements or structures that the Directors have put in place to ensure material compliance with the Company's Relevant Obligations.

## Dividends

No interim or final dividends have been paid or recommended for distribution in relation to the 2017 financial year.

## Events since the financial year end

There have been no significant events since 31 December 2017 which would have a significant impact on the financial statements of the Group.

## Notice of Annual General Meeting and special business

Notice of the Annual General Meeting, together with details of special business to be considered at the meeting, is set out in a separate circular to be sent to shareholders and will also be available on the Company's website, www.kenmareresources.com

## Other disclosures

### Environmental and employee matters

Information in relation to environmental and employee matters on pages 42 to 45 forms part of the Directors' Report and is incorporated by reference.

### Risk exposure

The exposure of the Group to price and credit risk is detailed in the notes to financial statements, trade and other receivables (Note 17), cash and cash equivalents (Note 18), and bank loans (Note 23). The exposure of the Group to liquidity risk and cash flow risk is detailed in the capital and liquidity management note (Note 28).

### Branches

The Company established and maintains a branch in the United Kingdom. This branch was registered with the UK Companies House with registration number FC031738.

### Subsidiary undertakings

The subsidiary undertakings of the Company at 31 December 2017 are outlined in Note 16 to the financial statements. Each of the subsidiary undertakings Kenmare Moma Mining (Mauritius) Limited, Kenmare Moma Processing (Mauritius) Limited and Mozambique Minerals Limited operate branches in Mozambique.

## Other disclosures continued

The location of information required pursuant to UK Listing Rules 9.8.4. C is a set out in the table below.

### UK Listing Rule 9.8.4C

| Listing Rule | Information to be included[i]: |
|---|---|
| LR 9.8.4 (5) | Directors' waivers of emoluments disclosure<br><br>As previously disclosed, in relation to the Executive Directors' KIP awards for 2016, each of the Executive Directors agreed in 2017 to reduce the formulaic outcome of the balanced scorecard for his respective 2016 KIP award by 13% of his respective maximum opportunity. See the Directors' Remuneration Report on pages 67 in the Company's Annual Report and Accounts 2016. |

(i) No information is required to be disclosed in respect of Listing Rules 9.8.4 (1), (2), (3), (4), (6), (7), (8), (9), (10), (11), (12), (13) and (14).

### Political donations

There were no political donations that require disclosure under the Electoral Act 1997 (as amended).

### Secondary listing

Kenmare Resources plc has a secondary listing on the Irish Stock Exchange. For this reason, the Company is not subject to the same ongoing listing requirements as those which would apply to an Irish company with a primary listing on the Irish Stock Exchange, including the requirement that certain transactions require the approval of shareholders. For further information, shareholders should consult their own financial adviser.

Kenmare Resources plc has a premium listing on the Main Market of the London Stock Exchange. The Company is subject to the Listing Rules of the UK Listing Authority.

On behalf of the Board:

**Michael Carvill**
Director
28 March 2018

**Tony McCluskey**
Director

# Directors' responsibilities statement

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

Irish company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the assets, liabilities and financial position of the Company and Group and of the profit or loss of the Group for that period. Under that law the Directors are required to prepare Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the International Accounting Standards (IAS) Regulation and have elected to prepare the parent company financial statements under IFRSs as adopted by the European Union as applied, in accordance with the Companies Act 2014. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the European Union;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare financial statements on a going concern basis unless it is inappropriate to presume the Company and Group will continue in business.

IAS 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and presentation of financial statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs.

The Directors are responsible for keeping adequate accounting records which correctly explain and record the transactions of the Company, enable at any time the assets, liabilities, financial position and profit or loss of the Company to be determined with reasonable accuracy and to enable them to ensure that the financial statements are prepared in accordance with IFRSs as adopted by the European Union and comply with the Companies Act 2014 and, as regards the consolidated financial statements, Article 4 of the IAS Regulation and enable the financial statements to be audited.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In accordance with the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Central Bank of Ireland, the Directors are required to include a Management Report containing a fair review of the business and a description of the principal risks and uncertainties facing the Group. The Directors are also required by applicable law and the Listing Rules issued by the Irish Stock Exchange and the UK Listing Authority to prepare a Directors' Report and reports relating to Directors' remuneration and corporate governance.

### Responsibility statement

Each of the Directors whose names and functions appear on pages 52 and 53 of the Annual Report confirms to the best of such person's knowledge and belief:

- the consolidated financial statements for the financial year ended 31 December 2017, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities and financial position of the Group and the undertakings included in the consolidation taken as a whole, as at that date, and its profit for the financial year then ended;
- the Company financial statements for the financial year ended 31 December 2017, prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2014, give a true and fair view of the assets, liabilities and financial position of the Company;
- the Strategic Report, which is incorporated into the Directors' Report, include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

On behalf of the Board:

**Michael Carvill**
Director

**Tony McCluskey**
Director

28 March 2018

# Independent auditors' report

To the members of Kenmare Resources plc

Report on the audit of the financial statements

## Opinion on financial statements of Kenmare Resources plc

In our opinion, the Group and Company financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Group and the Company as at 31 December 2017 and of the Group's profit for the financial year then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and in particular, with the requirements of the Companies Act 2014 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements we have audited comprise:

The Group financial statements:

- the Consolidated Statement of Financial Position;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated Statement of Changes in Equity;
- the Consolidated Statement of Cash Flows; and
- the related Notes 1 to 38, including a summary of significant accounting policies as set out in Note 1.

The Company financial statements:

- the Parent Company Statement of Financial Position;
- the Parent Company Statement of Changes in Equity;
- the Parent Company Statement of Cash Flows; and
- the related Notes 1 to 38, including a summary of significant accounting policies as set out in Note 1.

The relevant financial reporting framework that has been applied in the preparation of the Group and Company financial statements is the Companies Act 2014 and International Financial Reporting Standards (IFRS) as adopted by the European Union (IFRSs as adopted by the EU).

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are described below in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority, as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

# Independent auditors' report continued

To the members of Kenmare Resources plc

## Summary of our audit approach

| | |
|---|---|
| **Key audit matters** | The key audit matters that we identified in the current year were:<br>• risk of potential impairment to the carrying value of property, plant and equipment assets; and<br>• revenue recognition. |
| **Materiality** | The materiality that we used in the current year was US$13.7 million which is less than 2% of equity. |
| **Scoping** | We determined the scope of our Group audit by obtaining an understanding of the Group and its environment, and by assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily on the parent company and three components. The parent company and two of the components were subject to a full audit, whilst the remaining one component was subject to specified audit procedures. |
| **Significant changes in our approach** | Key audit matters:<br>We have removed two key audit matters in the current year. Going concern is no longer considered a key audit matter due to the capital restructuring programme which was completed in the prior year and the Group's return to profitability and cash generation, primarily as a result of a significant increase in commodity prices. The accounting and disclosure in relation to the capital restructuring programme is no longer a key audit matter as the programme was completed in the prior year.<br>We have included one new key audit matter in the current year in relation to revenue recognition. Revenue recognition was included due to the significant allocation of time and resources. |

## Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which ISAs (Ireland) or the Listing Rules require us to report to you whether we have anything material to add or draw attention to:

- the disclosures on pages 36 to 41 to the annual report that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation in the annual report on page 82 that they have carried out a robust assessment of the principal risks facing the Group and the Company, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement on page 76 in the financial statements about whether the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation on pages 76 and 77 in the annual report as to how they have assessed the prospects of the Group and Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group and Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current financial year and include the most significant assessed risks of material misstatement we identified (whether or not due to fraud), including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Key audit matters** continued

## Carrying value of property, plant and equipment assets

### Key audit matter description

The carrying value of the Group's property, plant and equipment assets as at 31 December 2017 is US$793.6 million, which represents approximately 84% of the Group's total assets at year end.

There is a risk that incorrect inputs or inappropriate assumptions could be included in the impairment model leading to an impairment charge not being correctly identified and recognised in the Group financial statements. The Directors have developed an impairment assessment model which they use to determine if the net present value of future cash flows within the Cash Generating Unit (CGU) will be sufficient to recover the Group's carrying value of property, plant and equipment assets. Key assumptions used in the model include the useful life of mine, future sales prices, costs of production and sustaining capital expenditure and the discount rate.

Refer also to page 56 (Audit Committee Report), pages 100 to 101 (Property, plant and equipment accounting policy), Note 1 (Critical accounting estimates and judgements), and Note 13 to the financial statements.

### How the scope of our audit responded to the key audit matter

We evaluated the methodology applied by the Directors in preparing the value in use calculations and the judgements used to determine the net present value of future cash flows. In addition, we evaluated the design and determined the implementation of controls in respect of both the impairment review process and the budgeting process upon which the Group's discounted cash flow model is based.

Our work included the following procedures:

- performed a retrospective review of assumptions used in prior year value in use calculations and compared these to actual outcome;
- agreed proved and probable reserves to a competent expert's report including change in mine plan and review of estimated costs;
- reviewed mine extraction and operating licences to evaluate the Group is operating within the licence terms;
- benchmarked sales price assumptions against contracted prices and available market data;
- reviewed estimated future operating and sustaining capital costs by agreement to approved budgets and assessed reasonableness by comparison of historic costs incurred; and
- recalculated and benchmarked discount rate applied with involvement of valuation specialists.
- evaluated management's sensitivity analysis and performed our own sensitivity analysis on assumptions to assess whether a reasonably possible change in the discount rate, sales prices and operating costs would result in the carrying value of assets within the CGU exceeding the recoverable amount, resulting in impairment.
- assessed whether the disclosures in relation to property, plant and equipment assets were appropriate and met the requirements of the relevant accounting standards.

### Key observations

The recoverability of the property, plant and equipment assets are dependent on the successful operation of the Mine and the realisation of the cash flow forecast assumptions as set out in Note 13. This represents a material uncertainty the ultimate outcome of which cannot at present be determined.

## Revenue recognition

### Key audit matter description

Revenue is recognised when the substantial risks and rewards of ownership have transferred to customers which is generally when mineral products have been delivered in line with terms agreed with individual customers.

There is a risk that year end revenue has not been recorded in accordance with the requirements of accounting standards and in the appropriate period due to different contractual terms, and therefore revenue could be misstated either intentionally to achieve performance targets, or as a result of error.

Refer also to page 56 (Audit Committee Report), and page 99 (Revenue recognition accounting policy).

# Independent auditors' report continued

To the members of Kenmare Resources plc

## Key audit matters continued

### Revenue recognition

**How the scope of our audit responded to the key audit matter**

Our work included the following procedures:

- obtained an understanding of the various selling contracts and arrangements in place with customers and of the internal controls in place in relation to revenue recognition.
- evaluated the design and determined the implementation of controls in respect of revenue recognition.
- tested a sample of transactions occurring at or near the end of the accounting period to ensure transactions were recorded in the correct period.
- tested a sample of manual journal entries posted to revenue for any unusual items. We tested those journals and adjustments posted close to the year end including subsequent journals and assessed if these transactions were appropriately accounted for in accordance with the relevant accounting standards.
- tested a sample of post year end credit notes to identify any invalid sales transactions recorded in the period.

**Key observations**

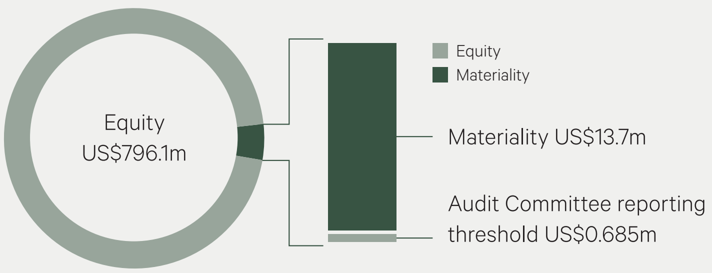
We have no observations that impact on our audit in respect of the amounts and disclosures related to revenue recognised.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

## Our application of materiality

We define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be US$13.7 million, which is less than 2% of equity. We have considered equity to be the appropriate benchmark for determining materiality due to the stability of this measure in recent years. We have considered quantitative and qualitative factors such as understanding the entity and its environment, history of misstatements, complexity of the Group and reliability of the control environment.




We agreed with the Audit Committee that we would report to them all audit differences in excess of US$0.685m as well as differences below this threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## An overview of the scope of our audit

We determined the scope of our Group audit by obtaining an understanding of the Group and its environment, and by assessing the risks of material misstatement at the Group level. Based on that assessment, the Group audit scope comprised full audits of the parent company and two principal subsidiary undertakings operating the Group's mining and processing facilities in Mozambique and the performance of specified audit procedures on one subsidiary.

These components were selected based on coverage achieved and to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. These components account for 100% of the Group's total revenue and 99% of the Group's total assets. We determined the materiality level for each component with reference to the size of the entity involved and materiality ranged from US$8.2 million to US$11.0 million.

### An overview of the scope of our audit continued

The Group audit team directed the component audits by issuing detailed instructions to the component auditor. Significant audit procedures were performed by the component auditor. The Group audit team was actively involved in the performance of, and direction of, all stages of the audit process from planning, execution and reporting to enable the Group audit team to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the Group financial statements as a whole.

At the Group level, we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to a full audit.

### Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In this context, we also have nothing to report with regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable** – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and the Company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

### Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group and the Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (Ireland), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and the Company's internal control.

# Independent auditors' report continued

To the members of Kenmare Resources plc

### Auditor's responsibilities for the audit of the financial statements continued

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity (or where relevant, the Group) to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the Group to express an opinion on the Group financial statements. The group auditor is responsible for the direction, supervision and performance of the group audit. The group auditor remains solely responsible for the audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

This report is made solely to the Company's members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Report on other legal and regulatory requirements

#### Opinion on other matters prescribed by the Companies Act 2014

Based solely on the work undertaken in the course of the audit, we report that:

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit;
- In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited;
- The Company balance sheet is in agreement with the accounting records; and
- In our opinion the information given in the Directors' Report is consistent with the financial statements and the Directors' Report has been prepared in accordance with the Companies Act 2014.

#### Corporate Governance Statement

We report, in relation to information given in the Corporate Governance Statement on pages 54 to 74 that, in our opinion the information given in the Corporate Governance Statement pursuant to subsections 2(c) and (d) of section 1373 Companies Act 2014 is consistent with the Company's statutory financial statements in respect of the financial year concerned and such information has been prepared in accordance with section 1373 of the Companies Act 2014.

Based on our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in this information.

In our opinion, based on the work undertaken during the course of the audit, the information required pursuant to section 1373(2) (a),(b),(e) and (f) of the Companies Act 2014 is contained in the Corporate Governance Statement.

### Matters on which we are required to report by exception

Based on the knowledge and understanding of the Group and Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' Report.

We have nothing to report in respect of the provisions in the Companies Act 2014 which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

The Listing Rules of the Irish Stock Exchange require us to review six specified elements of disclosures in the report to shareholders by the Board of Directors' remuneration committee. We have nothing to report in this regard.

### Other matters which we are required to address

We were appointed by Kenmare Resources plc in 1987 to audit the financial statements for the financial year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 31 years.

The non-audit services prohibited by IAASA's Ethical Standard were not provided and we remained independent of the Company in conducting the audit.

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISA (Ireland) 260.

**Kevin Sheehan**
For and on behalf of Deloitte
Chartered Accountants and Statutory Audit Firm
Dublin
28 March 2018

# Consolidated statement of financial position

As at 31 December 2017

| | Notes | 2017 US$'000 | 2016 US$'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | **793,630** | 793,875 |
| Deferred tax asset | 14 | **4,160** | 3,237 |
| Other receivables | 17 | **—** | 278 |
| | | **797,790** | 797,390 |
| **Current assets** | | | |
| Inventories | 15 | **52,707** | 47,747 |
| Trade and other receivables | 17 | **25,412** | 23,558 |
| Cash and cash equivalents | 18 | **68,774** | 57,786 |
| | | **146,893** | 129,091 |
| **Total assets** | | **944,683** | 926,481 |
| **Equity** | | | |
| **Capital and reserves attributable to the Company's equity holders** | | | |
| Called-up share capital | 19 | **215,046** | 215,046 |
| Share premium | 20 | **730,897** | 730,897 |
| Retained losses | 21 | **(184,053)** | (203,424) |
| Other reserves | 22 | **34,251** | 33,247 |
| **Total equity** | | **796,141** | 775,766 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Bank loans | 23 | **81,174** | 100,000 |
| Provisions | 25 | **18,622** | 15,855 |
| | | **99,796** | 115,855 |
| **Current liabilities** | | | |
| Bank loans | 23 | **21,693** | 2,618 |
| Obligations under finance lease | 24 | **—** | 264 |
| Provisions | 25 | **1,720** | 1,720 |
| Other financial liabilities | 26 | **8** | 4 |
| Trade and other payables | 27 | **25,325** | 30,254 |
| | | **48,746** | 34,860 |
| **Total liabilities** | | **148,542** | 150,715 |
| **Total equity and liabilities** | | **944,683** | 926,481 |

The accompanying notes form part of these financial statements.

On behalf of the Board:

**Michael Carvill** Director

**Tony McCluskey** Director

28 March 2018

# Consolidated statement of comprehensive income

For the financial year ended 31 December 2017

| | Notes | 2017 US$'000 | 2016 US$'000 |
|---|---|---|---|
| Revenue | 2 | **208,299** | 141,491 |
| Cost of sales | 4 | **(156,622)** | (144,014) |
| Gross profit/(loss) | | **51,677** | (2,523) |
| Other operating costs | 5 | **(24,094)** | (22,835) |
| Operating profit/(loss) | | **27,583** | (25,358) |
| Finance income | 8 | **136** | 94 |
| Finance costs | 9 | **(6,798)** | (27,960) |
| Gain on extinguishment of debt | 6 | **—** | 38,255 |
| Foreign exchange loss | | **(2,473)** | (2,175) |
| Profit/(loss) before tax | | **18,448** | (17,144) |
| Income tax credit | 10 | **923** | 1,917 |
| Profit/(loss) for the financial year and total comprehensive income for the financial year | | **19,371** | (15,227) |
| Attributable to equity holders | | **19,371** | (15,227) |
| | | US$ per share | US$ per share |
| Profit/(loss) per share: basic | 11 | **0.18** | (0.28) |
| Profit/(loss) per share: diluted | 11 | **0.18** | (0.28) |

The accompanying notes form part of these financial statements.

# Consolidated statement of changes in equity

For the financial year ended 31 December 2017

| | Called-up share capital US$'000 | Share premium US$'000 | Capital conversion reserve fund US$'000 | Capital redemption reserve fund US$'000 | Retained losses US$'000 | Share-based payment reserve US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2016 | 214,941 | 431,380 | 754 | 10,582 | (175,651) | 21,468 | 503,474 |
| Loss for the financial year | — | — | — | — | (15,227) | — | (15,227) |
| Share-based payments | — | — | — | — | — | 443 | 443 |
| Equitisation of loans and loan fees | 16 | 44,244 | — | — | — | — | 44,260 |
| Equity issued | 89 | 255,273 | — | — | (12,546) | — | 242,816 |
| Balance at 1 January 2017 | 215,046 | 730,897 | 754 | 10,582 | (203,424) | 21,911 | 775,766 |
| Profit for the financial year | — | — | — | — | 19,371 | — | 19,371 |
| Share-based payments | — | — | — | — | — | 1,004 | 1,004 |
| **Balance at 31 December 2017** | **215,046** | **730,897** | **754** | **10,582** | **(184,053)** | **22,915** | **796,141** |

### Capital conversion reserve fund

The capital conversion reserve fund arose from the renominalisation of the Company's share capital from Irish Punts to Euros.

### Capital redemption reserve fund

The deferred shares of €0.25 were created in 1991 by subdividing each existing ordinary share of IR25 pence into one deferred share of IR20 pence and one new ordinary share of IR5 pence. The deferred shares were non-voting and carried no dividend rights. The Company had the right to purchase any or all of these shares at a price not exceeding €0.01 per share for all the deferred shares so purchased or could execute a transfer of such shares without making any payment to the holders.

On 12 October 2015, it was resolved that the Company acquire all of the 48,031,467 deferred shares of €0.25 each in the capital of the Company in issue by transfer or surrender to the Company otherwise than for valuable consideration in accordance with Section 102(1)(a) of the Companies Act 2014 and Article 3(ii) of the Articles of Association of the Company and, in accordance with Section 106(1) of the Companies Act 2014, cancel such deferred shares.

### Retained losses

Retained losses comprise the expenses on the issue of equity in July 2016 and accumulated profit and losses in the current and prior financial years.

### Share-based payment reserve

The share-based payment reserve arises on the grant of share options and shares to certain Directors, employees and consultants under the share option scheme, the Kenmare Incentive Plan and the Kenmare Restricted Share Plan.

# Consolidated statement of cash flows

For the financial year ended 31 December 2017

| | Notes | 2017 US$'000 | 2016 US$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit/(loss) for the financial year before tax | | **18,448** | (17,144) |
| Adjustment for: | | | |
| Foreign exchange movement | | **2,473** | 2,175 |
| Share-based payments | 5 | **1,004** | 443 |
| Finance income | 8 | **(136)** | (76) |
| Finance costs | 9 | **6,798** | 27,960 |
| Gain on extinguishment of debt | 6 | **—** | (38,255) |
| Depreciation | 13 | **32,000** | 30,613 |
| Disposals of property, plant and equipment | 13 | **—** | 224 |
| Increase/(decrease) in other financial liabilities | 26 | **4** | (18) |
| (Decrease)/increase in provisions | 25 | **(315)** | 113 |
| Operating cash flow | | **60,276** | 6,035 |
| Increase in inventories | 15 | **(4,960)** | (1,519) |
| Increase in trade and other receivables | 17 | **(1,576)** | (2,919) |
| Decrease in trade and other payables | 27 | **(8,481)** | (4,573) |
| Cash from/(used in) operations | | **45,259** | (2,976) |
| Interest received | 8 | **136** | 76 |
| Interest paid | 23 | **(6,051)** | (2,775) |
| **Net cash from/(used in) operating activities** | | **39,344** | (5,675) |
| **Investing activities** | | | |
| Additions to property, plant and equipment | 13 | **(28,055)** | (6,697) |
| **Net cash used in investing activities** | | **(28,055)** | (6,697) |
| **Financing activities** | | | |
| Proceeds from the issue of shares | 19 | **—** | 254,762 |
| Cost of the issue of shares | 21 | **—** | (12,546) |
| Repayment of borrowings | 23 | **—** | (179,555) |
| Loan fees and expenses | 23 | **—** | (6,699) |
| Payment of obligations under finance leases | 24 | **(280)** | (560) |
| **Net cash (used in)/from financing activities** | | **(280)** | 55,402 |
| Net increase in cash and cash equivalents | | **11,009** | 43,030 |
| Cash and cash equivalents at the beginning of the financial year | | **57,786** | 14,352 |
| Effect of exchange rate changes on cash and cash equivalents | | **(21)** | 404 |
| **Cash and cash equivalents at the end of the financial year** | 18 | **68,774** | 57,786 |

# Parent company statement of financial position

As at 31 December 2017

| | Notes | 2017 US$'000 | 2016 US$'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | **601** | — |
| Investments in and amounts due from subsidiary undertakings | 16 | **755,434** | 774,762 |
| | | **756,035** | 774,762 |
| **Current assets** | | | |
| Trade and other receivables | 17 | **178** | 123 |
| Cash and cash equivalents | 18 | **43,208** | 52,559 |
| | | **43,386** | 52,682 |
| **Total assets** | | **799,421** | 827,444 |
| **Equity** | | | |
| **Capital and reserves attributable to the Company's equity holders** | | | |
| Called-up share capital | 19 | **215,046** | 215,046 |
| Share premium | 20 | **730,897** | 730,897 |
| Retained losses | 21 | **(184,053)** | (154,916) |
| Other reserves | 22 | **34,251** | 33,247 |
| **Total equity** | | **796,141** | 824,274 |
| **Current liabilities** | | | |
| Provisions | 25 | **1,444** | 1,444 |
| Other financial liabilities | 26 | **8** | 4 |
| Trade and other payables | 27 | **1,828** | 1,722 |
| **Total liabilities** | | **3,280** | 3,170 |
| **Total equity and liabilities** | | **799,421** | 827,444 |

The Company reported a loss for the financial year ended 31 December 2017 of US$29.1 million (2016: US$18.8 million).

The accompanying notes form part of these financial statements.

On behalf of the Board:

**Michael Carvill** **Tony McCluskey**
Director Director
28 March 2018

# Parent company statement of changes in equity

For the financial year ended 31 December 2017

| | Called-up share capital US$'000 | Share premium US$'000 | Capital conversion reserve fund US$'000 | Capital redemption reserve fund US$'000 | Retained losses US$'000 | Share-based payments reserve US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2016 | 214,941 | 431,380 | 754 | 10,582 | (123,596) | 21,468 | 555,529 |
| Loss for the financial year | — | — | — | — | (18,774) | — | (18,774) |
| Share-based payments | — | — | — | — | — | 443 | 443 |
| Equitisation of loans and loan fees | 16 | 44,244 | — | — | — | — | 44,260 |
| Equity issued | 89 | 255,273 | — | — | (12,546) | — | 242,816 |
| Balance at 1 January 2017 | 215,046 | 730,897 | 754 | 10,582 | (154,916) | 21,911 | 824,274 |
| Loss for the financial year | — | — | — | — | (29,137) | — | (29,137) |
| Share-based payments | — | — | — | — | — | 1,004 | 1,004 |
| **Balance at 31 December 2017** | **215,046** | **730,897** | **754** | **10,582** | **(184,053)** | **22,915** | **796,141** |

## Capital conversion reserve fund

The capital conversion reserve fund arose from the renominalisation of the Company's share capital from Irish Punts to Euros.

## Capital redemption reserve fund

The deferred shares of €0.25 were created in 1991 by subdividing each existing ordinary share of IR25 pence into one deferred share of IR20 pence and one new ordinary share of IR5 pence. The deferred shares were non-voting and carried no dividend rights. The Company had the right to purchase any or all of these shares at a price not exceeding €0.01 per share for all the deferred shares so purchased or could execute a transfer of such shares without making any payment to the holders.

On 12 October 2015, it was resolved that the Company acquire all of the 48,031,467 deferred shares of €0.25 each in the capital of the Company in issue by transfer or surrender to the Company otherwise than for valuable consideration in accordance with Section 102(1)(a) of the Companies Act 2014 and Article 3(ii) of the Articles of Association of the Company and, in accordance with Section 106(1) of the Companies Act 2014, cancel such deferred shares.

## Retained losses

Retained losses comprise the expenses on the issue of equity in July 2016 and accumulated profit and losses in the current and prior financial years.

## Share-based payments reserve

The share-based payments reserve arises on the grant of share options and shares to certain Directors, employees and consultants under the share option scheme, the Kenmare Incentive Plan and the Kenmare Restricted Share Plan.

# Parent company statement of cash flows

For the financial year ended 31 December 2017

| | Notes | 2017 US$'000 | 2016 US$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Loss for the financial year before tax | 31 | **(29,137)** | (18,774) |
| Adjustment for: | | | |
| Foreign exchange movement | | **(190)** | 791 |
| Share-based payments | 5 | **1,004** | 443 |
| Finance income | 8 | **(81)** | (49) |
| Gain on extinguishment of debt | 6 | **—** | (38,255) |
| Increase/(decrease) in other financial liabilities | 26 | **4** | (18) |
| Increase in provision for amounts due from subsidiary undertakings | 16 | **26,771** | 53,482 |
| Operating cash flow | | **(1,629)** | (2,380) |
| (Increase)/decrease in receivables | 17 | **(55)** | 50 |
| Increase/(decrease) in trade and other payables | 27 | **106** | (96) |
| Cash used in operations | | **(1,578)** | (2,426) |
| Interest received | | **81** | 49 |
| **Net cash used in operating activities** | | **(1,497)** | (2,377) |
| **Investing activities** | | | |
| Additions to property, plant and equipment | 13 | **(601)** | — |
| Amounts due from subsidiary undertakings | 16 | **(7,443)** | (7,033) |
| **Net cash used in investing activities** | | **(8,044)** | (7,033) |
| **Financing activities** | | | |
| Proceeds from the issue of shares | 19 | **—** | 254,762 |
| Cost of the issue of shares | 21 | **—** | (12,546) |
| Repayment of borrowings | 23 | **—** | (179,555) |
| **Net cash from financing activities** | | **—** | 62,661 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(9,541)** | 53,251 |
| Cash and cash equivalents at the beginning of the financial year | | **52,559** | 99 |
| Effect of exchange rate changes on cash and cash equivalents | | **190** | (791) |
| **Cash and cash equivalents at the end of the financial year** | 18 | **43,208** | 52,559 |

# Notes to the financial statements

For the financial year ended 31 December 2017

## 1. Statement of accounting policies

### Group

The significant accounting policies adopted by the Group are set out below.

### Adoption of new and revised standards

The following new and revised standards and interpretations, all of which are effective for accounting periods beginning on or after 1 January 2017, have been adopted in the current financial year.

- IAS 7 (amendments) Statement of Cash Flows (effective for accounting periods beginning on or after 1 January 2017).
- IAS 12 (amendments) Income Taxes (effective for accounting periods beginning on or after 1 January 2017).

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective. The Group will apply the relevant standards from their effective dates. The standards are mandatory for future accounting periods but are not yet effective and have not been early-adopted by the Group.

- Annual Improvements to IFRS 2014–2016 Cycle (effective for accounting periods on or after 1 January 2018).
- IFRS 2 (amendments) Classification and Measurement of Share-based Payment Transactions (effective for accounting periods beginning on or after 1 January 2018).
- IFRS 4 (amendments) Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for accounting periods beginning on or after 1 January 2018).
- IFRS 9 Financial Instruments (effective for accounting periods beginning on or after 1 January 2018).
- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture (effective for accounting periods beginning on or after 1 January 2019).
- IFRS 15 Revenue from Contracts with Customers (effective for accounting periods beginning on or after 1 January 2018).
- IFRS 16 Leases (effective for accounting periods beginning on or after 1 January 2019).
- IFRS 17 Insurance Contracts (effective for accounting periods beginning on or after 1 January 2021).
- IAS 40 (amendments) Transfers of Investment Property (effective for accounting periods beginning on or after 1 January 2018).
- IFRIC 22 Foreign Currency Translation and Advance Consideration (effective for accounting periods beginning on or after 1 January 2018).
- IFRIC 23 Uncertainty over Income Tax Treatments (effective for accounting periods beginning on or after 1 January 2019).

The Directors do not expect that the adoption of the standards and interpretations listed above will have a material impact on the financial statements of the Group in future periods, except as noted below.

### IFRS 9 Financial Instruments

The Group has applied IFRS 9 from 1 January 2018. The Group has elected not to restate comparatives on initial application of IFRS 9. The full impact of adopting IFRS 9 on the Group's consolidated financial statements will depend on the financial instruments that the Group has during 2018, as well as on economic conditions and judgements made as at the year end.

#### Classification and measurement

With respect to the classification and measurement of financial assets, the number of categories of financial assets under IFRS 9 has been reduced compared to IAS 39. Under IFRS 9 the classification of financial assets is based both on the business model within which the asset is held and the contractual cash flow characteristics of the asset. There are three principal classification categories for financial assets that are debt instruments: (i) amortised cost, (ii) fair value through other comprehensive income (FVTOCI) and (iii) fair value through profit or loss (FVTPL). Equity investments in scope of IFRS 9 are measured at fair value, with gains and losses recognised in profit or loss unless an irrevocable election is made to recognise gains or losses in other comprehensive income. Under IFRS 9, derivatives embedded in financial assets are not bifurcated but instead the whole hybrid contract is assessed for classification. Under IFRS 9, financial assets can be designated as at FVTPL to mitigate an accounting mismatch.

In respect to classification and measurement of financial liabilities, changes in the fair value of a financial liability designated as at FVTPL due to credit risk are presented in other comprehensive income unless such presentation would create or enlarge an accounting mismatch in profit or loss.

## 1. Statement of accounting policies continued

### IFRS 9 Financial Instruments continued

#### Classification and measurement continued

Based on the Group's assessment, the change in the classification and measurement of financial assets and liabilities has not had a material impact on the financial statements.

#### Impairment

The impairment model under IFRS 9 reflects expected credit losses, as opposed to only incurred credit losses under IFRS 9. Under the impairment approach in IFRS 9, it is not necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date.

The Group applies the simplified approach to recognise lifetime expected credit losses for its trade receivables as required or permitted by IFRS 9. The Group's calculation of the loss allowance for these assets as at 1 January 2018 is not significantly greater compared to the loss allowance under IAS 39.

### IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 supersedes the revenue recognition guidance included under IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations. The Group has adopted IFRS 15 for the year ending 31 December 2018 and will adopt the modified retrospective approach without restatement of comparatives.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services specifically. The standard introduces a five-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15 an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

The Group recognises revenue from the sale of mineral products to customers. The adoption of IFRS 15 has not resulted in a material impact to the financial statements.

### IFRS 16 Leases

IFRS 16, which has not yet been endorsed by the EU, introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The Group currently expects to adopt IFRS 16 for the year ending 31 December 2019. No decision has been made about whether to use any of the transitional options in IFRS 16.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and are replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low-value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected because operating lease payments under IAS 17 are presented as operating cash flows, whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

# Notes to the financial statements continued

For the financial year ended 31 December 2017

## 1. Statement of accounting policies continued

### IFRS 16 Leases continued

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of US$7.7 million. IAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in Note 32. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset of US$5.3 million and a corresponding liability in respect of all these leases of US$5.3 million.

### Basis of preparation

The financial statements have also been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted by the European Union and therefore the Group financial statements comply with Article 4 of the IAS Regulation. The financial statements have been prepared in accordance with the Companies Act 2014.

### Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have or will have adequate resources to continue in operational existence for the foreseeable future. Therefore, they continue to adopt the going concern basis of accounting in preparing the financial statements.

### Basis of accounting

The financial statements are prepared in US Dollars under the historical cost convention except for share-based payments and warrants. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. Fair value of share options, as calculated in accordance with IFRS 2, at grant date is recognised over the vesting period. As warrants are not issued in the entity's functional currency, they do not meet the requirements in IAS 32 of settlement in a fixed amount of the value of equity, and therefore are recorded at fair value. As a result warrants are remeasured at each reporting date and the increase or decrease in the fair value is recognised as a finance cost or income in the statement of comprehensive income.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each financial year. Control is achieved where the Company: has the power over the investee; is exposed, or has the right, to variable return from its involvement with the investee; and has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the financial year are included in the Consolidated Statement of Comprehensive Income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

Changes in the Group's interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets, less liabilities of the subsidiary. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets and liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement, when applicable, the costs on initial recognition of an investment in an associate or a joint venture.

## 1. Statement of accounting policies continued

### Determination of ore reserve estimates

The Group estimates its ore reserves and mineral resources based on information compiled by a competent person as defined in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2012 edition (the "JORC Code"). Reserves determined in this way are used in the calculation of depreciation, amortisation and impairment charges, the assessment of life of mine and for forecasting the timing of the payment of close-down costs, restoration costs and clean-up costs. In assessing the life of a mine for accounting purposes, mineral resources are only taken into account where there is a high degree of confidence of economic extraction. There are numerous uncertainties inherent in estimating ore reserves, and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of final products, production costs or recovery rates may change the economic status of reserves and may ultimately result in the reserves being restated.

### Revenue recognition

Revenue is measured as the fair value of the consideration received or receivable and represents amounts receivable for mineral products provided in the normal course of business, net of discounts and related sales taxes. Sales of mineral products are recognised when mineral products have been delivered. The risk of loss or damage to the mineral products passes from the Group to the customers on delivery. Typically, delivery takes place when the product is loaded on the ocean-going vessel chartered by either the customer or the Group, with most sales being made on either a "free on board" (FOB), a "cost, insurance and freight" (CIF) or a "cost and freight" (CFR) basis. For FOB sales the customer is responsible for the cost of shipping and handling. For CIF and CFR sales amounts billed to customers in respect of shipping and handling are classed as sales revenue where the Group is responsible for shipping and handling. All shipping and handling costs incurred by the Group are recognised as operating costs. If the Group is acting solely as an agent for a customer in respect of shipping and handling, amounts billed to customers for shipping and handling are offset against the relevant costs.

Finance income represents deposit interest earned and the decrease in the fair value of warrants as noted below under the heading "Financial liabilities and equity". Deposit interest is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts over the expected life of the financial asset to that asset's net carrying amount.

### Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases.

#### Finance leases

Assets held under finance lease are initially recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to directly achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs.

#### Operating leases

Rentals payable under operating leases are charged to the statement of comprehensive income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

### Retirement benefit costs

Payments to defined contribution retirement schemes are charged as an expense as they fall due.

### Foreign currency

The individual financial statements of each Group entity are prepared in its functional currency, which in each case is US Dollars. The presentation currency for the consolidated financial statements is also US Dollars.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each statement of financial position date, monetary items denominated in foreign currencies are retranslated at rates prevailing on such statement of financial position date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the statement of comprehensive income for the financial year.

# Notes to the financial statements continued

For the financial year ended 31 December 2017

## 1. Statement of accounting policies continued

### Borrowing costs

All borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets until such time as the assets are substantially ready for their intended use. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

### Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the financial year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expenses that are taxable or deductible in other financial years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using the tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against deductible temporary differences which can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiary undertakings, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is released. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and tax liabilities on a net basis.

### Operating profit/loss

Operating profit or loss is stated after charging all costs arising from continuing operations, other than those permitted to be capitalised, but before gain on extinguishment of debt, finance income, finance costs, foreign exchange gain or loss and taxation.

### Exploration and evaluation expenditure

Exploration and evaluation expenditure activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation expenditure is charged to the statement of comprehensive income as incurred, except where the existence of a commercially viable mineral deposit has been established and it is expected that the deposit will be mined. Capitalised exploration and evaluation expenditure considered to be tangible is recognised as a component of property, plant and equipment at cost less impairment charges. As the asset is not available for use, it is not depreciated. All capitalised exploration and evaluation expenditure is monitored for indications of impairment. To the extent that capitalised expenditure is not expected to be recovered it is charged to the statement of comprehensive income.

### Property, plant and equipment

The cost of property, plant and equipment comprises any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the estimated closure costs associated with the asset.

Construction in progress expenditures for the construction and commissioning of property, plant and equipment are deferred until the facilities are operational, at which point the costs are transferred to property, plant and equipment and depreciated at the applicable rates.

## 1. Statement of accounting policies continued

### Property, plant and equipment continued

Property, plant and equipment are depreciated over their useful life on a straight-line basis, or over the remaining life of the Mine if shorter, or on a units of production basis. The major categories of property, plant and equipment are depreciated as follows:

| | |
|---|---|
| Plant and equipment | Units of production basis |
| Development expenditure | Units of production basis |

### Other assets

| | |
|---|---|
| Buildings and airstrip | Twenty years |
| Mobile equipment | Three to five years |
| Fixtures and equipment | Three to ten years |

Units of production depreciation is calculated using the quantity of heavy mineral concentrate extracted from the mine for processing or sterilised in the period as a percentage of the total quantity of heavy mineral concentrate planned to be extracted in current and future periods based on the mining reserve. The mining reserve is updated on an annual basis for results of drilling programmes carried out, mining activity during the year, and other relevant considerations. The unit of production depreciation rate is adjusted as a result of this update and applied prospectively.

Capital spares consist of critical plant spares with estimated useful lives greater than one year and are included in property, plant and equipment. Capital spares are stated at cost less accumulated depreciation.

Residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. Changes to the estimated residual values or useful lives are accounted for prospectively.

### Development expenditure

Mineral exploration and project development costs for a mine, including finance costs and Lender and adviser fees during the period before such mine is capable of operating at production levels in the manner intended by management, are deferred and included in property, plant and equipment. In addition, expenses including depreciation net of revenue earned during commissioning the mine in the period before it is capable of operating in the manner intended by management are deferred. These costs include an allocation of costs, including share-based payments, as determined by management and incurred by Group companies. Interest on borrowings relating to the mine construction and development projects are capitalised until the point when the activities that enable the mine to operate in its intended manner are complete. Once the mine is operating in the manner intended by management, the related costs are written off over the life of the estimated ore reserve of such mine on a unit of production basis. Where the mine project is terminated or impairment of value has occurred, related costs are written off immediately.

### Impairment of non-current assets

At each statement of financial position date, the Group reviews the carrying amounts of its non-current assets including construction in progress to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of the asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior financial years. A reversal of an impairment loss is recognised as income immediately.

# Notes to the financial statements continued

For the financial year ended 31 December 2017

## 1. Statement of accounting policies continued

### Inventories

Product inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour costs and overheads, including depreciation incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs necessary to make the sale. Quantities are assessed primarily through surveys and assays.

Consumable spares are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method and comprises the purchase price and related costs incurred in bringing the inventories to their present location and condition.

### Financial assets and financial liabilities

Financial assets and financial liabilities in respect of financial instruments are recognised on the Group's statement of financial position when the Group becomes party to a contract relating to such instrument.

#### Trade receivables

Trade receivables are initially recognised at fair value, which is generally the invoice value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

#### Financial liabilities and equity

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

The warrants, which are not listed or admitted to trading and which have limited transferability rights, have an exercise price, denominated in a currency not being the Company's or Group's functional currency, of Stg£58.18 and Stg£22.00, and an exercise period of five years commencing 16 November 2014 and seven years commencing 16 November 2014 respectively. As the warrants are not issued in the entity's reporting currency, they do not meet the IAS 32 requirements of settlement in a fixed amount of the value of equity, and therefore are recorded at fair value. As a result, the warrants are remeasured at each reporting date and the increase or decrease in the fair value is recognised as a finance cost or income respectively in the statement of comprehensive income.

#### Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value less transaction costs directly attributable to the bank borrowings, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

#### Trade payables

Trade payables are initially measured at fair value, which is generally the invoice value, plus transaction costs directly attributable to the payables, and are subsequently measured at amortised cost, using the effective interest rate method.

#### Equity instruments

Share capital issued by the Company is recorded at the value of proceeds received, net of direct issue costs. The only equity instruments of the Group are ordinary and deferred shares.

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

## 1. Statement of accounting policies continued

### Provisions continued

#### Mine closure provision

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, but excluding reclamation of areas disturbed by mining activities, which is covered under the mine rehabilitation provision. A corresponding amount equal to the provision is recognised as part of property, plant and equipment and depreciated over its estimated useful life. The costs are estimated on the basis of a formal closure plan and are subject to regular review. The mine closure provision is determined as the net present value based on a risk-free rate of such estimated costs. The Group uses rates as provided by the US Treasury and extrapolates it to the duration of the mine life. This is deemed the best estimate to reflect the current market assessment of the time value of money. Risks specific to the liability are included in the cost estimate. Changes in the estimated timing or costs are recorded by an adjustment to the provision and corresponding adjustment to property, plant and equipment. The unwinding of the discount on the mine closure provision is recognised as a finance cost and capitalised if eligible.

#### Mine rehabilitation provision

The mine rehabilitation provision represents the Directors' best estimate of the Company's liability for reclaiming areas disturbed by mining activities. Reclamation costs are recognised in each period in the statement of comprehensive income based on the area disturbed in such period.

#### Legal provision

The legal provision represents the Directors' best estimate of the Company's liability for costs associated with a defamation case and further actions taken by a former Director.

### Share-based payments

The Group issues share options to certain employees and consultants. In the past share options were awarded to Executive Directors but this practice ceased with the introduction of the KIP in 2014. Share options are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions. Fair value is measured using a Black-Scholes pricing model.

Annual awards under the KIP have a cash element and a share element. Both the cash element and the share element are based on a number of in-year performance targets. Based on the level of achievement against these targets, the cash element will be paid shortly after the end of the relevant year. The share element will vest, subject to certain vesting conditions, after a further three years with part of the shares subject to a further two-year holding period. The value of the shares is measured as fair value at the date of grant, based on the Group's estimate of the shares that will eventually vest, and adjusted for the effect of non-market-based vesting conditions. The fair value at the grant date is expensed on a straight-line basis over the vesting period. Fair value is measured using a Monte Carlo pricing model.

Annual awards under the KRSP is for up to 75% of salary in restricted shares with no performance conditions. The awarded shares will vest 60% after 3 years, 20% after 4 years and 20% after 5 years. The value of the shares is measured at fair value at the date of grant based on the Company's share price. The fair value determined at the grant date is expensed in the statement of comprehensive income on a straight-line basis over the remaining estimated vesting period.

Share based awards granted to employees of subsidiary undertakings of the Company are recognised as an expense in the statement of comprehensive income of the subsidiary undertaking and as a capital contribution in the statement of financial position. Where a share-based payment is directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, its fair value is added to the cost of those assets until such time as the assets are substantially ready for their intended use.

### Parent company

The separate financial statements of the Company are presented as required by the Companies Act 2014. The separate financial statements have been prepared in accordance with IFRSs as applied in accordance with the Companies Act 2014.

The principal accounting policies adopted are the same as those set out for the Group financial statements except as noted below.

Investments in subsidiary undertakings are recognised at cost. Amounts due from subsidiary undertakings are initially recognised at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is evidence that the asset is impaired.

The Company is party to guarantees on Group borrowings. These guarantees require the Company to make specified payments to reimburse the lenders for a loss it incurs if the group subsidiary undertakings fail to make payments when due in accordance with the terms of the debt. The guarantees issued by the Company are initially measured at their fair value and subsequently measured at the amount of the loss allowance determined in accordance with IFRS 9.

# Notes to the financial statements continued

For the financial year ended 31 December 2017

## 1. Statement of accounting policies continued

### Critical accounting judgements and key sources of estimation uncertainty

### Critical judgements in applying the Group's accounting policies

In the process of applying the Group's and Company's accounting policies, which are described above, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

### Property, plant and equipment

The recovery of property, plant and equipment is dependent upon the successful operation of the Mine. The realisation of cash flow forecast assumptions would result in the recovery of such amounts. During the financial year the Group carried out an impairment review of property, plant and equipment, details of which are set out in Note 13. As a result of the review no impairment provision is required in the financial year.

### Investments in and amounts due from subsidiary undertakings

The recovery of investments in and amounts due from subsidiary undertakings is dependent upon the successful operation of the Mine. The realisation of cash flow forecast assumptions as set out in Note 13 would result in the recovery of such amounts.

An impairment loss of US$26.8 million (2016: US$53.5 million) has been recognised in the Company's Statement of Comprehensive Income, in respect of investments in and amounts due from subsidiary undertakings.

### Key sources of estimation uncertainty

The preparation of financial statements requires the Directors to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date. The nature of estimation means the actual outcomes could differ from those estimates. The main areas subject to estimation uncertainty are detailed below.

### Provisions

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, but excluding reclamation of areas disturbed by mining activities, which is covered under the mine rehabilitation provision. The costs are estimated on the basis of a formal closure plan and are subject to regular review. The mine closure provision is estimated based on the net present value at the risk-free rate of estimated future mine closure costs. Mine closure costs are a normal consequence of mining, and the majority of such costs are incurred at the end of the life of mine.

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

- a discount rate of 2.9% (2016: 3.3%);
- an inflation rate of 2% (2016: 2%);
- an estimated life of mine based on approximately 40 years (2016: 40 years); and
- an estimated closure cost of US$21.7 million (2016: US$21.7 million) and an estimated post-closure monitoring provision of US$1.7 million (2016: US$1.7 million).

The discount rate is a significant factor in determining the mine closure provision. The Group uses rates as provided by the US Treasury. Thirty-year US Treasury yields are the longest period for which yields are quoted. A forty-year rate to align with the estimated life of mine has been calculated by taking the average increase in yield from ten to twenty years and from twenty to thirty years and adding this to the thirty-year treasury to arrive at an estimated extrapolated rate for forty years. This discount rate is deemed to provide the best estimate to reflect current market assessment of the time value of the money. Risks specific to the liability are included in the cost estimate. A 1% increase in the estimated discount rate results in the mine closure provision decreasing to US$11.4 million. A 1% decrease in the estimated discount rate results in the mine closure provision increasing to US$24.4 million.

The mine rehabilitation provision represents the Directors' best estimate of the Group's liability for reclaiming areas disturbed by mining activities. Reclamation costs are recognised in each period based on the area disturbed in the period and an estimated cost of rehabilitation per hectare which is reviewed regularly against actual rehabilitation cost per hectare. Actual rehabilitation expenditure is incurred approximately twelve months after the area has been disturbed.

The legal provision represents the Directors' best estimate of the Company's liability for costs associated with a defamation case and further legal actions taken by a former Director. In estimating the provision, the Directors have sought legal advice on costs.

### Units of production depreciation and amortisation

Units of production depreciation is calculated using the quantity of heavy minerals extracted from the Mine for processing or sterilised in the period as a percentage of the total quantity of heavy minerals planned to be extracted in current and future periods based on the mining reserve.

## 1. Statement of accounting policies continued

### Units of production depreciation and amortisation continued

The Group estimates its ore reserves and mineral resources based on information compiled by a competent person as defined in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2012 edition (the "JORC Code"). There are numerous uncertainties inherent in estimating ore reserves, and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of final products, production costs or recovery rates may change the economic status of reserves and may ultimately result in the reserves being restated.

### Share-based payments

The Group issues share options to certain employees and consultants. In the past share options were awarded to Executive Directors but this practice ceased with the introduction of the Kenmare Incentive Plan in 2014. Share options are measured at fair value at the date of grant. Fair value is measured using a Black-Scholes pricing model. Assumptions included in this model include: expected volatility, as determined by calculating the historical volatility of the Company's share price over the previous year, this being deemed the most reliable indicator of the Company's share price volatility; a risk-free rate; and expected life of seven years.

The Group has made share awards under the KIP and the KRSP which was introduced in 2017. The value of share awards made under the KIP are measured at fair value at the date of grant. Fair value is measured using a Monte Carlo pricing model. Assumptions made in this model include: expected volatility of the Company's share price, as determined by calculating the historical volatility of the Company's share price over the historical period immediately prior to the date of grant and commensurate with the expected life of the awards; comparator group constituents and indices, their individual volatilities calculated using total shareholder return data for each company over a period commensurate with the expected life of the award; dividend yield; expected life of the awards of three years; risk-free rates; and correlation between comparators. The value of share awards made under the KRSP is based on the share price at the date of grant.

### Deferred tax

A deferred tax asset has been recognised where previous tax losses can be utilised to reduce taxes on future taxable profits and it is considered probable that a portion of such losses can be applied before expiry. Future taxable profits are based on cash flow projections using a life-of-mine financial model for the Mine. Key assumptions in the cash flow projections include a mine production schedule based on the Namalope, Nataka and Pilivili proved and probable reserves. Average annual production levels over the life of the mine are approximately 0.9 million tonnes of ilmenite 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 are forecast taking into account independent titanium mineral sands expertise and management expectations including general inflation at 2% per annum. Operating costs are based on approved budget costs for 2018 and escalated by 2% per annum thereafter and capital costs are based on a life-of-mine capital plan considering inflation at 2% per annum. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced if and to the extent that it is no longer probable that sufficient taxable profit will be available to allow the asset to be recovered.

### Financial liability

On 16 October 2013, 1,251,500 (pre-share consolidation: 250,300,000) new ordinary shares were issued by way of a placing. In addition to ordinary shares, participants in the placing were issued warrants on the basis of one warrant to subscribe for one ordinary share in the Company for every five placing shares. In total 250,300 (pre-share consolidation: 50,060,000) warrants were issued. The warrants, which are not listed or admitted to trading and which have limited transferability rights, have an exercise price of Stg58.18 pence (pre-share consolidation: Stg29.09 pence) and an exercise period of five years, commencing 16 November 2014.

On 1 September 2014, the Company issued 36,289 (pre-share consolidation: 7,257,850) warrants to Absa Bank Limited ("Absa") in discharge of the US$800,000 extension fee due to Absa as part of a loan amendment. These warrants have an exercise price of Stg£22.00 (pre-share consolidation: Stg11 pence) and an exercise period of seven years from 16 November 2014 and are otherwise on substantially the same terms as the warrants detailed above.

The warrants are measured at fair value at the statement of financial position date. Fair value is measured using a Black-Scholes pricing model. Assumptions included in this model include: expected volatility, as determined by calculating the historical volatility of the Company's share price over the previous year, this being deemed the most reliable indicator of the Company's share price volatility; a risk-free rate; and an expected life of two to four years.

### Inventories

Product inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour costs and overheads, including depreciation incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price, less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Net realisable value is determined with respect to forecast prices estimated to be achieved for finished products. There is no guarantee that these prices will be achieved in the future, particularly in weak product markets.

# Notes to the financial statements continued

For the financial year ended 31 December 2017

## 2. Revenue

| | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| Sale of mineral products | **208,299** | 141,491 |

During the financial year, the Group sold 1,040,400 tonnes (2016: 1,024,200 tonnes) of finished products ilmenite, rutile and zircon to customers at a sales value of US$208.3 million (2016: US$141.5 million).

## 3. Segment reporting

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

### Segment revenues and results

| Moma Titanium Minerals Mine | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| Revenue | **208,299** | 141,491 |
| Cost of sales | **(156,622)** | (144,014) |
| Gross profit/(loss) | **51,677** | (2,523) |
| Other operating costs | **(21,454)** | (20,051) |
| Segment operating profit/(loss) | **30,223** | (22,574) |
| Other corporate operating costs | **(2,640)** | (2,784) |
| Group operating profit/(loss) | **27,583** | (25,358) |
| Finance income | **136** | 94 |
| Finance expenses | **(6,798)** | (27,960) |
| Gain on extinguishment of debt | **—** | 38,255 |
| Foreign exchange loss | **(2,473)** | (2,175) |
| Profit/(loss) before tax | **18,448** | (17,144) |
| Income tax credit | **923** | 1,917 |
| Profit/(loss) for the financial year | **19,371** | (15,227) |
| | | |
| **Segment assets** | | |
| Moma Titanium Minerals Mine assets | **885,892** | 868,400 |
| Corporate assets | **58,791** | 58,081 |
| Total assets | **944,683** | 926,481 |
| **Segment liabilities** | | |
| Moma Titanium Minerals Mine liabilities | **143,575** | 146,070 |
| Corporate liabilities | **4,967** | 4,645 |
| Total liabilities | **148,542** | 150,715 |
| | | |
| **Other segment information** | | |
| **Depreciation and amortisation** | | |
| Moma Titanium Minerals Mine | **31,997** | 30,610 |
| Corporate | **3** | 3 |
| Total | **32,000** | 30,613 |
| **Additions to non-current assets** | | |
| Moma Titanium Minerals Mine | **28,550** | 6,697 |
| Corporate | **601** | — |
| Total | **29,151** | 6,697 |

| Revenue from major products | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| Ilmenite | **152,614** | 101,342 |
| Zircon | **51,703** | 37,148 |
| Rutile | **3,982** | 3,001 |
| Total | **208,299** | 141,491 |

## 3. Segment reporting continued

### Geographical information

| Revenue from external customers | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| China | **95,462** | 47,574 |
| USA | **31,957** | 26,365 |
| Italy | **22,249** | 18,748 |
| Rest of the world | **58,631** | 48,804 |
| Total | **208,299** | 141,491 |

The Group's revenue from external customers is generated by the Moma Titanium Minerals Mine, the non-current assets of which are US$797.2 million (2016: US$797.4 million).

Cost of sales for the financial year amounted to US$156.6 million (2016: US$144.0 million), including depreciation and amortisation of US$27.1 million (2016: US$25.3 million).

### Information about major customers

Included in revenues are US$72.5 million (2016: US$35.8 million) from sales to the Group's largest customer, US$37.0 million (2016: US$20.5 million) from sales to the Group's second largest customer and US$23.9 million (2016: US$18.3 million) from sales to the Group's third largest customer. All revenues are generated by the Moma Titanium Minerals Mine.

## 4. Cost of sales

| | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| Opening stock of mineral products | **30,631** | 27,643 |
| Production costs | **129,816** | 121,684 |
| Depreciation | **27,057** | 25,318 |
| Closing stock of mineral products | **(30,882)** | (30,631) |
| Total | **156,622** | 144,014 |

Mineral products consist of finished products, intermediate magnetic concentrate and heavy mineral concentrate. There was a higher depreciation and amortisation charge as a result of the increased production during the year. Mineral stock value increased by US$0.3 million (2016: increase US$3.0 million).

## 5. Other operating costs

| | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| Distribution costs | **11,440** | 11,287 |
| Freight and demurrage costs | **5,538** | 5,410 |
| Administration costs | **3,350** | 2,893 |
| Arbitration costs | **3,766** | 3,245 |
| Total | **24,094** | 22,835 |
| Included in administration costs are: | | |
| Share-based payments | **1,004** | 473 |

Distribution costs of US$11.4 million (2016: US$11.3 million) represent the cost of running the Mine's finished product storage, jetty and marine fleet. Included in distribution costs is depreciation of US$4.9 million (2016: US$5.3 million). Freight costs of US$5.5 million (2016: US$5.4 million) are reimbursable by customers or factored into the sales price for product delivered to customers on a CIF or CFR basis. Demurrage costs were US$0.05 million (2016: US$0.01 million) during the financial year. Administration costs of US$3.4 million (2016: US$2.9 million) are the Group administration costs and include a share-based payment of US$1.0 million (2016: US$0.5 million). There were arbitration costs incurred in the financial year of US$3.8 million (2016: US$3.2 million). No further costs are expected in connection with the underlying dispute.

# Notes to the financial statements continued

For the financial year ended 31 December 2017

## 6. Profit for the financial year

The profit for the financial year has been arrived at after charging/(crediting) items detailed below. Depreciation and amortisation and staff costs noted below have been included in cost of sales for the financial year or inventory at 31 December 2017.

| | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| Staff costs | **37,865** | 34,766 |
| Repairs and maintenance | **33,373** | 29,360 |
| Power and fuel | **22,314** | 22,390 |
| Other operating costs | **55,415** | 52,708 |
| Increase in value of mineral products inventory | **(251)** | (2,988) |
| Depreciation and amortisation of property, plant and equipment | **32,000** | 30,613 |
| Finance income | **(136)** | (94) |
| Finance costs | **6,798** | 27,960 |
| Gain on the extinguishment of debt | **—** | (38,255) |
| Foreign exchange loss | **2,473** | 2,175 |
| Total | **189,851** | 158,635 |

In 2016, the extinguishment of debt resulted in a gain which was recognised in the statement of comprehensive income of US$38.2 million, being the write-down of debt of US$68.6 million, the amortisation of fees and expenses of US$29.8 million and the issuance of US$0.6 million of shares to Absa in settlement of an outstanding fee.

## 7. Auditors' remuneration

The analysis of the auditors' remuneration is as follows:

| | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| **Company** | | |
| Audit of the Company's financial statements | **15** | 15 |
| Other assurance services | **—** | — |
| Tax advisory services | **6** | 5 |
| Other non-audit services | **—** | — |
| Total | **21** | 20 |
| **Group** | | |
| Audit of the Group's financial statements | **47** | 94 |
| Other assurance services | **22** | 27 |
| Tax advisory services | **—** | — |
| Other non-audit services | **—** | 324 |
| Total | **69** | 445 |
| Total fees | **90** | 465 |

The Company's auditors are Deloitte. The Project Companies' auditors are KPMG and during the year fees payable to them amounted to US$0.1 million (2016: US$0.1 million). Details of the Company's policy on the use of auditors for non-audit services, the reasons why the Company auditors were used rather than another supplier and how the auditors' independence and objectivity was safeguarded are set out in the Audit Committee Report on pages 56 to 57.

## 8. Finance income

| | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| Interest on bank deposits | **136** | 76 |
| Change in fair value of warrants | **—** | 18 |
| Total | **136** | 94 |

Finance income of the Company consisted of US$0.08 million (2016: US$0.05 million) of interest on bank deposits.

## 9. Finance costs

| | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| Interest on bank borrowings | **6,300** | 23,888 |
| Other financing fees | **—** | 3,486 |
| Finance lease interest | **16** | 81 |
| Change in fair value of warrants | **4** | — |
| Mine closure provision unwinding of the discount | **478** | 505 |
| Total | **6,798** | 27,960 |

The interest on all Group borrowings has been expensed in the financial year.

## 10. Income tax expense

| | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| Corporation tax | **—** | — |
| Deferred tax | **923** | 1,917 |
| Total | **923** | 1,917 |

| | | |
|---|---|---|
| Reconciliation of effective tax rate | | |
| Profit/(loss) before tax | **18,448** | (17,144) |
| Profit/(loss) before tax multiplied by the applicable tax rate (12.5%) | **2,306** | (2,143) |
| Differences in effective tax rates on overseas earnings | **(2,306)** | 2,143 |
| Applied losses | **(1,157)** | — |
| Recognition of deferred tax asset | **2,080** | 1,917 |
| Total | **923** | 1,917 |

### Group

No charge to corporation tax arises in the financial years ended 31 December 2017 and 31 December 2016 as there were no taxable profits in either financial year.

At the statement of financial position date Kenmare Moma Mining (Mauritius) Limited had unused tax losses of US$11.9 million (2016: US$18.5 million) available for offset against future profits. The tax rate applicable to these losses is 35% as the 50% reduction in the corporate tax applicable to Kenmare Moma Mining (Mauritius) Limited in the initial ten-year period ended in 2017. As a result, the deferred tax asset was increased by US$2.1 million. During the year US$1.2 million deferred tax charges were recognised as tax losses of US$6.9 million were utilised and the related deferred tax asset was reduced. In 2016 an asset of US$1.9 million was recognised for losses available for offset against future profits. Based on the forecast at the year end for Kenmare Moma Mining (Mauritius) Limited profits are expected to materialise within the next three years to allow the balance of losses be utilised.

The fiscal regime applicable to the mining activities of Kenmare Moma Mining (Mauritius) Limited allows for a 50% reduction in the corporate tax in the initial ten-year period of production following start-up (2007) and charges a royalty of 3% based on heavy mineral concentrate sold to Kenmare Moma Processing (Mauritius) Limited. The royalty charge payable to the Government of Mozambique for the financial year ended 31 December 2017 was US$2.9 million (2016: US$2.5 million). Under the fiscal regime applicable to mining activities, Kenmare Moma Mining (Mauritius) Limited is exempted from import and export taxes and VAT on imports, and accelerated depreciation is permitted. Whilst withholding tax is levied on certain payments to non-residents, mining companies are exempt from withholding tax on dividends for the first ten years or until their investment is recovered, whichever is earlier. The withholding tax charge payable to the Government of Mozambique for the financial year ended 31 December 2017 was US$0.9 million (2016: US$0.7 million).

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. The fiscal regime applicable to mining allows for the option to use accumulation of exploration and development expense and optional depreciation at 25% per annum with tax losses allowed to be carried forward for three years.

Kenmare Moma Processing (Mauritius) Limited has industrial free zone (IFZ) status. As an IFZ company, it is exempted from import and export taxes, VAT and other corporation taxes. A revenue tax of 1% is charged after six years of operation, which became payable in 2013. The revenue tax payable to the Government of Mozambique for the financial year ended 31 December 2017 was US$2.1 million (2016: US$1.4 million). There is no dividend withholding tax under the IFZ regime.

# Notes to the financial statements continued

For the financial year ended 31 December 2017

## 10. Income tax expense continued

### Company

No charge to taxation arises in the financial years ended 31 December 2017 or 31 December 2016 as there were no taxable profits in either financial year.

At the statement of financial position date, the parent company has unused tax losses. Due to the uncertainty over the existence of future taxable profits, a deferred tax asset of US$3.6 million at 31 December 2017 (2016: US$2.9 million) calculated at a rate of 12.5% for tax losses has not been recognised in the statement of financial position.

## 11. Earnings per share

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

| | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| Profit/(loss) for the financial year attributable to equity holders of the parent | **19,371** | (15,227) |

| | 2017 Number of shares | 2016 Number of shares |
|---|---|---|
| Weighted average number of issued ordinary shares for the purpose of basic loss per share | **109,601,551** | 55,253,893 |
| Effect of dilutive potential ordinary shares: | | |
| Share awards | **412,101** | — |
| Weighted average number of ordinary shares for the purposes of diluted loss per share | **110,013,652** | 55,253,893 |

| | US$ per share | US$ per share |
|---|---|---|
| Earnings per share: basic | **0.18** | (0.28) |
| Earnings per share: diluted | **0.18** | (0.28) |

In 2016, the basic earnings per share and the diluted earnings per share are the same as the outstanding share options, share awards and warrants are anti-dilutive.

On 26 July 2016, there was a capital reorganisation which resulted in a one for two hundred consolidation of the existing ordinary shares whereby the ordinary shares and the new ordinary shares have a nominal value of €0.001 each. 2,781,905,503 deferred shares of €0.059995 each were created by subdividing each existing ordinary share of €0.06 into one deferred share of €0.059995 and one new ordinary share of €0.001. On 26 July 2016, 81,368,822 new ordinary shares of €0.001 were issued by way of a placing and open offer which raised US$254.8 million. On 28 July 2016, 14,323,202 new ordinary shares were issued to Lenders to discharge debt and fees.

## 12. Employee numbers and benefits

The average number of persons employed by the Group (including Executive Directors) in 2017 was 1,365 (2016: 1,344) and is analysed below:

| | 2017 | 2016 |
|---|---|---|
| Management and administration | **332** | 311 |
| Operations | **1,033** | 1,033 |
| | **1,365** | 1,344 |

The aggregate payroll costs incurred in respect of these employees comprised:

| | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| Wages and salaries | **34,593** | 32,303 |
| Share-based payments | **1,004** | 443 |
| Social insurance costs | **1,788** | 1,653 |
| Retirement benefit costs | **480** | 367 |
| | **37,865** | 34,766 |

All costs disclosed above were expensed in the statement of comprehensive income in the current and prior financial years.

Included in wages and salaries are payroll taxes of US$6.7 million (2016: US$5.9 million) payable to the Government of Mozambique, US$2.4 million (2016: US$1.5 million) payable to Irish Revenue and US$0.2 million (2016: US$0.2 million) payable to Her Majesty's Revenue & Customs of the UK.

## 12. Employee numbers and benefits continued

Included in the social insurance costs is US$1.2 million (2016: US$1.1 million) payable to the Government of Mozambique, US$0.5 million (2016: US$0.5 million) payable to Irish Revenue, and US$0.1 million (2016: US$0.1 million) payable to Her Majesty's Revenue & Customs of the UK.

Included in the payroll cost above are Executive and Non-Executive emoluments (inclusive of the share-based payments) of US$3.5 million (2016: US$3.4 million).

## 13. Property, plant and equipment

### Group

| | Plant and equipment US$'000 | Development expenditure US$'000 | Construction in progress US$'000 | Other assets US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2016 | 786,057 | 249,984 | 5,497 | 53,688 | 1,095,226 |
| Transfer from construction in progress | 5,897 | — | (6,776) | 879 | — |
| Additions during the financial year | — | — | 6,697 | — | 6,697 |
| Disposals | (263) | — | — | (731) | (994) |
| Adjustments* | (16,946) | — | — | — | (16,946) |
| At 1 January 2017 | 774,745 | 249,984 | 5,418 | 53,836 | 1,083,983 |
| Transfer from construction in progress | 1,786 | 342 | (3,166) | 1,038 | — |
| Additions during the financial year | 557 | — | 27,993 | 601 | 29,151 |
| Disposals | — | — | — | (375) | (375) |
| Adjustments** | 3,083 | — | — | (479) | 2,604 |
| **At 31 December 2017** | **780,171** | **250,326** | **30,245** | **54,621** | **1,115,363** |
| **Accumulated depreciation** | | | | | |
| At 1 January 2016 | 122,354 | 110,075 | — | 27,836 | 260,265 |
| Charge for the financial year | 21,372 | 4,905 | — | 4,336 | 30,613 |
| Disposals | (91) | — | — | (679) | (770) |
| At 1 January 2017 | 143,635 | 114,980 | — | 31,493 | 290,108 |
| Charge for the financial year | 22,264 | 6,043 | — | 3,693 | 32,000 |
| Disposals | — | — | — | (375) | (375) |
| **At 31 December 2017** | **165,899** | **121,023** | **—** | **34,811** | **321,733** |
| **Carrying amount** | | | | | |
| **At 31 December 2017** | **614,272** | **129,303** | **30,245** | **19,810** | **793,630** |
| At 31 December 2016 | 631,110 | 135,004 | 5,418 | 22,343 | 793,875 |

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 pre-tax, pre-finance cash flows discounted at 11.5%.

Key assumptions include the following:

- The discount rate is based on the Group's weighted average cost of capital. This rate is a best estimate of the current market assessment of the time value of money and the risks specific to the Mine, taking into consideration country risk, currency risk and price risk. The factors making up the cost of equity, cost of debt and capital structure have changed from the prior year resulting in a discount rate of 11.5%.

  Using a discount rate of 11.5%, the recoverable amount is greater than the carrying amount by US$151.3 million. The discount rate is a significant factor in determining the recoverable amount. A 1% increase in the discount rate to 12.5%, which management believes could be a reasonably possible change in this assumption, would result in the recoverable amount being greater than the carrying amount by US$81.3 million. A 1% increase in the discount rate in the prior year to 12% would have resulted in the recoverable amount being greater than the carrying amount by US$47.5 million. The improvement in the recoverable amount from the prior year is a result of increased production in the near term as a result of the change in mine plan assumptions detailed below and increased forecast pricing particularly for zircon.

# Notes to the financial statements continued

For the financial year ended 31 December 2017

## 13. Property, plant and equipment continued

**Group** continued

- In the prior year the mine plan was based on the Namalope and Nataka proved and probable reserves, with the forecast running to 2056. The move of both mining plants into the adjacent Nataka deposit after depletion of Namalope (2021/22 for WCP B and 2025/26 for WCP A) was primarily driven by the size, proximity and longevity of the Nataka deposit. The Group has developed an increasing understanding of other resources within the Group's portfolio. Alternative mine plans to Nataka are being explored which may reduce future capital costs and production risks and enhance shareholder value. The current mine plan assumption has WCP B moving to the Pilivili deposit in 2020, where the plant can take advantage of high ore grades early in the Pilivili mine plan to increase HMC production. The forecast life of mine runs to 2056, unchanged from the prior year review.
- Average annual production is approximately 0.9 million tonnes (2016: 0.9 million tonnes) of ilmenite plus co-products, zircon and rutile, over the life of the mine. This mine plan does not include investment in additional mining capacity. Certain minimum stocks of final and intermediate products are assumed to be maintained at period ends. The average annual production of final products has not changed from the prior year.
- 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 by the Group taking into account independent titanium mineral sands expertise and management expectations including general inflation of 2% per annum. Average forecast product sales prices have increased slightly over the life of mine from the prior year end review. A 7% reduction in average sales prices over the life of mine reduces the recoverable amount by US$151.3 million.
- Operating costs are based on approved budget costs for 2018 taking into account the current running costs of the Mine and escalated by 2% per annum thereafter. Average forecast operating costs have increased from the prior year end review as a result of increased operating costs in 2017, which formed the basis for the 2018 budget and life-of-mine forecast thereafter. A 15% increase in operating costs over the life of mine reduces the recoverable amount by US$151.3 million.
- Sustaining capital costs are based on a life-of-mine capital plan considering inflation at 2% per annum from 2018. Average forecast sustaining capital costs have remained unchanged from the prior year end review as the sustaining capital required to maintain the existing plant over the life of mine has remained unchanged. The forecast takes into account reasonable cost increases and therefore a sensitivity to this assumption has not been applied which would give rise to a reduction in the recoverable amount.

As a result of the review no impairment provision was recognised in the current financial year. No impairment was recognised in the prior financial year. Given the sensitivities of the forecast to the discount rate, pricing and to a lesser extent operating costs, the impairment loss of US$64.8 million which was recognised in the consolidated statement of comprehensive income in 2014 is not reversed.

Depreciation during the year increased to US$32.0 million (2016: US$30.6 million) as a result of the increase in production.

* Kenmare Resources plc's operating subsidiaries Kenmare Moma Mining (Mauritius) Limited and Kenmare Moma Processing (Mauritius) Limited (together, the "Project Companies") were engaged in arbitration proceedings initiated by certain members of the Aveng Group (those members, together, "Aveng") in relation to the performance and completion of certain engineering, procurement and construction management contracts entered into in 2010 in connection with the expansion of the mine facilities. Aveng claimed that it was owed certain amounts in respect of unpaid professional fees, plus interest. The Project Companies counterclaimed for compensation for losses resulting from Aveng's contractual breaches, substantially in excess of the amounts claimed by Aveng.

The arbitral tribunal notified its award on 23 December 2016. The tribunal determined that, due to Aveng's breaches, the final payment sought by Aveng should be reduced by the maximum amount allowable under the contracts, i.e. ZAR150 million. The net effect of the tribunal's finding resulted in the Project Companies making a payment of US$4.9 million (ZAR56 million, plus interest accrued of ZAR11 million) in January 2017. There was an adjustment of US$10.1 million to property, plant and equipment as a result of the arbitral tribunal award, which resulted in a reduction in the amount payable to Aveng and therefore a reduction in the amount previously capitalised.

There was also an adjustment in the mine closure cost of US$6.9 million during 2016 as a result of a change in the estimated life of mine. The aggregate of the US$10.1 million adjustment to plant and equipment and the US$6.9 million adjustment to the mine closure cost is US$17.0 million.

** There was an adjustment to the mine closure cost of US$2.6 million during 2017 as result of a change in the discount rate used to estimate the mine closure provision, details of which are set out in Note 25. There was also a reclassification of US$0.5 million from other assets to plant and equipment during the year.

Included in other assets is an amount of US$0.6 million (2016: nil) in respect of leasehold property of the Company, details of which are set out in Note 32. There was no depreciation during the year on leasehold property.

## 13. Property, plant and equipment continued

### Group continued

Included in plant and equipment are capital spares of US$2.6 million (2016: US$2.1 million).

During the year there were disposals of property, plant and equipment of US$0.4 million (2016: US$1.0 million).

Substantially, all the property, plant and equipment of the Group is or will be mortgaged, pledged or otherwise secured to provide collateral for the Group's senior and subordinated loans as detailed in Note 23.

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 statement of financial position date, the recoverable amount of property, plant and equipment exceeds its carrying amount and, based on the planned mine production levels, that the Moma Titanium Minerals Mine will continue to achieve positive cash flows.

## 14. Deferred tax asset

### Group

| | US$'000 |
|---|---|
| At 1 January 2016 | 1,320 |
| Credit to statement of comprehensive income | 1, 917 |
| At 1 January 2017 | 3,237 |
| Credit to statement of comprehensive income | 923 |
| **At 31 December 2017** | **4,160** |

At the statement of financial position date, Kenmare Moma Mining (Mauritius) Limited had unused tax losses of US$11.9 million (2016: US$18.5 million) available for offset against future profits. A deferred tax asset of US$4.2 million (2016: US$3.2 million) has been recognised for losses which are available for offset against future profits. Tax losses of US$6.9 million (2016: nil) were utilised in the financial year. Tax losses may be carried forward for three years. No deferred tax liability is recognised on temporary differences arising in connection with accelerated tax depreciation as the differences are not significant. Revenues of Kenmare Moma Mining (Mauritius) Limited are determined with reference to cost incurred in producing heavy mineral concentrate, plus a margin which is related to prices earned by Kenmare Moma Processing (Mauritius) Limited.

## 15. Inventories

### Group

| | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| Mineral products | **30,882** | 30,631 |
| Consumable spares | **21,825** | 17,116 |
| | **52,707** | 47,747 |

At 31 December 2017, total final product stocks were 231,000 tonnes (2016: 192,300 tonnes), of which 9,200 tonnes (2016: 60,000 tonnes) were being held for a customer who has paid for them. 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.

Closing stock of heavy mineral concentrate was 16,800 tonnes (2016: 66,500 tonnes).

Net realisable value is determined with reference to forecast prices of finished products expected to be achieved. There is no guarantee that these prices will be achieved in the future, particularly in weak product markets. During the financial year there was a write down of nil (2016: US$0.5 million) to mineral products to value them at net realisable value.

## 16. Investments in and amounts due from subsidiary undertakings

### Company

| | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| Opening balance | **774,762** | 558,541 |
| Funding during the year | **7,443** | 7,033 |
| Novated Project Loans | **—** | 262,670 |
| Provision | **(26,771)** | (53,482) |
| Closing balance | **755,434** | 774,762 |

# Notes to the financial statements continued

For the financial year ended 31 December 2017

## 16. Investments in and amounts due from subsidiary undertakings continued

### Company continued

The investments in subsidiary undertakings are US$373.0 million (2016: US$373.0 million). The investment balance is made up of the novation of the Project Loans of US$262.7 million, the investment during 2013 in Kenmare Resources (Jersey) Limited as part of the equity placing of US$104.4 million, initial investments of less than US$500 in the other subsidiary undertakings of the Group and share-based payments of US$5.9 million (2016: US$5.9 million) relating to staff of the subsidiary undertakings Kenmare Moma Mining (Mauritius) Limited and Kenmare Moma Processing (Mauritius) Limited.

The balance of US$382.4 million (2016: US$401.8 million) represents funds transferred to subsidiary undertakings net of allowances for amounts due from subsidiary undertakings. During 2017 there was a net movement of US$7.4 million (2016: US$7.0 million) relating to funding of subsidiary undertakings. An allowance was provided against the amounts due from subsidiary undertakings of US$26.8 million (2016: US$53.5 million) at the financial year end.

The loans due from the subsidiary undertakings Kenmare Moma Mining (Mauritius) Limited and Kenmare Moma Processing (Mauritius) Limited are not repayable on demand as this is a restricted payment under which the Project Loan agreements have certain conditions. All other subsidiary undertaking loans are repayable on demand after one year.

### Credit risk

The carrying amount of investments in and amounts due from subsidiary undertakings represents the maximum credit exposure. Amounts due from subsidiary undertakings are current (i.e. not overdue). An impairment provision of US$26.8 million (2016: US$53.5 million) has been recognised in the statement of comprehensive income. The amounts due from subsidiary undertakings are unsecured and interest-free.

The subsidiary undertakings of the Company as at 31 December 2017 are as follows:

| | Place of incorporation | Place of operation | Percentage ownership |
|---|---|---|---|
| Kenmare Minerals Company Limited | Republic of Ireland | Republic of Ireland | 100% |
| Kenmare C.I. Limited | Jersey | Jersey | 100% |
| Congolone Heavy Minerals Limited | Jersey | Mozambique | 100% |
| Kenmare Resources (Jersey) Limited | Jersey | Jersey | 100% |
| Kenmare Moma Mining (Mauritius) Limited | Mauritius | Mozambique | 100% |
| Kenmare Moma Processing (Mauritius) Limited | Mauritius | Mozambique | 100% |
| Mozambique Minerals Limited | Jersey | Mozambique | 100% |

Each of the subsidiary undertakings, with the exception of Kenmare Resources (Jersey) Limited, has issued ordinary shares only. Kenmare Resources (Jersey) Limited has both ordinary and preference shares, all 100% owned by Kenmare Resources plc. The activities of the above subsidiary undertakings are mining, mineral exploration, management and development.

The registered office of the Republic of Ireland company is 4th Floor, Styne House, Hatch Street Upper, Dublin 2, DO2 DY27. The registered office of the Jersey companies is Zedra Trust Company (Jersey) Limited, 50 La Colomberie, St. Helier, Jersey, except for Kenmare Resources (Jersey) Limited, whose registered office is Ogier House, The Esplanade, St. Helier, Jersey. The registered office of the Mauritius companies is 10th floor, Standard Chartered Tower, 19 Cybercity, Ebene, Mauritius.

The recovery of amounts due from subsidiary undertakings is dependent on the successful operation of the Moma Titanium Minerals Mine. The realisation of cash flow forecast assumptions as set out in Note 13 would result in the recovery of such amounts.

## 17. Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 US$'000 | 2016 US$'000 | 2017 US'000 | 2016 US$'000 |
| Trade receivables | **21,246** | 19,069 | **—** | — |
| EdM receivable | **278** | 650 | **—** | — |
| Other receivables | **83** | 61 | **—** | 20 |
| Prepayments | **3,805** | 4,056 | **178** | 103 |
| | **25,412** | 23,836 | **178** | 123 |
| Amounts due within one year | **25,412** | 23,558 | **178** | 123 |
| Amounts due after one year | **—** | 278 | **—** | — |
| | **25,412** | 23,836 | **178** | 123 |

## 17. Trade and other receivables continued

### EdM receivable

Kenmare Moma Processing (Mauritius) Limited (Mozambique branch) and Electricidade de Moçambique (EdM) amended the power supply agreement in 2013 to cater for the increased power requirement of the Mine as result of the expansion. As part of this amendment EdM agreed to reimburse part of the capital costs incurred to upgrade the power grid to accommodate the increased power requirement. These costs were finalised in 2014 with EdM's share being US$1.4 million. This is repayable in forty-eight monthly instalments by means of a credit to the electricity bill. During 2017 repayments totalled US$0.4 million (2016: US$0.4 million).

### Credit risk

The carrying amount of the trade and other receivables represents the maximum credit exposure. Before entering into sales contracts with new customers, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly during the year. Of the trade receivables balance at the end of the financial year, US$8.4 million (2016: US$11.0 million) is due from the Group's three largest customers. The external credit scoring system used by the Group gives each of these customers the highest score in their financial strength credit index and their risk indicator represents a minimum risk of business failure. Trade receivables at the year end had Moody's credit ratings ranging from Ba2 to A3.

The Group has a trade finance facility with Absa Corporate and Business Bank.

All trade receivables are current (i.e. not overdue). There has been no impairment in trade receivables during the financial year and no allowance for impairment has been provided for during the financial year or at the financial year end.

### Currency risk

The currency profile of trade and other receivables at the financial year end is as follows:

| Group | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| US Dollar | **23,786** | 20,935 |
| Mozambican Metical | **60** | 1,429 |
| South African Rand | **875** | 1,258 |
| Euro | **165** | 174 |
| Sterling | **106** | 30 |
| Australian Dollar | **420** | 10 |
| | **25,412** | 23,836 |

| Company | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| Euro | **165** | 116 |
| Sterling | **13** | 7 |
| | **178** | 123 |

Fluctuations in the currencies noted above will impact on the Group's financial results.

## 18. Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 US$'000 | 2016 US$'000 | 2017 US$'000 | 2016 US$'000 |
| Immediately available without restriction | **57,866** | 53,810 | **43,208** | 52,559 |
| Contingency reserve account | **2** | 2 | **—** | — |
| Project Companies' accounts | **10,906** | 3,974 | **—** | — |
| | **68,774** | 57,786 | **43,208** | 52,559 |

Cash and cash equivalents comprise cash balances held for the purposes of meeting short-term cash commitments and investments which are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value. Where investments are categorised as cash equivalents, the related balances have a maturity of three months or less from the date of investment.

The contingency reserve account (CRA) is an account established under a cash collateral and shareholder funding deed to provide for shareholder funding to the Project Companies and to secure the obligations of the Company and Congolone Heavy Minerals Limited (a wholly owned subsidiary undertaking) under the completion agreement.

# Notes to the financial statements continued

For the financial year ended 31 December 2017

## 18. Cash and cash equivalents continued

### Interest rate risk

Cash at bank earns interest at variable rates based on daily bank deposit rates, which may be zero. Short-term deposits are made for varying periods of between one day and three months, depending on the cash requirements of the Group, and earn interest at the respective short-term deposit rates. The interest rate profile of the Group's cash balances at the financial year end was as follows:

| | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| Cash and cash equivalents at variable interest rate | **52,205** | 56,634 |
| Cash at bank on which no interest is received | **16,569** | 1,152 |
| | **68,774** | 57,786 |

### Currency risk

The currency profile of cash and cash equivalents at the financial year end is as follows:

| Group | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| US Dollar | **66,721** | 52,187 |
| Sterling | **957** | 2,563 |
| Euro | **583** | 2,699 |
| Mozambican Metical | **460** | 276 |
| Renminbi | **24** | 32 |
| Australian Dollar | **19** | 20 |
| South African Rand | **10** | 9 |
| | **68,774** | 57,786 |

| Company | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| US Dollar | **41,673** | 47,304 |
| Sterling | **949** | 2,546 |
| Euro | **562** | 2,677 |
| Renminbi | **24** | 32 |
| | **43,208** | 52,559 |

Fluctuations in the currencies noted above will impact on the Group's financial results.

### Credit risk

The credit risk on cash and cash equivalents is limited because funds available to the Group are deposited with banks with high credit ratings assigned by international credit rating agencies. For deposits in excess of US$50 million the Group requires that the institution has an A (S&P)/A2 (Moody's) long-term rating. For deposits in excess of US$20 million or South African Rand-denominated deposits the Group requires that the institution has a BBB+ (S&P)/Baa1 (Moody's) long-term rating. US$53.7 million of the bank deposits are with Barclays Bank plc, which has a long-term credit rating of A Stable (S&P)/A1 Negative (Moody's). US$14.6 million of the bank deposits are with HSBC plc which has a long-term credit rating of A Stable (S&P)/A2 Negative (Moody's).

## 19. Called-up share capital

### Group and Company

| | 2017 €'000 | 2016 €'000 |
|---|---|---|
| **Authorised share capital** | | |
| 181,000,000 ordinary shares of €0.001 each | **181** | 181 |
| 4,000,000,000 deferred shares of €0.059995 each | **239,980** | 239,980 |
| | **240,161** | 240,161 |

## 19. Called-up share capital continued

### Group and Company continued

| | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| **Allotted, called up and fully paid** | | |
| **Ordinary shares** | | |
| Opening balance | | |
| 109,601,551 ordinary shares of €0.001 each | **120** | — |
| 2,781,905,503 deferred shares of €0.059995 each | **214,926** | — |
| 2,781,905,503 ordinary shares of €0.06 each | **—** | 214,941 |
| | **215,046** | 214,941 |
| **Share consolidation** | | |
| 13,909,527 ordinary shares of €0.001 each | **—** | 15 |
| 2,781,905,503 deferred shares of €0.059995 each | **—** | 214,926 |
| **Shares issued** | | |
| 95,692,024 ordinary shares of €0.001 each | **—** | 105 |
| **Closing balance** | | |
| 109,601,551 ordinary shares of €0.001 each | **120** | 120 |
| 2,781,905,503 deferred shares of €0.059995 each | **214,926** | 214,926 |
| Closing balance | **215,046** | 215,046 |
| Total called-up share capital | **215,046** | 215,046 |

On 26 July 2016, there was a capital reorganisation which resulted in a one for two hundred consolidation of the existing ordinary shares whereby the ordinary shares and the new ordinary shares have a nominal value of €0.001 each. 2,781,905,503 deferred shares of €0.059995 each were created as part of the capital restructuring by subdividing each existing ordinary share of €0.06 into one deferred share of €0.059995 and one new ordinary share of €0.001. The deferred shares have no voting rights, no dividend rights and, in effect, no rights on a return of capital. The deferred shares may be acquired by the Company for no consideration and cancelled.

On 26 July 2016, 81,368,822 new ordinary shares of €0.001 were issued by way of a placing and open offer which raised US$254.7 million. US$0.1 million of the issue has been credited to share capital and US$255.3 million has been credited to share premium. The cost of issue of US$12.5 million has been recognised in retained losses.

On 28 July 2016, 6,527,771 new ordinary shares of €0.001 were issued to Absa, EAIF, EIB and FMO, discharging US$20.4 million of debt under their US$40.8 million underwriting commitment. 7,603,860 new ordinary shares of €0.001 each were issued to Absa, EAIF, EIB and FMO, discharging US$23.8 million of senior and subordinated loans under the debt reduction equitisation. 191,571 new ordinary shares of €0.001 each were also issued to Absa, discharging a loan amendment fee of US$0.6 million. US$0.01 million of the issue has been credited to share capital and US$44.8 million has been credited to share premium.

## 20. Share premium

### Group and Company

| | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| Opening balance | **730,897** | 431,380 |
| Shares issued during the year | **—** | 299,517 |
| Closing balance | **730,897** | 730,897 |

Share premium of US$730.9 million (2016: US$730.9 million) relates to the share premium arising on shares issued.

# Notes to the financial statements continued

For the financial year ended 31 December 2017

## 21. Retained losses

### Group

| | US$'000 |
|---|---|
| Balance at 1 January 2016 | (175,651) |
| Loss for the financial year attributable to equity holders of the parent | (15,227) |
| Cost of equity issue | (12,546) |
| Balance at 1 January 2017 | (203,424) |
| Profit for the financial year attributable to equity holders of the parent | 19,371 |
| **Balance at 31 December 2017** | **(184,053)** |

### Company

| | US$'000 |
|---|---|
| Balance at 1 January 2016 | (123,596) |
| Loss for the financial year attributable to equity holders of the parent | (18,774) |
| Cost of equity issue | (12,546) |
| Balance at 1 January 2017 | (154,916) |
| Loss for the financial year attributable to equity holders of the parent | (29,137) |
| **Balance at 31 December 2017** | **(184,053)** |

During the financial year nil (2016: nil) share options were exercised.

## 22. Other reserves

### Group and Company

| | Share-based payment reserve US$'000 | Capital conversion reserve fund US$'000 | Capital reserve fund redemption US$'000 | Total US$'000 |
|---|---|---|---|---|
| Balance at 1 January 2016 | 21,468 | 754 | 10,582 | 32,804 |
| Recognition of share-based payments | 443 | — | — | 443 |
| Balance at 1 January 2017 | 21,911 | 754 | 10,582 | 33,247 |
| Recognition of share-based payments | 1,004 | — | — | 1,004 |
| **Balance at 31 December 2017** | **22,915** | **754** | **10,582** | **34,251** |

The share-based payment reserve arises on the grant of share options and shares to certain Directors, employees and consultants under the share option scheme, Kenmare Incentive Plan and Kenmare Restricted Share Plan. Details of share-based payments are given in Note 34.

The capital conversion reserve fund arises from the renominalisation of the Company's share capital from Irish Punts to Euros.

The deferred shares of €0.25 per share were created in 1991 by subdividing each existing ordinary share of IR25 pence into one deferred share of IR20 pence and one new ordinary share of IR5 pence. The deferred shares were non-voting and carried no dividend rights. The Company had the right to purchase any or all of these shares at a price not exceeding €0.01 per share for all the deferred shares so purchased.

On 12 October 2015, it was resolved that the Company acquire all of the 48,031,467 deferred shares of €0.25 each in the capital of the Company in issue by transfer or surrender to the Company otherwise than for valuable consideration in accordance with Section 102(1) (a) of the Companies Act 2014 and Article 3(ii) of the Articles of Association of the Company and, in accordance with Section 106(1) of the Companies Act 2014, cancel such deferred shares.

## 23. Bank loans

| | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| **Project Loans** | | |
| Senior loans | **25,902** | 25,857 |
| Subordinated loans | **76,965** | 76,761 |
| Total Project Loans | **102,867** | 102,618 |
| The borrowings are repayable as follows: | | |
| Within one year | **21,693** | 2,618 |
| In the second year | **19,048** | 19,048 |
| In the third to fifth years inclusive | **62,126** | 58,730 |
| After five years | **—** | 22,222 |
| | **102,867** | 102,618 |
| Less: amount due for settlement within twelve months | **(21,693)** | (2,618) |
| Amount due for settlement after twelve months | **81,174** | 100,000 |
| **Project Loans** | | |
| Balance at 1 January | **102,618** | 367,811 |
| Loan interest accrued | **6,300** | 23,888 |
| Loan interest paid | **(6,051)** | (2,775) |
| Project Loans novated to Kenmare Resources plc | **—** | (292,449) |
| Foreign exchange movement | **—** | 6,186 |
| Other finance fees | **—** | (43) |
| Balance at 31 December | **102,867** | 102,618 |

### Project Loans

Project Loans have been made to the Mozambique branches of Kenmare Moma Mining (Mauritius) Limited and Kenmare Moma Processing (Mauritius) Limited (the "Project Companies"). The Project Loans are secured by substantially all rights and assets of the Project Companies, and, amongst other things, the 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 (AREA) for purposes of a 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.

### 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 became effective.

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

Senior debt ranks 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 are calculated on the basis of aggregate outstanding debt, being the aggregate of outstanding senior debt and outstanding subordinated debt. Decisions are 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 the senior debt is 1 February 2022. Interest on the senior debt is 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.

# Notes to the financial statements continued

For the financial year ended 31 December 2017

## 23. Bank loans continued

### Senior debt continued

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 |

Each 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. The effect of the sharing provision is that senior debt, other than Absa's senior debt, will be repaid by 1 August 2019 under the agreed amortisation schedule.

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. Until the senior debt has been repaid in full, 50% of the prepayments will be allocated to senior debt (provided that once the amount of Absa senior debt is reduced to US$10 million, Absa ceases to participate in the senior debt prepayments and thereafter participates in the subordinated debt prepayments) with the balance applied to prepayments of subordinated debt. Senior debt prepayments are applied in inverse order of maturity.

### Subordinated debt

The final maturity date of the subordinated debt is 1 February 2022. Interest on the subordinated debt is payable in cash on 1 February and 1 August. The interest rate on 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, prepayments based on 25% cash available for restricted payments less senior debt prepayments are required under a cash sweep mechanism, commencing 1 February 2018. Subordinated debt prepayments are applied in inverse order of maturity.

### Group borrowings interest, currency and liquidity risk

The loan facilities are arranged at variable rates and expose the Group to cash flow interest rate risk. Variable rates are based on six-month LIBOR. The average effective borrowing rate at financial year end was 5.7% (2016: 5.2%). The interest rate profile of the Group's loan balances at the financial year end was as follows:

| | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| Variable rate debt | **102,867** | 102,618 |

The fair value of the Group borrowings of US$102.5 million (2016: US$103.1 million) has been calculated by discounting the expected future cash flows at a rate of 6%. The 6% market rate was estimated by reviewing borrowing rates of the mining sector and other relevant market yields. For B+ to B- rated debt the borrowing rates are in the range of 5% to 6%. Given the 2016 restructuring, the Group is deemed to be in this range of credit rating.

Under the assumption that all other variables remain constant, a 1% change in the six-month LIBOR rate results in a US$1.0 million (2016: US$1.0 million) change in finance costs for the financial year.

## 23. Bank loans continued

### Group borrowings interest, currency and liquidity risk continued

The currency profile of loans at the financial year end is as follows:

| | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| US Dollars | **102,867** | 102,618 |

On 28 July 2016, the debt restructuring was implemented pursuant to which all debt is now denominated in US Dollars.

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.

## 24. Finance lease

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | 2017 US$'000 | 2016 US$'000 | 2017 US$'000 | 2016 US$'000 |
| Amounts payable under finance lease | | | | |
| Within one year | — | 280 | — | 264 |
| In the second to fifth year | — | — | — | — |
| Less future finance charges | — | (16) | — | — |
| Present value of lease payments | — | 264 | — | 264 |
| Less amounts due for settlement within twelve months | | | — | (264) |
| Amounts due for settlement after twelve months | | | — | — |

The Group had leased equipment for the receipt, storage and dispensing of diesel fuel under a finance lease. The lease term ended during the year. For the financial year ended 31 December 2017, the average effective borrowing rate was 9.6%. The lease was on a fixed repayment basis and the lease obligation was denominated in US Dollars.

## 25. Provisions

### Group and Company

| | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| Mine closure provision | **16,620** | 13,538 |
| Mine rehabilitation provision | **2,278** | 2,593 |
| Legal provision | **1,444** | 1,444 |
| | **20,342** | 17,575 |
| Current | **1,720** | 1,720 |
| Non-current | **18,622** | 15,855 |
| | **20,342** | 17,575 |

| | Mine closure provision US$'000 | Mine rehabilitation provision US$'000 | Legal provision US$'000 | Total US$'000 |
|---|---|---|---|---|
| At 1 January 2016 | 19,890 | 2,480 | 1,444 | 23,814 |
| (Reduction in)/additional provision in the financial year | (6,857) | 826 | — | (6,031) |
| Provision released in the financial year | — | (713) | — | (713) |
| Unwinding of the discount | 505 | — | — | 505 |
| At 1 January 2017 | 13,538 | 2,593 | 1,444 | 17,575 |
| Additional provision in the financial year | 2,604 | 805 | — | 3,409 |
| Provision released in the financial year | — | (1,120) | — | (1,120) |
| Unwinding of the discount | 478 | — | — | 478 |
| **At 31 December 2017** | **16,620** | **2,278** | **1,444** | **20,342** |

# Notes to the financial statements continued

For the financial year ended 31 December 2017

## 25. Provisions continued

### Group and Company continued

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, are subject to regular review and 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$0.5 million (2016: US$0.5 million) has been recognised in the statement of comprehensive income for the financial year.

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

- a discount rate of 2.9% (2016: 3.3%);
- an inflation rate of 2% (2016: 2%);
- an estimated life of mine of 40 years (2016: 40 years); and
- an estimated closure cost of US$21.7 million (2016: US$21.7 million) and an estimated post-closure monitoring provision of US$1.7 million (2016: US$1.7 million).

The life-of-mine plan is based on the Namalope, Nataka and Pilivili proved and probable reserves as set out in the reserves and resources table. The mine closure provision has been increased by US$2.6 million to reflect the change in the discount rate from 3.3% to 2.9%.

The discount rate is a significant factor in determining the mine closure provision. The Group uses rates as provided by the US Treasury. Thirty-year US Treasury yields are the longest period for which yields are quoted. A forty-year rate to align with the estimated life of mine has been calculated by taking the average of the increase in yield from ten to twenty years and the increase in yield from twenty to thirty years and adding this average to the thirty-year treasury rate to arrive at an estimated extrapolated rate for forty-years. This discount rate is deemed to provide the best estimate of the current market assessment of the time value of the money. Risks specific to the liability are included in the cost estimate. A 1% increase in the estimated discount rate results in the mine closure provision decreasing to US$11.4 million. A 1% decrease in the estimated discount rate results in the mine closure provision increasing to US$24.4 million.

The mine rehabilitation provision represents the Directors' best estimate of the Company's liability for rehabilitating areas disturbed by mining activities. Rehabilitation costs are recognised based on the area disturbed and estimated cost of rehabilitation per hectare, which is reviewed regularly against actual rehabilitation cost per hectare. Actual rehabilitation expenditure is incurred approximately twelve months after the area has been disturbed. During the financial year there was a release of US$1.1 million (2016: US$0.7 million) to reflect the actual mine rehabilitation costs incurred, and an addition to the provision of US$0.8 million (2016: US$0.8 million) for areas newly disturbed.

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 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 appeal. The Company's legal team strongly advises 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.

## 26. Other financial liabilities

### Group and Company

| | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| Warrants – equity | 7 | 4 |
| Warrants – corporate facility | 1 | — |
| | 8 | 4 |

On 16 October 2013, 250,300,000 new ordinary shares were issued by way of a placing which raised US$101.9 million net of expenses. In addition to ordinary shares, participants in the placing were issued warrants on the basis of one warrant to subscribe for one ordinary share in the Company for every five placing shares. In total 50,060,000 warrants were issued. The warrants, which are not listed or admitted to trading and which have limited transferability rights, had an exercise price of Stg29.09 pence and an exercise period of five years commencing thirteen months after the date of issue.

The old ordinary shares of nominal value €0.06 per share of Kenmare Resources plc were subject to a share division and consolidation as of 26 July 2016, resulting in each of the 200 old ordinary shares being consolidated into one ordinary share with nominal value of €0.001.

As a result, these warrants were adjusted in line with the relevant terms of the related warrant instrument to 250,300 warrants and an exercise price of Stg£58.18. The adjustment did not result in an alteration to any other terms of the warrants including, in particular, the subscription period.

## 26. Other financial liabilities continued

### Group and Company continued

On 31 July 2014, the Group agreed with corporate bank loan provider Absa an extension of the maturity date of the US$20 million corporate loan (the "Absa facility") from 31 March 2015 to 31 March 2016. An extension fee of US$800,000 was settled in 7,257,850 warrants for Kenmare Resources plc shares on 1 September 2014 which had an exercise price of Stg£11.00. The warrants are exercisable for a period of seven years and are otherwise on substantially the same terms as the warrants issued on 16 October 2013 detailed above.

As a result of the share division and consolidation noted above, these warrants were adjusted in line with the relevant terms of the related warrant instrument to 36,289 warrants and an exercise price of Stg£22.00. The adjustment did not result in an alteration to any other terms of the warrants including, in particular, the subscription period.

A financial liability of US$0.008 million (2016: US$0.004 million) based on the fair value of the warrants at the statement of financial position date has been recorded as the cost of issuing the warrants with the reduction in value of US$0.004 million (2016: US$0.018 million) included in finance costs in the statement of comprehensive income.

The fair values were calculated using a Black-Scholes option pricing model. The inputs into the calculation were as follows:

| | 2017 | 2016 |
|---|---|---|
| Year end share price | **£2.77** | £2.51 |
| Year end Stg£/US$ exchange rate | **0.74** | 0.81 |
| Warrant exercise price | **£58.18 & £22.00** | £58.18 & £22.00 |
| Expected volatility | **43%** | 41% |
| Expected life (years) | **2 to 4** | 3 to 5 |
| Risk-free rate | **2%** | 2% |

For 2017 the volatility assumption was based on the historical data over the previous year. For 2016 the volatility assumption was based on the historical data over the period following the debt restructuring and share issue. The risk-free rate used is the five-year US Treasury rate. This discount rate is deemed to provide the best estimate to reflect current market assessment of the time value of the money and the risks specific to the liability. Significant factors in determining the warrant fair value are the Company's share price and expected volatility. A 10% change in the Company share price results in the financial liability increasing to US$0.01 million. A 10% change in expected volatility results in the financial liability increasing to US$0.01 million.

## 27. Trade and other payables

Amounts payable within one year

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 US$'000 | 2016 US$'000 | 2017 US$'000 | 2016 US$'000 |
| Trade payables | **10,531** | 5,426 | **9** | 3 |
| Accruals | **14,794** | 24,828 | **1,819** | 1,719 |
| | **25,325** | 30,254 | **1,828** | 1,722 |

Included in Group accruals at the financial year end is an amount of US$1.3 million (2016: US$0.4 million) and in the Company accruals US$0.2 million (2016: US$0.1 million) for payroll and social insurance taxes.

### Liquidity risk

The amounts included in trade and other payables are due within one year. The average credit period on the purchase of goods and services is thirty days from the date of the invoice except for invoices which are being held as a result of disputes. The Group has financial risk management policies in place to ensure that all payables are paid within the relevant credit periods.

# Notes to the financial statements continued

For the financial year ended 31 December 2017

## 27. Trade and other payables continued

### Currency risk

The currency profile of trade and other payables at the financial year end is as follows:

| Group | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| US Dollar | **13,448** | 18,426 |
| Mozambican Metical | **5,371** | 3,063 |
| South African Rand | **3,334** | 5,534 |
| Australian Dollar | **1,661** | 1,474 |
| Euro | **1,344** | 1,750 |
| Sterling | **167** | 7 |
| | **25,325** | 30,254 |

| Company | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| Euro | **1,131** | 1,717 |
| US Dollar | **530** | 4 |
| Sterling | **167** | 1 |
| | **1,828** | 1,722 |

Fluctuations in the currencies noted above will impact on the Group's financial results.

## 28. Capital and liquidity management

The Group's capital management objective is to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The capital restructuring as set out in Note 23 was critical to the Group's capital and liquidity management.

The principal activity of the Group is the operation of the Mine. The Group therefore manages its capital to ensure existing operations are adequately funded and, based on planned mine production levels, that the Mine will continue to achieve positive cash flows allowing returns to shareholders.

At 31 December 2017, the Group had total debt of US$102.9 million (2016: US$102.6 million), details of which are set out in Note 23.

The Board periodically reviews the capital structure of the Group, including the cost of capital and the risks associated with each class of capital. The Group manages and, if necessary, adjusts its capital structure, taking account of the underlying economic conditions. Any material adjustments to the Group's capital structure in terms of the relative proportions of debt and equity are approved by the Board. The Group is not subject to any externally imposed capital requirements.

The definition of capital/capital structure of the Group consists of debt, which includes bank borrowings as disclosed in Note 23, the finance lease as disclosed in Note 24, and equity attributable to equity holders of the Company, comprising issued capital, reserves, retained losses and other reserves as disclosed in Notes 19 to 22.

The Group's policy with respect to liquidity and cash flow risk is to ensure continuity of funding through continuously monitoring forecast and actual cash flows and by matching the maturity profiles of financial assets and current liabilities where possible.

## 29. Capital commitments

### Group

| | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| Contracts for future expenditure authorised by the Board: | | |
| Capital authorised and contracted | **6,661** | — |
| Capital authorised and not contracted | **18,892** | 29,005 |

Capital authorised and contracted represents the amount authorised and contracted at 31 December of the relevant financial year to be spent on mine operations-related approved capital projects.

Capital authorised and not contracted represents the amount not contracted but authorised at 31 December of the relevant financial year to be spent on mine operations-related approved capital projects.

## 30. Contingent liabilities

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 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 appeal. The Company's legal team strongly advise that the award will be set aside on appeal and therefore no provision has been made in these financial statements for the award as the Company does not consider that there is any future probable loss. The Company has provided US$1.4 million for the costs associated with the defamation case appeal and retrial and further actions taken by the former Director, as detailed in Note 25.

## 31. Parent company, Kenmare Resources plc statement of comprehensive income

In accordance with Section 304(2) of the Companies Act 2014 the Company is availing of the exemption from presenting its individual statement of comprehensive income to the Annual General Meeting and from filing it with the Companies Registration Office. The Company's loss for the financial year determined in accordance with IFRSs is US$29.1 million (2016: US$18.8 million). The loss is due to administration costs of US$1.6 million (2016: US$2.4 million), share-based payments expenses of US$1.0 million (2016: US$0.5 million), an allowance for amounts due from subsidiary undertakings of US$26.8 million (2016: US$53.5 million), finance income from deposit interest of US$0.08 million (2016: US$0.05 million), finance costs from the fair valuation of warrants of US$0.004 million (2016: finance income US$0.018 million) and a foreign exchange gain of US$0.2 million (2016: loss US$0.8 million). In 2016 there was a gain on the extinguishment of debt of US$38.3 million relating to the capital restructuring in July 2016 as detailed in Note 23.

## 32. Operating lease arrangements

### Group and Company

The Group as lessee

| | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| Lease payments under operating leases recognised as an expense in the financial year | **1,440** | 1,573 |

At the statement of financial position date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| Within one year | **1,301** | 506 |
| In the second to fifth years inclusive | **5,053** | — |
| After five years | **1,314** | — |
| | **7,668** | 506 |

Operating lease payments represent rentals payable by the Group for its office buildings and for the rental of electricity generators at the Mine. The lease for the head office at Chatham House expired in 2015. During 2016 and 2017 the Company was paying rent to the landlord on the expired lease terms. In August 2017, the Company entered into a ten-year lease for its head office at Styne House. The lease has a term of ten years and rentals are fixed for five years. The underlying currency of the office lease payment is the Euro.

The lease for the electricity generators at the Mine expired and was renewed in 2017. In November 2017, the Group entered into a five-year lease for the generators and rentals are fixed for the five years. The underlying currency of the lease payment is the US Dollar.

## 33. Retirement benefit plans

The Company contributes to individual pension schemes on behalf of certain employees. Contributions to the schemes are charged in the period in which they are payable to the scheme.

### Group and Company

| | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| Contributions | **480** | 367 |

# Notes to the financial statements continued

For the financial year ended 31 December 2017

## 34. Share-based payments

### Share option scheme

The Company has a share option scheme for employees and consultants. In the past, share options were awarded to Executive Directors but this practice ceased with the introduction of the Kenmare Incentive Plan in 2014. 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 amount or, if performance related, in the year the performance criteria are met. If options remain unexercised after a period of seven years from the date of grant, the options expire. Option expiry periods may be extended at the discretion of the Board of Directors.

Details of the share options outstanding during the financial year are as follows:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Number of share options | Weighted average exercise price US$ | Number of share options | Weighted average exercise price US$ |
| Outstanding at the beginning of the financial year | **159,115** | **79.45** | 230,448 | 90.55 |
| Expired/lapsed during the financial year | **(66,625)** | **56.75** | (71,333) | 63.90 |
| Outstanding at the end of the financial year | **92,490** | **95.54** | 159,115 | 79.45 |
| Exercisable at the end of the financial year | **92,490** | | 156,615 | |

No share options were issued, granted or exercised during the financial year or in 2016. The options outstanding at the end of the financial year have exercise prices which range from US$80.55 to US$118.28 and a weighted average remaining contractual life of 1.9 years (2016: 2.0 years).

During the financial year the Group recognised a share-based payment in respect of the share option scheme of nil (2016: US$0.01 million credit).

### Kenmare Incentive Plan (KIP)

From 2014 to 2017 the Company had an incentive plan under which annual awards had a cash element and a separate share element. Both the cash element and the share element were based on a number of in-year performance targets. Based on the level of achievement against these targets, the cash element was paid shortly after the end of the relevant year. The share element vests after a further three years with part of the shares subject to a further two-year holding period. The share element is subject to performance vesting conditions. The value of the shares is measured at fair value at the date of grant based on the Company's estimate of the shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions. The fair value determined at the grant date is expensed on a straight-line basis over the remaining estimated vesting period.

In 2017, 629,140 shares were awarded to Executive Directors and employees, under the 2016 KIP award. The estimated fair value of these shares awarded is US$1.8 million.

The estimated fair values of the awards are calculated using a Monte Carlo pricing model. The inputs into the calculations were as follows:

| Date of grant | 2016 award 31 March 2017 |
|---|---|
| Share price at date of grant | £2.25 |
| Company's share price volatility | 56% |
| FTSE 250 volatility | 14% |
| FTSE Mining Index volatility | 37% |
| Expected life | 3 years |
| Risk-free rate | 0.14% |
| FTSE 250 correlation to the Company | 8% |
| FTSE Mining Index correlation to the Company | 27% |

The Company's share price volatility is normally calculated over the prior three-year period, commensurate with the expected life of the awards. For 2016, this gives a rate of 88%. However, during July 2016, the Group carried out a debt restructuring and shares issue to raise capital, which led to increased volatility in the preceding month. The volatility assumption should reflect the Company's best estimate of future volatility and therefore this period of volatility has been excluded from the calculation assumption. A volatility assumption of 56% has been used for the 2016 KIP award calculation, based on historical data over the eight-month period following the end of the debt restructuring and share issue. The comparator group constituents and indices are calculated over their individual volatilities using total shareholder return (TSR) data for each company over a three-year period. The expected life of the share awards is three years, the same as the performance period. The risk-free rate assumption is based on a three-year zero coupon UK Government bond yield.

During the financial year, the Group recognised a share-based payment expense of US$0.7 million (2016: US$0.5 million) as a result of the above awards. In 2017 the KIP ceased and was replaced by the Kenmare Restricted Share Plan (KRSP) detailed below.

## 34. Share-based payments continued

### Kenmare Restricted Share Plan (KRSP)

In 2017 the Company introduced an incentive plan under which annual awards have a cash element and a separate long-term share award under a new share plan. The annual bonus opportunity is assessed up to 100% of base salary, with performance assessed using a scorecard of measures. The annual bonus will be paid in cash, although any bonus in excess of 75% of salary will be granted as restricted shares under the KRSP which will vest three years from the beginning of the annual bonus performance period. The long-term share award is for up to 75% of salary in restricted shares with no performance conditions. The awarded shares will vest 60% after three years, 20% after four years and 20% after five years. The value of the shares is measured at fair value at the date of grant based on the Company's share price. The fair value determined at the grant date is expensed on a straight-line basis over the remaining estimated vesting period.

In 2017, 445,154 shares were granted to Executive Directors and employees under the 2017 KRSP award. The estimated fair value of these shares awarded is US$1.5 million.

During the financial year, the Group recognised a share-based payment expense of US$0.3 million (2016: US$ nil) as a result of the above awards.

## 35. Related party transactions

### Group

### Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

| | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| Short-term employee benefits | **2,701** | 2,834 |
| Post-employment benefits | **133** | 131 |
| Share-based payments | **914** | 391 |
| Total benefits | **3,748** | 3,356 |

Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 59 to 74.

The Project Companies are wholly-owned subsidiary undertakings of Congolone Heavy Minerals Limited, which in turn is a wholly-owned subsidiary undertaking of Kenmare Resources plc. During the financial year, funding for the Moma Titanium Minerals Mine was provided to the Project Companies by Congolone Heavy Minerals Limited. At the financial year end the amount due to Congolone Heavy Minerals Limited from the Project Companies was US$676.8 million (2016: US$678.7 million).

Under the terms of a management services agreement with the Company, management services costing US$8.5 million (2016: US$6.9 million) were provided during the financial year to the Project Companies.

On 28 July 2016, US$262.7 million of the Project Companies loans were novated to Kenmare Resources plc by way of a capital contribution to the Project Companies. This resulted in Kenmare Resources plc's investment in the Project Companies increasing by US$262.7 million as detailed in Note 16.

## 36. Kenmare Resources plc

Kenmare Resources Public Company Limited is a public limited company. The place of registration is Ireland and the registered office address is 4th Floor, Styne House, Hatch Street Upper, Dublin 2. The registered number is 37550.

## 37. Events after the statement of financial position date

There have been no significant events since 31 December 2017 which would have a significant impact on the financial statements of the Group or Company.

## 38. Approval of financial statements

The financial statements were approved by the Board on 28 March 2018.

# Shareholder profile

Based on the register as at 21 March 2018

## Size of holdings

| | No. of shareholders | No. of shares held |
|---|---|---|
| 1–1,000 | 4,756 | 357,093 |
| 1,001–5,000 | 216 | 507,868 |
| 5,001–25,000 | 104 | 1,179,755 |
| 25,001–100,000 | 55 | 2,909,695 |
| 100,001–250,000 | 28 | 5,128,289 |
| 250,001–500,000 | 15 | 6,081,692 |
| 500,001–750,000 | 4 | 2,495,471 |
| Over 750,000 | 13 | 90,941,688 |
| **Total** | **5,191** | **109,601,551** |

## Geographic distribution of holdings

| | No. of shareholders | No. of shares held |
|---|---|---|
| Republic of Ireland | 2,016 | 1,690,344 |
| Northern Ireland and Great Britain | 3,067 | 75,935,538 |
| Other | 108 | 31,975,669 |
| **Total** | **5,191** | **109,601,551** |

# Glossary – alternative performance measures

Certain financial measures set out in the Annual Report to 31 December 2017 are not defined under International Financial Reporting Standards (IFRSs), 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 IFRSs.

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. |
| **Capital costs** | Additions to property, plant and equipment in the period. | Provides the amount spent by the Company on additions to property, plant and equipment in the period. |
| **Cash operating cost per tonne of finished product produced** | 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 before loan amendment fees and expenses net of cash and cash equivalents. | Measures the amount the Group would have to raise through refinancing, asset sale or equity issue if its debt were to fall due immediately and aids in developing an understanding of the leveraging of the Group. |
| **Mining – HMC produced** | Heavy mineral concentrate extracted from mineral sands deposits and which include ilmenite, zircon, rutile and other heavy minerals and silica. | Provides a measure of heavy mineral concentrate extracted from the Mine. |
| **Processing – finished products produced** | Finished products produced by the mineral separation process. | Provides a measure of finished products produced from the processing plants. |
| **Marketing – finished products shipped** | Finished products shipped to customers during the period. | Provides a measure of finished products shipped to customers. |
| **LTIFR** | Lost time injury frequency rate. | Measures the number of injuries causing lost time per 200,000 man-hours worked on site. |
| **AI** | All injuries. | Provides the number of injuries at the Mine in the year. |

## EBITDA

| | 2012 US$m | 2013 US$m | 2014 US$m | 2015 US$m | 2016 US$m | 2017 US$m |
|---|---|---|---|---|---|---|
| Operating profit/(loss) | 80.4 | 4.7 | (31.5) | (47.3) | (25.4) | **27.6** |
| Depreciation and amortisation | 18.5 | 24.3 | 40.9 | 35.8 | 30.6 | **32.0** |
| EBITDA | 98.9 | 29.0 | 9.4 | (11.5) | 5.2 | **59.6** |

# Glossary – alternative performance measures continued

## Cash operating cost per tonne of finished product

| | 2012 US$m | 2013 US$m | 2014 US$m | 2015 US$m | 2016 US$m | 2017 US$m |
|---|---|---|---|---|---|---|
| Cost of sales | 134.5 | 113.7 | 173.4 | 168.1 | 144.0 | **156.6** |
| Other operating costs | 19.7 | 19.5 | 32.4 | 21.8 | 22.8 | **24.1** |
| Total operating costs | 154.2 | 133.2 | 205.8 | 189.9 | 166.8 | **180.7** |
| Freight charges | (3.2) | (3.4) | (8.2) | (3.7) | (5.4) | **(5.5)** |
| Total operating costs less freight | 151.0 | 129.8 | 197.6 | 186.2 | 161.4 | **175.2** |
| Non-cash costs | | | | | | |
| Depreciation and amortisation | (18.5) | (24.3) | (40.9) | (35.8) | (30.6) | **(32.0)** |
| Share-based payments | (3.2) | (0.6) | (1.4) | 0.7 | (0.4) | **(1.0)** |
| Costs capitalised | — | 27.2 | — | — | — | **—** |
| Mineral product movements | (5.9) | 18.3 | 17.7 | (14.7) | 3.0 | **0.3** |
| Adjusted cash operating costs | 123.4 | 150.4 | 173.0 | 136.4 | 133.4 | **142.5** |
| Final product production tonnes | 626,400 | 755,500 | 911,500 | 821,300 | 979,300 | **1,081,300** |
| Cash operating cost per tonne of finished product | US$197 | US$200 | US$190 | US$166 | US$136 | **US$132** |

## Net debt

| | 2012 US$m | 2013 US$m | 2014 US$m | 2015 US$m | 2016 US$m | 2017 US$m |
|---|---|---|---|---|---|---|
| Bank loans | 324.4 | 355.2 | 337.7 | 341.9 | 102.6 | **102.9** |
| Loan amendment fees and expenses | — | 6.7 | 12.4 | 25.9 | — | **—** |
| Gross debt | 324.4 | 361.9 | 350.1 | 367.8 | 102.6 | **102.9** |
| Cash and cash equivalents | (46.1) | (67.5) | (21.8) | (14.4) | (57.8) | **(68.8)** |
| Net debt | 278.3 | 294.4 | 328.3 | 353.4 | 44.8 | **34.1** |

# Glossary – terms

| | |
|---|---|
| **"the Company"** | Kenmare Resources plc. |
| **"EdM"** | Electricidade de Moçambique. |
| **"Gangue"** | In mining, gangue is the commercially worthless material that surrounds, or is closely mixed with, a wanted mineral in an ore deposit. |
| **"Group" or "Kenmare"** | Kenmare Resources plc and its subsidiary undertakings. |
| **"HMC"** | Heavy mineral concentrate extracted from mineral sands deposits and which include ilmenite, zircon, rutile and other heavy minerals and silica. |
| **"MITADER"** | Ministério de Terra, Ambiente e Desenvolvimento Rural or Ministry of Land, Environment and Rural Development. |
| **"Moma", "Moma Mine" or "the Mine"** | The Moma Titanium Minerals Mine, consisting of a heavy mineral sands, processing facilities and associated infrastructure, which is located on the north east coast of Mozambique under licence to the Project Companies. |
| **"MSP"** | Mineral separation plant. |
| **"PM"** | Atmospheric particulate matter – also known as particulate matter (PM) or particulates – are microscopic solid or liquid matter suspended in the Earth's atmosphere. |
| **"Project Companies"** | Kenmare Moma Mining (Mauritius) Limited and Kenmare Moma Processing (Mauritius) Limited, wholly owned indirect subsidiary undertakings of Kenmare Resources plc, which are incorporated in Mauritius. |
| **"SGRF"** | The State General Reserve Fund of the Sultanate of Oman. |
| **"WCP"** | Wet Concentrator Plant. |
| **"WCP A"** | The original WCP. |
| **"WCP B"** | The second WCP built for the expansion. |
| **"WHIMS"** | Wet-high-intensity magnetic separation plant. |

## General information

**Company Secretary and registered office**

**Deirdre Corcoran**

Kenmare Resources plc
4th floor, Styne House
Hatch Street Upper
Dublin 2
DO2 DY27

**Registered number**

37550

**Independent auditors**

**Deloitte**

Chartered Accountants and Statutory Audit Firm
Deloitte & Touche House
Earlsfort Terrace
Dublin 2
DO2 AY28

**Solicitors**

**McCann FitzGerald**

Riverside One
Sir John Rogerson's Quay
Dublin 2
DO2 X576

**Bankers**

**Barclays Capital**

1 Churchill Place
London
E14 5HP

**AIB Bank plc**

140 Lower Drumcondra Road
Dublin 9
D09 YY61

**HSBC**

PO Box 14
27 Halkett Street
St Helier
Jersey
JE4 8NJ

**Stockbrokers**

**Canaccord Genuity Ltd.**

88 Wood Street
London
EC2V 7QR

**Davy**

Davy House
49 Dawson Street
Dublin 2
D02 PY05

**Mirabaud Securities**

5th floor, 10 Bressenden Place
London
SW1E 5DH

**Registrar**

**Computershare Services (Ireland) Limited**

Heron House
Corrig Road
Sandyford Industrial Estate
Dublin 18
D18 Y2X6

**Website**

www.kenmareresources.com

Mine camp accommodation at night
(photograph by Peter Maguire, Group Management Accountant).

Kenmare Resources plc
4th Floor
Styne House
Hatch Street Upper
Dublin 2
Ireland

T: +353 1 671 0411
F: +353 1 671 0810
E: info@kenmareresources.com

www.kenmareresources.com

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