

*Kenmare Resources plc (“Kenmare” or “the Company”)*

Kenmare Preliminary Results  
For the year ended 31 December 2012  
(LSE/ISE: KMR)

12 March 2013

Kenmare Resources plc., which operates the Moma Titanium Minerals Mine (the “Mine” or “Moma”) in Mozambique, today announces its preliminary results for the twelve months to 31 December 2012. This release incorporates Kenmare’s Interim Management Statement relating to the period from the 1 January 2013 to the 12 March 2013.

### Highlights

- 2012 Revenues of US\$234.6 million (2011: US\$167.5 million)
- EBITDA of US\$98.9 million for 2012 (2011: US\$71.7 million)
- Profit after tax of US\$49.5 million for 2012 (2011: US\$23.7 million)
- Production: ilmenite 574,500 tonnes and zircon 46,900 tonnes
- Phase II expansion project now in commissioning phase
- US\$40 million corporate debt facility signed with Absa Bank Limited
- Appointment of Steven McTiernan and Gabriel Smith as Non-Executive Directors

### Chairman’s Statement

Dear Shareholder,

I am pleased to address you for the second time as Chairman after what has proven to be a very eventful twelve months for the Group. Our expansion of production facilities at Moma is now in the commissioning phase. The new wet concentrator plant (“WCP B”) and dredge have been floated and, while some further pipework still has to be installed, commissioning of all facilities is well underway. On the production front, our staff on site had to overcome significant challenges which reduced production for the year. Nonetheless revenue, earnings before interest tax, depreciation and amortisation (“EBITDA”) and profits are all at record levels for the Company. With the expanded capacity soon to commence ramp-up, Kenmare is now emerging from its genesis, first in exploration and then in development of the mineral resources at Moma, into a company which is focused on the efficient operation of those assets and earning a superior return on the investments that its shareholders have made.

### Operations

Total production of heavy mineral concentrate (“HMC”) for 2012 was 772,300 tonnes. Finished product volumes for this year were 574,500 tonnes of ilmenite and 46,900 tonnes of zircon (including 20,000 tonnes of a secondary zircon product). 680,800 tonnes of finished products were shipped in 2012, which generated revenues of US\$234.6 million, an increase of 40% from US\$167.5 million in 2011.

During the second half of 2012, dredge pond A had to make a once in a life-of-mine transition from the Namalope Flats area up to the elevated dunal plateau where it will mine until 2024. This involved raising the dredge pond which contains several million tonnes of water, the concentrator plant and the dredges, up the side of a hill in an area known as the Nick Zone. This area of the orebody has generally lower grade and was found to contain isolated areas of high slimes which also adversely effected mining rates. The early parts of the climb were accomplished without any great difficulty, leading our site team to forecast a continuation of the third quarter’s output for the fourth quarter. However, the latter part of the climb proved to be much more technically challenging than expected and required an exceptional commitment of resources by our team on site to accomplish this difficult task. The transition to the dunal plateau will be substantially completed by the end of the first quarter 2013 with a resulting increase in production levels forecast thereafter. The measures we took to ensure the integrity of the downhill side

berm (to prevent any risk of collapsing and of the pond washing back onto the Namalope Flats) have been successful, and while there is still a requirement to increase the height of the pond by some metres, this is less challenging compared with the issues faced on the side of the hill. In anticipation of dredge mining difficulties, dry mining operations were commissioned in 2012 to assist with the supply of ore to the concentrator but the space available for tailings created by dry mining was also restricted, which in turn temporarily reduced the benefit of this remedial operation. Mine planning (now with enhanced detail) indicates that commencing from April, dredge pond A will spend the rest of the year in more favourable mining conditions with deep faces of generally moderate slimes and good grade ore.

The rainy season in the first quarter of 2012 had an unusually high level of electrical storm activity. This significantly hampered production, with most of the disruption being caused by short dips in the voltage transmitted caused by lightning strikes on transmission pylons. These dips, even if only for milliseconds, often cause our electric motors to stop. Since we are pumping thousands of tonnes per hour of sand along pipelines, stoppage of pump motors allows this sand to settle and it can then take hours to de-sand and re-start again. Power reliability remains an issue, with a high level of electric storm activity again during the current rainy season.

Our response to this issue is two-pronged; first, we are working with the State electricity transmission utility Electricidade de Moçambique (“EdM”) to reduce the number of power dips that arrive at our substation, and secondly we are increasing our capacity to absorb the dips that do arrive. EdM has already built and commissioned a new static VAR compensator (“SVC”) on the line at Mocuba which, after some initial teething problems during commissioning, is now working and has improved supply reliability. In co-operation with EdM, we are completely refurbishing a second SVC at the Alto Molocue sub-station, where the installation was outdated and extremely unreliable. This upgrade includes the installation of capacitor banks to increase the operating range of the SVC. We are also installing capacitor banks both at the Nampula sub-station and the mine site sub-station to support the network voltage. This work is now underway. As a result, there will be shortly two fully functioning SVCs and two sets of capacitor banks which will help stabilise voltage on the line, which in the future will afford us greater protection than in 2012 when none of these facilities were in place.

We are undertaking a number of additional measures at the mine site sub-station to enhance power reliability. We are installing a synchronous condenser (a voltage stabilisation device referred to as a “Dip Doctor”), which modelling has indicated will reduce in excess of 80% of power dips to harmless levels. We are also working with our equipment suppliers to make our variable speed drives less sensitive to dips and more capable of absorbing them. Finally we have optimised our systems to reduce the recovery time following power stoppages.

### **Expansion**

The expansion of the facilities at Moma, which will increase production capacity by 50%, is now in commissioning phase. Water has been pumped into the new dredge pond and both the new dredge and WCP B are floating. WCP B has been moored at the side of the pond, where it is now lying against a wharf that allows easy access for commissioning and final pipe fitting by crews. The Wet High Intensity Magnetic Separation (“WHIMS”) plant is being commissioned concurrently, with the fitting of the final pipes (which were late arriving at site), and the auxiliary ilmenite plant is in commissioning. The main structural, mechanical, plate and piping sub-contractor, has de-mobilised from site and final work is being performed by Kentz. The commissioning programme runs through several phases, culminating in hot commissioning when feed is put through the plant. This is scheduled to take place in the second quarter of 2013 and marks the start of the ramp-up of the new facilities. The profile of a ramp-up is by its nature uncertain, so we have made robust preparations for this phase; a very experienced commissioning and ramp-up team is in place and an extensive operator training programme has been on-going for several months. We are targeting to have our new facilities ramped-up by the end of this year.

### **Markets**

The markets for Kenmare’s products were strong for much of 2012 and, despite a slowdown in demand towards the end of the year, Kenmare was able to sell more than it produced in 2012 at significantly higher prices than in 2011. Year-end inventories of all products were reduced to low levels as a result.

During the first half of 2012, demand for titanium feedstocks was very strong and prices grew steadily. However, the traditional second quarter northern hemisphere painting season was weaker than expected and pigment inventories accumulated. This caused pigment producers to curtail production commencing in quarter three leading to reduced demand for feedstocks and some downward pressure on feedstock prices. Demand for high grade feedstocks was impacted more acutely as pigments producers re-configured their feedstock mix to utilise higher levels of lower cost feedstocks such as titanium slag and ilmenite. This meant that Kenmare was somewhat less impacted than some others in the market. Nonetheless ilmenite demand was also lower towards the end of the year as lower overall pigment plant operating rates prevailed and pigment producers de-stocked.

This de-stocking cycle has intensified in the first quarter of 2013 as pigment producers continue to moderate production and deplete pigment inventories to more normal levels. Nonetheless, we continue to maintain supply to our core customers. Underlying demand, which is closely correlated to world GDP growth, is expected to improve as global economic conditions strengthen over the course of the year. Resurgent new house starts in the US in the past six months coupled with strong automotive sales, and a stronger economic growth outlook for China in 2013, should manifest itself in higher underlying demand for pigment as the year progresses. We therefore expect that the de-stocking cycle will end and a return to more normal buying patterns should emerge during quarter two, with the proviso that this could extend into the second half of the year given the extent of the pull back by customers that has been seen. Market conditions presently remain subdued.

Longer term, the urbanisation trends in developing economies will support increased consumption of paints, plastics and paper, which should support a good foundation of pigment growth for the remaining part of the decade. Future pigment growth rates are expected to return to the long term rate of around 3% per annum, with perhaps stronger growth in the next few years based on latest world GDP forecasts.

Global zircon market conditions were also challenging during 2012. Consumption was weak due to significantly reduced demand primarily from the ceramics sector resulting from weaker construction activity in China and weak economic conditions in Europe. Zircon consumers were found to be holding excess inventory at the start of 2012, motivated by surging prices during 2011 and expectations of continued supply tightness. However, faced with weaker demand and more cautious buying throughout 2012, zircon prices fell sharply during the fourth quarter. This trend has continued into 2013 but we are now seeing some indications that zircon prices are close to the bottom of the price cycle.

Kenmare, with its relatively small zircon production volumes, was able to sell all of its zircon during 2012 at the prevailing market price, with expectations of continued strong support from our customers in 2013. With stronger Chinese economic conditions expected for 2013, and completion of the de-stocking cycle in Europe, zircon demand growth is expected to resume in 2013. The significant re-adjustment of market prices that has taken place in recent months should help to reverse the downward trend in zircon consumption seen over the course of the past year.

#### **Finance**

The Company generated EBITDA of US\$98.9 million in 2012 (2011: US\$71.7 million), and a profit after tax of US\$49.5 million (2011: US\$23.7 million). Revenues during the year increased to US\$234.6 million from US\$167.5 million in 2011, largely resulting from the stronger product prices during 2012.

The complex transition of mining operations up to the dunal plateau and the need for two supplementary dry mining operations contributed to increased operating costs during 2012. However as the mining operation is now approaching the top of the dune and one of the dry mining operations is now no longer required, we anticipate that some of these additional costs will be non-recurring. Cost control continues to be a key priority for management and further cost efficiencies will be sought as production commences from the expanded facilities.

Investment in property, plant and equipment at Moma during 2012 amounted to US\$191.9 million, primarily in respect of Phase II expansion works. Given the extension of the time required to complete the expansion and the attendant impact on costs, as previously advised, Kenmare anticipates some further increase in expansion costs and is actively engaging with the remaining contractors in order to manage the close-out of the expansion contracts and related costs.

At 31 December 2012, bank loans amounted to US\$324.4 million (2011: US\$327.1 million) and cash balances were US\$46.1 million (2011: US\$77.3 million). In February 2013, Kenmare secured a corporate debt facility with Absa Bank Limited for US\$40 million, which remains undrawn.

#### **Board Structure**

Kenmare has three non-executive directors who have provided great service to the Board for more than nine years, and who therefore are no longer considered independent according to the UK Corporate Governance Code. Each one of these directors has in his own way provided guidance and insight which has been invaluable to the Company. However, recognising Corporate Governance Code compliance requirements, Peter McAleer, Ian Egan, and Simon Farrell have agreed not to put their names forward for re-election at the Annual General Meeting ("AGM"). I would like to extend my thanks and deep appreciation for all that they have done to make Kenmare the company it is today. I know that they will continue to support the company and should we require their advice in the future they have indicated their availability to give us the benefit of their extensive industry experience.

Given the stepping down of Peter McAleer, Ian Egan, and Simon Farrell, the Board requires new independent non-executive directors to take their place. I am delighted to announce that after a long search working with an external search agency, Steven McTiernan and Gabriel Smith have agreed to join the Board with immediate effect. They

will be presented to the shareholders for approval at the AGM. Steven McTiernan was from 2002 to 2012 a non-executive director of Tullow Oil plc, a company which has grown from a junior to a company with a multi-billion dollar market capitalisation. He is a non-executive director of First Quantum Minerals, a Canadian company engaged principally in copper mining in Zambia and other African countries, and also of Songa Offshore SE, a Cyprus registered offshore oil & gas drilling contractor with operations globally. He has worked in the natural resources sector or in natural resources investment banking throughout his career, and will add greatly to the Board's collective knowledge. Gabriel Smith is a Norwegian national and, amongst other posts, was the CEO of the world's only independent titanium smelter for many years. He has an intimate understanding of the complex structure of the titanium feedstock industry along with invaluable experience of running a large industrial complex. Again I believe that his knowledge, experience and wisdom will greatly benefit the Board. I look forward to working with both of them in the future.

### **Corporate Responsibility**

We remain committed to investing in the community in which we operate. In 2012, our KMAD project supported the development of local enterprises. We have also supported developments in education, including the development of adult literacy, IT skills and a scholarship scheme aimed at increasing access to third level education. In the area of health promotion, we supported projects in general healthcare and HIV/AIDS prevention. We completed construction of new nurses' houses at a new health clinic in the region.

Kenmare is committed to providing a safe working environment. I am pleased to report also that despite the intensity of work on construction of the expansion, the Lost Time Injury Frequency Rate per 200,000 man hours worked is 0.33, significantly below our peer group comparison.

### **Outlook**

In my view, 2013 is going to be a watershed year for Kenmare. Until now the Company has been developing and building its assets at Moma. With the 50% expansion coming on stream, we are now at the point where we can concentrate on operating the assets to achieve a sustainable return on the investment which has gone into their development. Shareholders have supported the Company with great patience during the long investment period, and the Board remains focused on getting to a position where our net cash inflows from operations will enable us to start paying dividends to our shareholders at prudent levels. In order to do so, the Company must, in accordance with its financing agreements, meet a number of conditions, which include paying the deferred portion (US\$96.5 million at 31 December 2012) of the subordinated debt that helped us with the original financing of Moma, before any dividends can be declared. We are working towards achieving this objective as soon as possible.

The latter part of 2012 saw difficult conditions emerge in the market for our products, as for many mineral commodities. But there are two main reasons for our confidence that the outlook for the Company for 2013 and beyond is very positive. First, the nature of commodity markets such as ours is that re-stocking invariably follows de-stocking (sometimes with relatively rapid upturn in prices). Secondly, Moma is a world-class, developed resource with a very long mine life and intrinsically low operating costs per tonne, two characteristics of enduring success in the global mining industry.

Let me therefore conclude by thanking the Company's executive management and employees, and its shareholders, for their contribution to the successful year that we had in 2012, and by expressing my confidence in the exciting prospects for the Company for 2013 and the years ahead.

*Justin Loasby*  
Chairman

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**KENMARE RESOURCES PLC**  
**PRELIMINARY RESULTS**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

	Notes	2012 US\$'000	2011 US\$'000
Revenue		234,638	167,485
Cost of sales		<u>(134,472)</u>	<u>(97,498)</u>
Gross profit		100,166	69,987
Other operating costs	3	<u>(19,730)</u>	<u>(17,071)</u>
Operating profit		80,436	52,916
Finance income		1,706	3,332
Finance costs		(28,714)	(31,748)
Foreign exchange loss		<u>(641)</u>	<u>(6,277)</u>
Profit before tax		52,787	18,223
Income tax (charge)/credit	6	<u>(3,301)</u>	<u>5,477</u>
Profit for the year and total comprehensive profit for the year		<u>49,486</u>	<u>23,700</u>
Attributable to equity holders		<u>49,486</u>	<u>23,700</u>
		Cent	Cent
Earnings per share: Basic	4	<u>2.01</u>	<u>0.99</u>
Earnings per share: Diluted	4	<u>2.00</u>	<u>0.98</u>

**KENMARE RESOURCES PLC**  
**PRELIMINARY RESULTS**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2012**

	Notes	2012 US\$'000	2011 US\$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	887,513	714,118
Deferred tax asset	6	<u>2,176</u>	<u>5,477</u>
		<u>889,689</u>	<u>719,595</u>
<b>Current assets</b>			
Inventories		22,422	25,846
Trade and other receivables		35,746	38,831
Cash and cash equivalents	7	<u>46,067</u>	<u>77,256</u>
		<u>104,235</u>	<u>141,933</u>
<b>Total assets</b>		<b><u>993,924</u></b>	<b><u>861,528</u></b>
<b>Equity</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Called-up share capital	8	205,168	196,347
Share premium		349,780	301,391
Retained earnings/(losses)		29,801	(19,994)
Other reserves		<u>20,848</u>	<u>17,610</u>
<b>Total equity</b>		<b><u>605,597</u></b>	<b><u>495,354</u></b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Bank loans	9	177,380	213,523
Obligations under finance lease		1,508	1,810
Provisions		<u>9,050</u>	<u>7,407</u>
		<u>187,938</u>	<u>222,740</u>
<b>Current liabilities</b>			
Bank loans	9	147,032	113,585
Obligations under finance lease		286	221
Provisions		276	276
Trade and other payables		<u>52,795</u>	<u>29,352</u>
		<u>200,389</u>	<u>143,434</u>
<b>Total liabilities</b>		<b><u>388,327</u></b>	<b><u>366,174</u></b>
<b>Total equity and liabilities</b>		<b><u>993,924</u></b>	<b><u>861,528</u></b>

**KENMARE RESOURCES PLC**  
**PRELIMINARY RESULTS**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

	Notes	2012 US\$'000	2011 US\$'000
<b>Cash flows from operating activities</b>			
Profit for the year		52,787	18,223
Adjustment for:			
Foreign exchange movement		641	6,277
Share-based payments		3,165	3,368
Finance income		(1,706)	(3,332)
Finance costs		27,157	30,333
Depreciation		18,456	18,801
Increase in provisions		<u>1,236</u>	<u>384</u>
Operating cash flow		101,736	74,054
Decrease/(increase) in inventories		3,424	(1,228)
Decrease/(increase) in trade and other receivables		3,100	(25,847)
(Decrease)/increase in trade and other payables		<u>(4,185)</u>	<u>3,983</u>
Cash from operations		104,075	50,962
Interest received		1,706	3,332
Interest paid		<u>(7,014)</u>	<u>(8,595)</u>
<b>Net cash from operating activities</b>		<u>98,767</u>	<u>45,699</u>
<b>Cash flows used in investing activities</b>			
Addition to property, plant and equipment	5	<u>(164,251)</u>	<u>(169,823)</u>
<b>Net cash used in investing activities</b>		<u>(164,251)</u>	<u>(169,823)</u>
<b>Cash flows from/(used in) financing activities</b>			
Proceeds on the issue of shares	8	57,210	2,048
Repayment of borrowings		(25,875)	(28,093)
Payment of obligations under finance leases		<u>(560)</u>	<u>(564)</u>
<b>Net cash from/(used in) financing activities</b>		<u>30,775</u>	<u>(26,609)</u>
<b>Net decrease in cash and cash equivalents</b>		(34,709)	(150,733)
Cash and cash equivalents at beginning of the year		77,256	238,515
Effect of exchange rate changes on cash and cash equivalents		<u>3,520</u>	<u>(10,526)</u>
<b>Cash and cash equivalents at the end of the year</b>		<u><b>46,067</b></u>	<u><b>77,256</b></u>

## NOTES TO THE PRELIMINARY RESULTS

### Note 1. Basis of Accounting and Preparation of Financial Information

On 11 March 2013, the Directors approved the preliminary results for publication. While the unaudited consolidated financial statements for the year ended 31 December 2012, from which the preliminary results have been extracted, are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, these preliminary results do not contain sufficient information to comply with IFRS. The Directors expect to publish the full financial statements that comply with IFRS as adopted by the European Union in March 2013.

The auditors have not yet issued their audit opinion on the financial statements in respect of the year ended 31 December 2012, but, as in previous years, when issued is likely to draw attention to the disclosures made in the financial statements concerning the recoverability of property, plant and equipment (see Note 5) and investments in and amounts due from subsidiary undertakings, which are dependent on the successful development of economic ore reserves, successful operation of the Mine including the Mine expansion project and continued availability of adequate funding for the Mine. They are also likely to note that the financial statements do not include any adjustments relating to these uncertainties and that the ultimate outcome cannot at present be determined.

The financial information presented above does not constitute statutory accounts within the meaning of the Companies Acts, 1963 to 2012. A copy of the accounts in respect of the financial year ended 31 December 2012 will be annexed to the Annual Return for 2013.

The statutory accounts for the year ended 31 December 2011 prepared under IFRS upon which the auditors have issued an unqualified opinion, but with an emphasis of matter drawing attention to the disclosures made in the financial statements concerning the recoverability of property, plant and equipment and investments in and amounts due from subsidiary undertakings, which are dependent on the successful development of economic ore reserves and successful operation of the Mine, have been filed with the Registrar of Companies.

### Note 2. Segment Reporting

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

#### Segment revenues and results

	2012	2011
	US\$'000	US\$'000
Moma Titanium Minerals Mine		
Revenue	234,638	167,485
Cost of sales	<u>(134,472)</u>	<u>(97,498)</u>
Gross profit	100,166	69,987
Other operating costs	<u>(14,032)</u>	<u>(11,931)</u>
Segment operating profit	86,134	58,056
Other corporate operating costs	<u>(5,698)</u>	<u>(5,140)</u>
Group operating profit	80,436	52,916
Finance income	1,706	3,332
Finance expenses	(28,714)	(31,748)
Foreign exchange loss	<u>(641)</u>	<u>(6,277)</u>
Profit before tax	52,787	18,233
Income tax (charge)/credit	<u>(3,301)</u>	<u>5,477</u>
Profit for the year	<u>49,486</u>	<u>23,700</u>

#### Segment assets

Moma Titanium Minerals Mine assets	957,805	783,791
Corporate assets	<u>36,119</u>	<u>77,737</u>
Total assets	<u>993,924</u>	<u>861,528</u>



<b>Segment liabilities</b>		
Moma Titanium Minerals Mine liabilities	383,287	361,989
Corporate liabilities	<u>5,040</u>	<u>4,185</u>
Total liabilities	<u>388,327</u>	<u>366,174</u>

**Other segment information**

**Depreciation and amortisation**

Moma Titanium Minerals Mine	18,453	18,785
Corporate	<u>3</u>	<u>16</u>
Total	<u>18,456</u>	<u>18,801</u>

**Additions to non-current assets**

Moma Titanium Minerals Mine	190,618	178,496
Corporate	<u>1,233</u>	<u>1,637</u>
Total	<u>191,851</u>	<u>180,133</u>

**Revenue from major products**

	2012	2011
	US\$'000	US\$'000
Mineral products (ilmenite, zircon and rutile)	<u>234,638</u>	<u>167,485</u>

**Geographical information**

	2012	2011
	US\$'000	US\$'000
Revenue from external customers		
Asia	105,462	54,681
Europe	93,923	77,771
USA	19,469	15,811
Rest of World	<u>15,784</u>	<u>19,222</u>
Total	<u>234,638</u>	<u>167,485</u>

The Group's revenue from external customers is generated by the Moma Titanium Minerals Mine, the non-current assets of which are US\$888.0 million (2011: US\$711.5 million).

**Information about major customers**

Included in revenues are US\$71.6 million (2011: US\$33.0 million) from sales to the Group's largest customer, US\$33.1 million (2011: US\$29.4 million) from sales to the Group's second largest customer, US\$31.0 million (2011: US\$19.5 million) from sales to the Group's third largest customer and US\$28.0 million (2011: US\$13.7 million) from the Group's fourth largest customer. All revenues are generated by the Moma Titanium Minerals Mine.

### Note 3. Other Operating Costs

	2012 US\$'000	2011 US\$'000
Distribution costs	9,140	5,717
Freight costs	3,230	3,561
Demurrage costs	716	2,450
Administration costs	<u>6,644</u>	<u>5,343</u>
	<u>19,730</u>	<u>17,071</u>
Included in administration costs are:		
Share-based payments	2,471	2,249
Litigation costs	=	<u>118</u>

Freight costs of US\$3.2 million (2011: US\$3.6 million) are reimbursable by customers or factored into the sales price for product delivered to customers on a CIF (cost, insurance and freight) basis. There were demurrage costs incurred during the year of US\$0.7 million (2011: US\$2.5 million) as a result of bad weather which restricted shipments. Distribution costs of US\$9.1 million (2011: US\$5.7 million) during the year represents the cost of running the Mine's finished product storage, jetty and marine fleet. Administration costs of US\$6.6 million (2011: US\$5.3 million) are the group administration costs and include a share based payment expense of US\$2.4 million (2011: US\$2.2 million).

Total share-based payments for 2012 amounted to US\$3.5 million (2011: US\$3.5 million) of which US\$0.7 million (2011: US\$1.1 million) relate to staff at the Mine and are included as a production cost of inventories. US\$0.4 million (2011: US\$0.1 million) relate to staff working on the expansion project and have been capitalised in property, plant and equipment and the balance of US\$2.4 million (2011: US\$2.3 million) included in administration costs in the income statement.

### Note 4. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Parent Company is based on the profit after taxation of US\$49.5 million (2011: US\$23.7 million) and the weighted average number of shares in issue during 2012 for the purposes of basic earnings per share of 2,462,602,902 (2011: 2,404,281,590) and for diluted earnings per share of 2,472,580,025 (2011: 2,424,073,254).

## Note 5. Property, Plant and Equipment

	<b>Plant &amp; Equipment US\$'000</b>	<b>Development Expenditure US\$'000</b>	<b>Construction In Progress US\$'000</b>	<b>Other Assets US\$'000</b>	<b>Total US\$'000</b>
<b>Cost</b>					
At 1 January 2011	320,167	248,343	25,375	16,133	610,018
Transfer from construction in progress	22,616	-	(22,963)	347	-
Additions during the year	<u>668</u>	<u>418</u>	<u>179,027</u>	<u>20</u>	<u>180,133</u>
At 1 January 2012	343,451	248,761	181,439	16,500	790,151
Transfer from construction in progress	12,686	-	(26,149)	13,463	-
Additions during the year	<u>170</u>	<u>1,223</u>	<u>190,458</u>	-	<u>191,851</u>
At 31 December 2012	<u>356,307</u>	<u>249,984</u>	<u>345,748</u>	<u>29,963</u>	<u>982,002</u>
<b>Accumulated Depreciation</b>					
At 1 January 2011	35,277	12,706	-	9,249	57,232
Charge for the year	<u>10,382</u>	<u>6,749</u>	-	<u>1,670</u>	<u>18,801</u>
At 1 January 2012	45,659	19,455	-	10,919	76,033
Charge for the year	<u>10,468</u>	<u>5,910</u>	-	<u>2,078</u>	<u>18,456</u>
At 31 December 2012	<u>56,127</u>	<u>25,365</u>	-	<u>12,997</u>	<u>94,489</u>
<b>Carrying Amount</b>					
At 31 December 2012	<u>300,180</u>	<u>224,619</u>	<u>345,748</u>	<u>16,966</u>	<u>887,513</u>
At 31 December 2011	<u>297,792</u>	<u>229,306</u>	<u>181,439</u>	<u>5,581</u>	<u>714,118</u>

During the year, the Group carried out an impairment review of property, plant and equipment. The Directors are satisfied that at the balance sheet date the recoverable amount of property, plant and equipment exceeds its carrying amount.

Included in plant and equipment are capital spares of US\$1.0 million (2011: US\$0.8 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 Project senior and subordinated loans.

The carrying amount of the Group's plant and equipment includes an amount of US\$1.2 million (2011: US\$1.3 million) in respect of assets held under finance lease.

Additions to development expenditure include costs associated with a third phase of mine development of US\$1.2 million (2011: US\$0.4 million). Expansion development costs incurred during the period before the expansion assets are capable of operating at production levels in a manner intended by management are deferred and included in property, plant and equipment.

## Note 6. Deferred Tax

	US\$'000
At 1 January 2011	-
Credit to income statement	<u>5,477</u>
At 1 January 2012	5,477
Charge to income statement	<u>(3,301)</u>
At 31 December 2012	<u>2,176</u>

At the balance sheet date, Kenmare Moma Mining (Mauritius) Limited (“KMML”) had unused tax losses of US\$12.2 million (2011: US\$42.2 million) available for offset against future profits. A deferred tax asset has been recognised of US\$2.2 million (2011: US\$5.5 million) in respect of US\$12.2 million (2011: US\$31.2 million) of such losses. Tax losses of US\$7.6 million expired in 2012. 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. The significant increases in final product prices achieved by Kenmare Moma Processing (Mauritius) Limited (“KMPL”) in 2012 and the increased cost of producing heavy mineral concentrate in KMML and forecast to be achieved and incurred in future have increased taxable profits earned and expected to be earned by KMML. Revenues (and hence taxable profits) in KMML are determined by reference to cost incurred in producing heavy mineral concentrate plus a margin which is related to prices earned by KMPL. KMML and KMPL are collectively referred to as the “Project Companies”.

## Note 7. Cash and Cash Equivalents

	2012 US\$'000	2011 US\$'000
Immediately available without restriction	7,773	7,695
Contingency Reserve Account	21,408	63,222
Project Companies' Accounts	<u>16,886</u>	<u>6,339</u>
	<u>46,067</u>	<u>77,256</u>

The Contingency Reserve Account (the “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.

On 7 December 2012, the Project Companies entered into a Deed of Amendment with the Project lenders in relation to an extension of the time period in which internally generated cash could be applied to expansion capital expenditures. Further details of this amendment are set out in Note 9. As required under this amendment the Company deposited US\$35 million in various currencies (valued at September 2012 exchange rates) into the CRA by 15 December 2012. Thereafter these funds are to be applied to the Project bank accounts to fund expansion capital costs and other cash requirements of the Project Companies. Also as required under such amendment, the Company deposited the equivalent of US\$5 million in South African Rand (valued at September 2012 exchange rates) into the Operating Cost Reserve Account (“OCRA”), an account of the Project Companies.

On 21 December 2011, the Company, Congolone Heavy Minerals Limited and the Project Companies entered into a Deed of Amendment with the Project lenders in relation to the funding of the expansion. Further details of this amendment are set out in Note 9. Under this amendment the Company deposited the equivalent of US\$45 million in various currencies valued at June 2011 exchange rates into the CRA before 31 December 2011 to fund expansion capital.

## Note 8. Called Up Share Capital

On 25 July 2012, 120,000,000 new ordinary shares were issued by way of a placing which raised US\$56.7 million net of expenses. The primary purpose of this equity raising was to fund an expansion of the existing mine operations to increase production capacity from 800,000 tonnes per annum of ilmenite plus co-products to 1.2 million tonnes per annum of ilmenite plus co-products. US\$8.7 million of this issue has been credited to share

capital. US\$48 million of this issue has been credited to share premium. 1,408,330 new ordinary shares were issued during 2012 as a result of share options exercised and resulted in US\$0.1 million being credited to share capital and US\$0.4 million credited to share premium.

6,094,962 new ordinary shares were issued during 2011 as a result of share options exercised, resulting in US\$0.5 million being credited to share capital and US\$1.5 million credited to share premium.

#### Note 9. Bank Loans

	2012 US\$'000	2011 US\$'000
Project Loans		
Senior Loans	106,891	133,054
Subordinated Loans	<u>217,521</u>	<u>194,054</u>
Total Project Loans	<u>324,412</u>	<u>327,108</u>
The borrowings are repayable as follows:		
Within one year	147,032	113,585
In the second year	39,993	39,750
In the third to fifth years inclusive	86,725	103,850
After five years	<u>50,662</u>	<u>69,923</u>
	324,412	327,108
Less: amount due for settlement within 12 months	<u>(147,032)</u>	<u>(113,585)</u>
Amount due for settlement after 12 months	<u>177,380</u>	<u>213,523</u>
<u>Project Loans</u>		
Balance at 1 January	327,108	353,340
Loan interest accrued	26,429	29,542
Loan interest paid	(7,014)	(8,560)
Loan repayment	(25,875)	(26,053)
Foreign exchange movement	<u>3,764</u>	<u>(4,161)</u>
Balance at 31 December	<u>324,412</u>	<u>327,108</u>
<u>Mortgage Loan</u>		
Balance at 1 January	-	2,048
Loan interest accrued	-	27
Loan interest paid	-	(35)
Loan repayment	-	<u>(2,040)</u>
Balance at 31 December	<u>=</u>	<u>=</u>

#### Project Loans

Project loans have been made to the Mozambique branches of KMML and KMPL (the "Project Companies"). The Project loans are secured by substantially all rights and assets of the Project Companies, and, amongst other things, the shares in and intercompany loans to the Project Companies.

#### Project Loan Completion

Kenmare Resources plc and Congolone Heavy Minerals Limited have guaranteed the bank loans during the period prior to Completion which occurs upon achievement of Technical Completion and Non-Technical Completion. The Expansion Funding Deed dated 5 March 2010 extended the final date for achieving Completion to 31 December 2013. On 5 September 2011, Technical Completion was achieved. Non-Technical Completion occurs upon meeting certain financial, legal and permitting requirements, including filling of specified reserve accounts to the required levels, and being in a position to repay deferred subordinated loan obligations by the payment date following Completion. Upon Completion, the loan guarantees provided by Kenmare Resources plc and Congolone Heavy Mineral Limited will terminate.

On 28 February 2013, the Project Companies notified Project lenders that they had identified events of Force Majeure (as defined in the financing documents) during the period from 5 March 2010 to 25 February 2013 which resulted in 53 days of delay. The effect is to extend the date on which failure to achieve Completion becomes an event of default from 31 December 2013 to 22 February 2014. While Force Majeure extends the

date by which Non-Technical Completion needs to occur by 53 days, the date by which the deferred subordinated loan obligations need to be brought current is extended from 1 February 2014 to 1 August 2014.

Based on forecast production, taking account of reasonably possible changes in trading performance, the Group currently expects to meet the requirements for Non-Technical Completion (and hence Completion) by 22 February 2014.

#### Amendments to Project financing documents

On 7 December 2012, Kenmare Resources plc, Congolone Heavy Minerals Limited and the Project Companies entered into an Amendment Agreement with the Project lenders in relation to funding of the expansion. Under this amendment:

- The Project lenders agreed to extend the final date to apply up to US\$65 million of internally generated cash flow to expansion capital costs from 15 December 2012 to 30 June 2013.
- The limit of indebtedness of Kenmare Resources plc was increased from US\$10 million (US\$30 million if used to fund the Contingency Reserve Account (“CRA”), an account held in the parent company Congolone Heavy Minerals Limited) to US\$40 million, subject to up to US\$20 million being used to fund the CRA, and up to US\$20 million available for general corporate purposes.
- Kenmare Resources plc deposited US\$35 million in various currencies (valued at September 2012 exchange rates) into the CRA by 15 December 2012. Thereafter these funds are to be applied to the Project bank accounts to fund expansion capital costs and other cash requirements of the Project Companies.
- Kenmare Resources plc deposited a further US\$5 million in South African Rand (valued at September 2012 exchange rates) into the Operating Cost Reserve Account (“OCRA”), an account of the Project Companies. These funds may be refunded to Kenmare Resources plc if the subordinated lenders are paid not less than US\$42.9 million in respect of deferred subordinated loan obligations in August 2013.

On 21 December 2011, the Project Companies entered into a Deed of Amendment with the Project lenders in relation to funding of the expansion as a result of projected capital cost increases. Under this amendment:

- The Company deposited the equivalent of a further US\$45 million in various currencies values at June 2011 exchange rates, into the CRA by the 31 December 2011 to fund expansion capital costs.
- The Project Companies capitalised US\$15.5 million due to Congolone Heavy Minerals Ltd as at 30 June 2011 under the Management Services Agreement and the lenders agreed that internally generated cash flow equal to such capitalised amount may be applied to meet expansion capital costs.
- The lenders agreed that the Project Companies may apply internally generated cash flow to meet up to an additional US\$65 million of expansion capital costs.
- The lenders agreed that prior to Completion, funds may be withdrawn from Senior Debt Reserve Account (“SDRA”) to meet senior debt obligations, operating costs and expansion capital costs without triggering a breach of covenant provided the account is replenished prior to Completion.
- The Project Companies agreed to pay fees to the lenders totalling US\$1.61 million by December 15, 2012.
- The Project Companies were authorised to advance up to US\$3 million to EdM in respect of EdM’s share of the cost of upgrades to its transmission system.

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

- The marketing covenant is to be tested semi-annually as at 1 January and 1 July, the calculation to be set out in a periodic marketing certificate to be delivered no later than 1 March (45 days after the effectiveness of the Deed of Amendment in the case of 2011) and 1 September of each year;
- In determining projected revenues for the marketing covenant, all offtake agreements with eligible buyers entered into on or before the date of the marketing certificate are considered regardless of term;
- The marketing covenant requires sales contracts with eligible buyers with a term of at least one year for a specified tonnage of final products, to be tested annually as at 1 January.
- The Project Companies agreed to pay fees to the lenders totalling US\$0.03 million.

Failure to comply with the marketing covenant does not result in an event of default; rather, such a failure results, pre-Completion, in majority lenders being able to convene a meeting at which the Project Companies would present their marketing plan, and post-Completion in the inability of the Project Companies to make

restricted payments (dividends and payments on intercompany loans) on the next semi-annual restricted payment date.

Other Group bank borrowings

On 28 February 2013 Kenmare Resources plc and Absa Bank Limited entered into agreement establishing a one year renewable corporate facility of US\$40 million, of which up to US\$20 million may be drawn for deposit to the Contingency Reserve Account of Congolone Heavy Minerals Limited for further contribution to the Project Companies, and up to US\$20 million may be used for general corporate purposes. Absa Bank Limited, a member of Barclays plc, is an existing lender to the Project Companies.

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

**Note 10. 2012 Annual Report and Accounts**

The Annual Report and Accounts will be posted to shareholders before 30 April 2013.