KENMARE RESOURCES PLC

# Investor Presentation

October 2019

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# Overview: Kenmare Resources

## World's largest merchant ilmenite producer

Wet Concentrator Plant (WCP) A

Moma's jetty and one of two transhipment vessels

### 4th largest producer of $TiO_2$ feedstocks

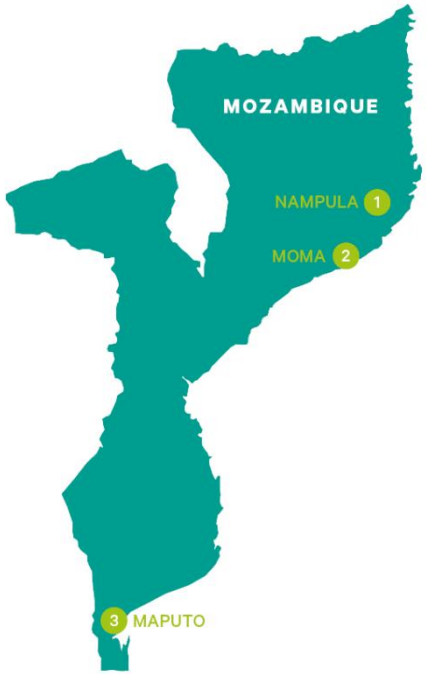
- Currently representing 7% of global supply
- Growing to 10% of global supply by 2021

### Moma Titanium Minerals Mine

- >10 years of operations, 30 years in Mozambique
- 100+ years life of mine
- ~5% of Mozambique's exports in 2018
- Meaningful contribution to the local and national economy

### Significant capital investment

- Capital expenditure of >US$1.2 billion



# Mineral sands: essential to modern life

## Emerging market demand growing rapidly

### Two core product streams of minerals sands

**Titanium feedstocks (ilmenite and rutile)**

- $TiO_2$ pigment imparts whiteness and opacity in the manufacture of paints, plastics and paper
- Non-recyclable and difficult to substitute

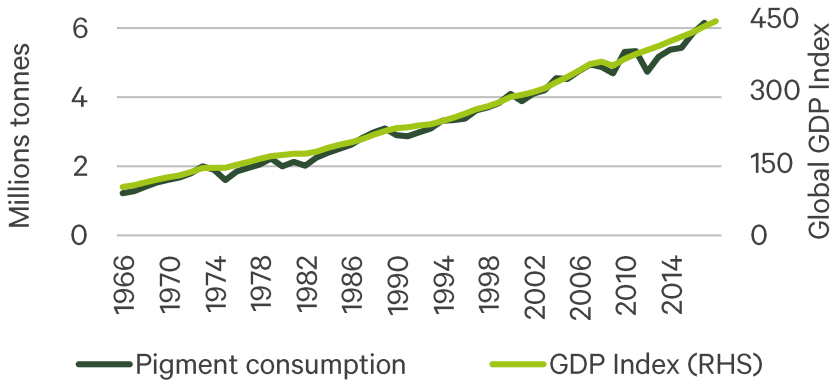
**Zircon**

- An important raw material for the ceramics industry for wall tiles, floor tiles and sanitary ware
- Favoured for whiteness, opacity, high melting point and shock resistance

### Demand driven by global GDP growth

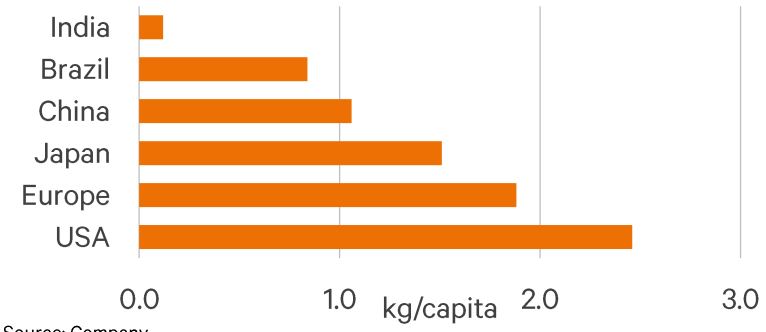
- Pigment is "quality of life" product, consumption grows as income levels increase
- Significantly higher $TiO_2$ pigment consumption per capita in developed western economies
- Large population developing economies are set for strongest pigment and zircon demand growth

### World GDP vs $TiO_2$ pigment consumption




Source: Company (1966 base year)

### Regional pigment consumption (2017)




Source: Company

**Demand for $TiO_2$ feedstocks and zircon is driven by global GDP growth and urbanisation in emerging markets**

# Overview: Moma Titanium Minerals Mine

## Globally significant Mineral Reserves of heavy minerals

### Tier 1 resource base

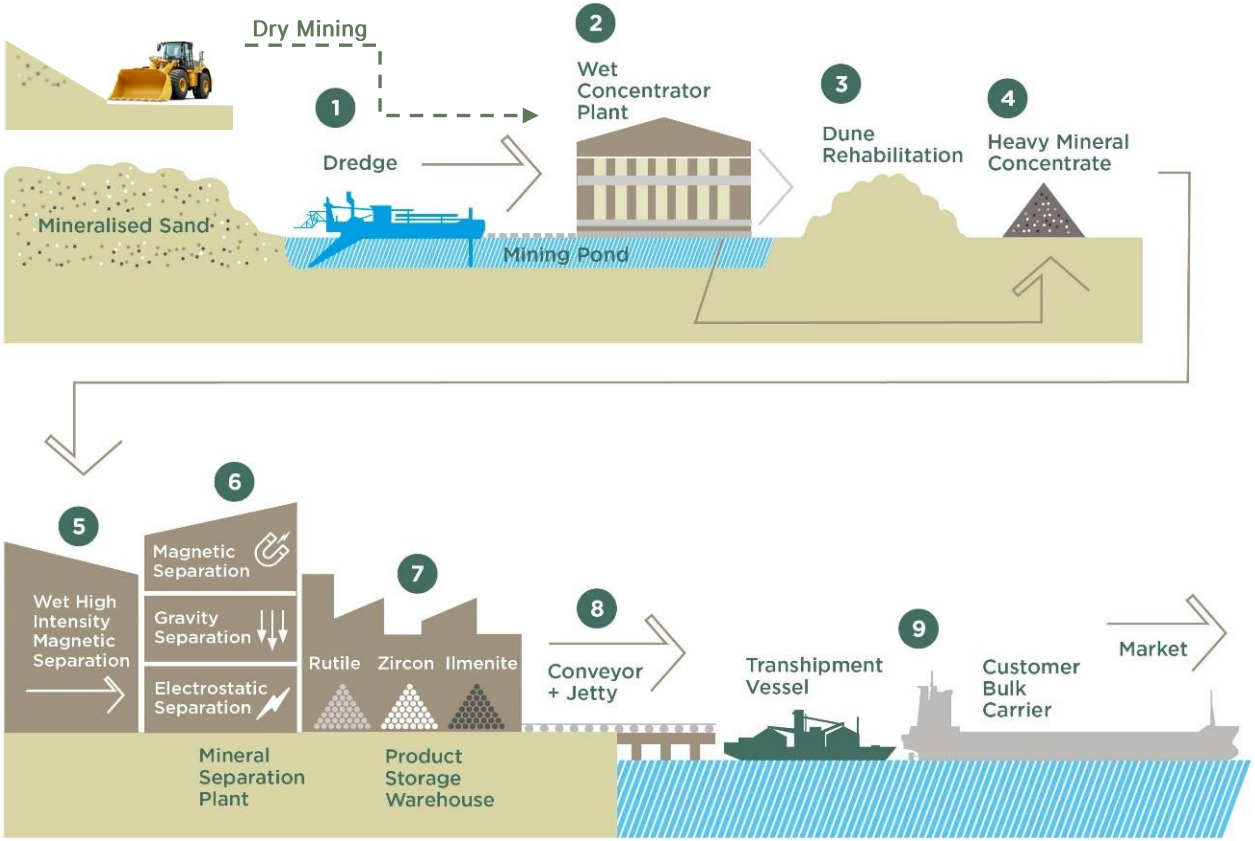
- >100 year life of mine
- Moma is multiple ore bodies – 8 billion tonnes of Mineral Resources
- Current mine plan runs to 2040

### Low cost, bulk mining operation

- Mature operation – in production since 2007
- Currently two wet concentrator plants (WCPs) mining the Namalope ore zone
- Dedicated on-site port facilities

### Low environmental impact

- Primarily hydro-generated power (80% of power demand in 2018)
- Progressive rehabilitation of mined areas
- No chemicals used



# Q3 2019: On track to achieve full year guidance

## Q3 2019 vs Q3 2018: Highlights

### LTIFR

0.20

-31%

Q3 2018: 0.29

### HMC production

304,100t

9%

Q3 2018: 279,900t

### Ilmenite

230,800t

-1%

Q3 2018: 233,900t

### Primary zircon

12,900t

26%

Q3 2018: 10,200t

### Rutile

2,100t

24%

Q3 2018: 1,700t

### Concentrates

10,700t

78%

Q3 2018: 6,000t

| 2019 guidance | | |
|---|---|---|
| **Production** | **Unit** | **Guidance** |
| Ilmenite | tonnes | 900,000-960,000 |
| Primary zircon | tonnes | 44,500-52,000 |
| Rutile | tonnes | 8,100-9,500 |
| Concentrates[1] | tonnes | 33,500-43,500 |

| Costs | Unit | Guidance |
|---|---|---|
| Total cash operating costs | US$m | 151-167 |
| Cash costs per tonne[1] | US$/tonne | 150-160 |

- Targeting continual improvement in safety performance – increased focus on risk assessment and accountability
- Increased HMC production benefitting from 20% capacity upgrade at WCP B and utilisation improvements
- Mineral sands concentrate product introduced in Q4 2018, benefitting concentrates production
- Shipments were lower in Q3 2019 than expected due to poor weather impacting loading – total volumes for 2019 are expected to be in excess of 1 million tonnes

1. Cash operating cost per tonne of finished product.

# Development projects progressing well

## Growing ilmenite production to 1.2 Mtpa

### WCP B upgrade (2018)

20% capacity upgrade of WCP B complete and delivering to scope

Cost: <US$10 million

### WCP C development (2019)

Construction of WCP C and dredge progressing in line with project delivery timeline

Cost: <US$45 million

### WCP B move (2020)

Project execution commenced following DFS completion and Board approval

Cost: US$106 million

# Execution underway of WCP C development

## On track for commissioning to commence in Q4 2019

### Smaller scale, high grade production

- WCP C has a target capacity of 500 tph
- Targeting a high grade area of the Namalope ore zone that is inaccessible to either of the larger Wet Concentrator Plants
- Expected to add 150kt/annum (average) of additional heavy mineral concentrate production to Moma's profile

### Dredge has arrived in Mozambique

- The new dredge, named Julia, was launched at Royal IHC's yard in May 2019 – performance testing was completed successfully
- The Julia dredge was shipped to Mozambique and is being transported by road to site

### Advancing to schedule

- Starter pond and construction site advancing in line with project delivery schedule
- Wet Concentrator Plant being constructed by Mineral Technologies in South Africa – equipment starting to arrive at site

### Julia dredge's launch in the Netherlands

### Parts of dredge and WCP arrive at Moma

# Execution underway of WCP B move

## Relocation scheduled to be completed in Q3 2020

### Pilivili ore zone

- Highest grade ore zone in Moma's portfolio – Mineral Reserves of 4.4% Total Heavy Mineral (THM)
- Other favourable characteristics including free flowing sand, low slimes and close proximity to MSP
- Expected to deliver 130kt/annum (average) of additional heavy mineral concentrate production

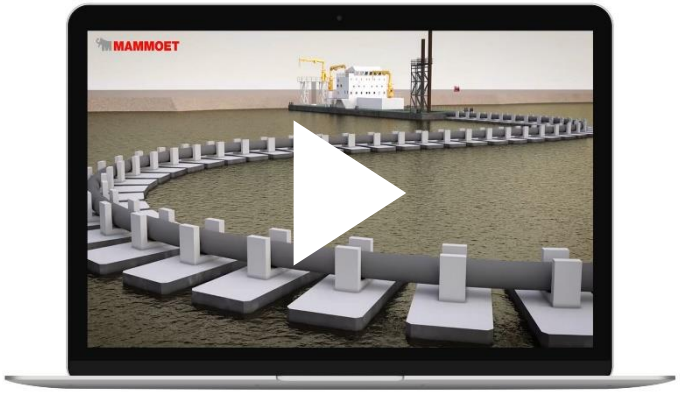
### Higher grades, additional production

- Average grade mined of 4.6% THM over 8 year life of mine and average grade of 5.3% THM in years 1-4
- Adjacent future ore zones identified for mining in Mualadi and Nataka – no further move expected in WCP B's economic life

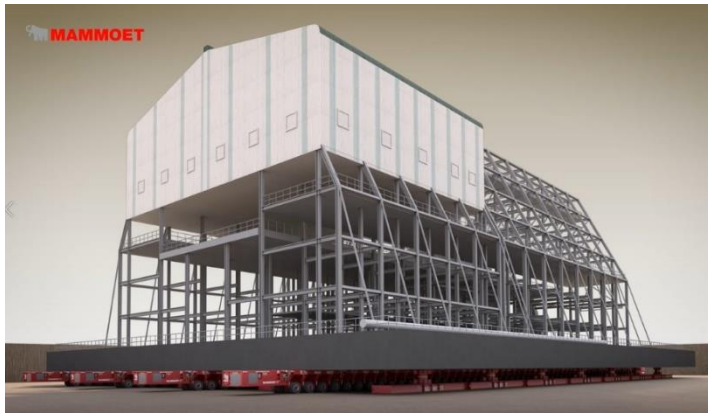
### Transportation of WCP B

- Various options considered – moving the assembled plant by road was selected as lowest risk option
- Specialist heavy lifting and transport contractor will be appointed
- Construction of road has begun inside existing Namalope and Pilivili licence areas

### Watch an animation of the WCP B move




### WCP B will be transported by SPMTs*




* Self-Propelled Modular Transporters

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# H1 2019 review

# Robust financial performance

## Maiden interim dividend to be paid in October 2019

### Revenue

US$122.7m

-12%

H1 2018: US$140.1m

### Sales price (FOB) [1,2]

US$239/t

+7%

H1 2018: US$223/t

### Total cash costs[3]

US$152/t

0%

H1 2018: US$151/t

### Net ilmenite unit cost

US$78/t

-11%

H1 2018: US$88/t

### EBITDA

US$42.8m

-11%

H1 2018: US$48.2m

### Profit after tax

US$21.9m

-17%

H1 2018: US$26.4m

### Net cash

US$3.5m

-US$10.0m

31 Dec 2018: US$13.5m

### Dividend per share

US$c2.66

-

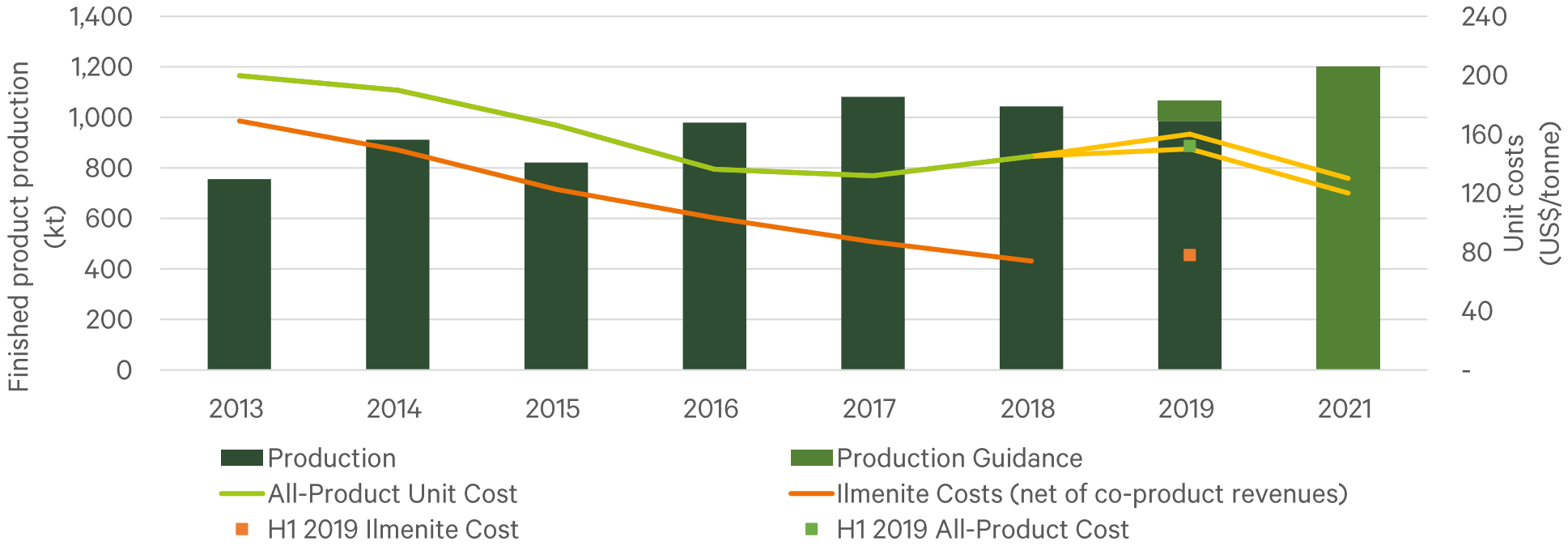
H1 2018: -

**Increased revenues expected in H2 2019, benefitting from increased shipping volumes**

1. Weighted average sales price per tonne of product sold 2. Free on Board 3. Total cash cost per tonne of finished product

# Targeting further unit cost reductions by 2021

## Production and cash operating cost per tonne profile

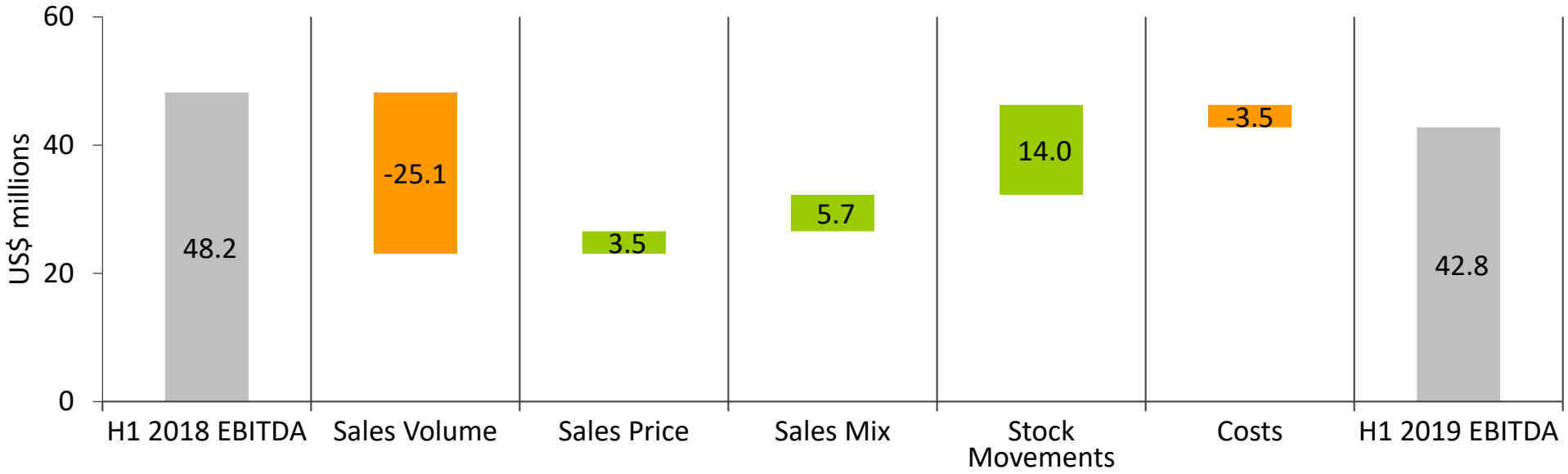



- Total cash operating cost[1] of US$152/t in H1 2019, in line with H1 2018 (US$151/t) and within the 2019 guidance range of US$150-160/t
- Ilmenite cost of production benefitting from higher co-product revenues, including new mineral sands concentrate stream
- Targeting total cash operating cost of US$120-130/t (in 2018 real terms) from 2021, benefitting from higher production

*2021 forecast cash operating costs are in 2018 real terms. 1. Total cash operating costs include all mine production, transhipment, sales and distribution, taxes, royalties, and corporate costs.

# Stronger EBITDA expected in H2 2019

## EBITDA bridge H1 2018 to H1 2019

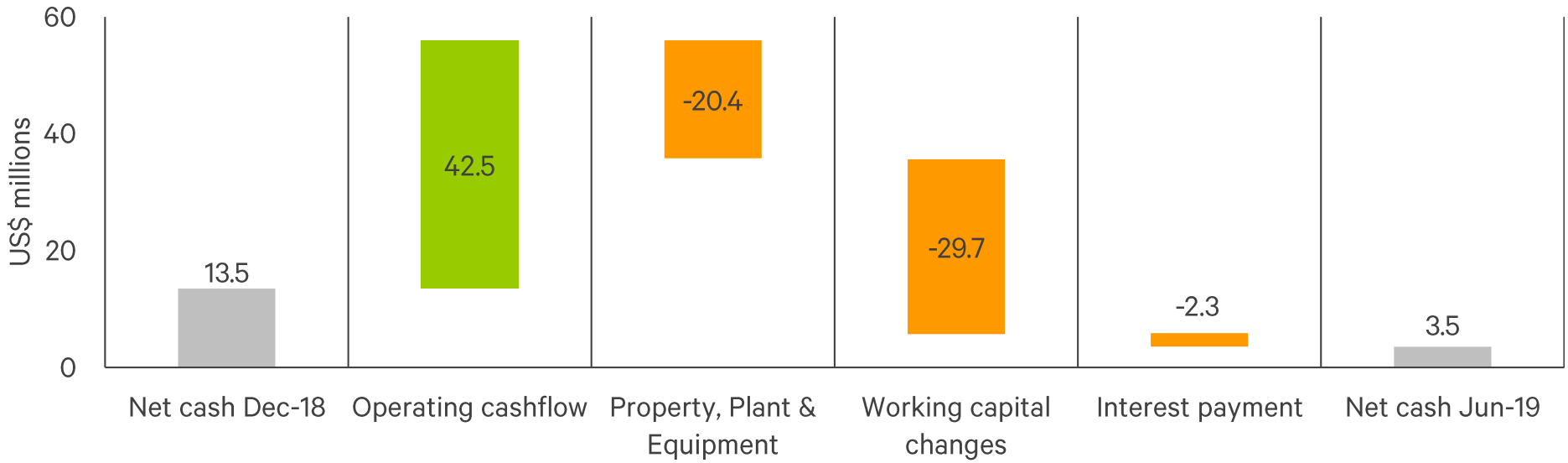



- EBITDA in H1 2019 was impacted by a US$25.1m decrease in sales volumes compared to H1 2018
- This was offset by an increase in average sales price and positive movement in sales mix, primarily driven by primary zircon sales
- Increased stock primarily relates to final product production being higher than shipments in H1 2019

**Stronger EBITDA expected in H2 2019 as shipment volumes increase**

# US$3.5m net cash at period-end

## Net cash bridge 31 Dec 2018 to 30 June 2019




- H1 2019 capital spend of US$20.4m (property, plant & equipment) comprised of US$8.1m sustaining capital and US$12.3m development capital, primarily relating to the construction of WCP C
- Working capital changes primarily as a result of a US$21.7m increase in trade receivables, due to the timing of shipments

**Kenmare is well-positioned to commence shareholder returns**

# Maiden dividend declared

## Dividend policy to pay a minimum of 20% of profit after tax

### Maiden dividend

- Board has declared an interim dividend of US$c2.66/share[1]
- Dividend distribution of US$2.9m

### Dividend policy

- Commitment to deliver shareholder value
- Targeting a one-third/two-thirds interim/final dividend split
- FY19 final dividend will be a balancing payment to meet the dividend policy

### Subject to:

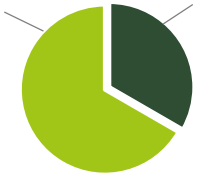
- Market conditions, debt and capital requirements
- Higher cash balances likely to be maintained until capital development projects completed

### Expected higher capital returns from 2021

- Following completion of development projects
- May come in form of special dividend or share buy-backs

**H1 2019 profit after tax**

US$21.9m




**Total dividend distribution**

US$2.9m

**Dividend per share**

US$c2.66

| Interim Dividend Timetable 2019 | |
|---|---|
| Event | Date |
| Announcement of interim dividend | 20 August 2019 |
| Ex-Dividend Date | 26 September 2019 |
| Record Date | 27 September 2019 |
| Payment Date | 25 October 2019 |

1. 2019 interim dividend is calculated as 20% of H1 2019 profit after tax (US$21.9m) multiplied by one-third and annualised (US$21.9m x 20% x 1/3 x 2)

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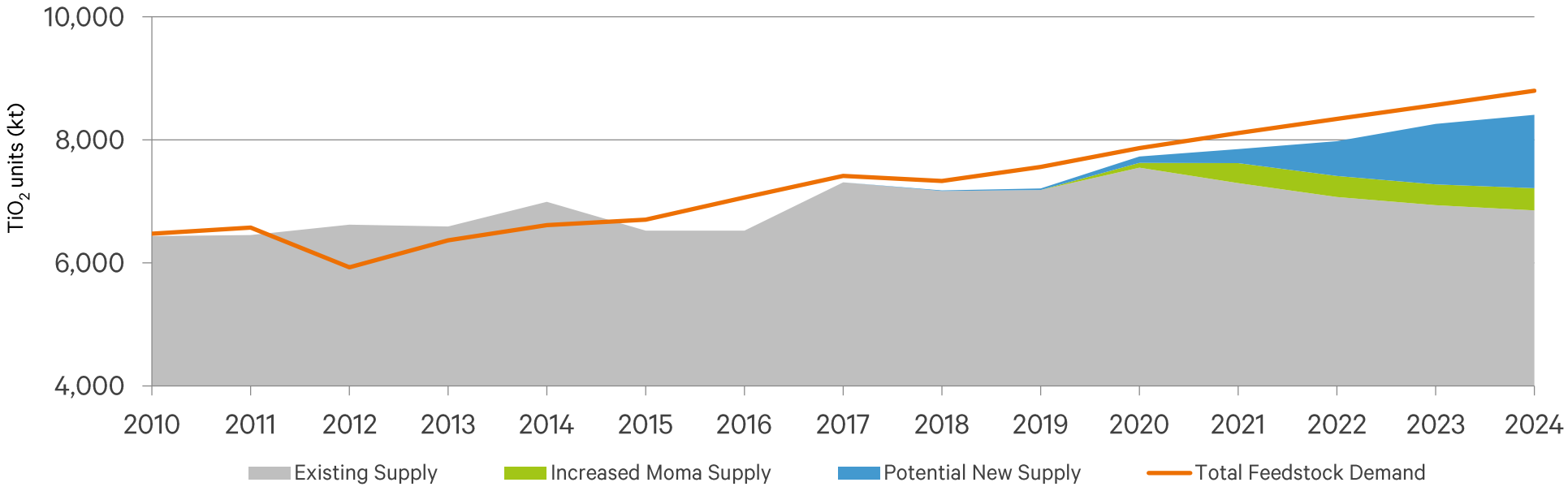
# Market update

# Supply deficit for titanium feedstocks

## Forecast supply/demand market balance




Source: Company

## Strong fundamentals for all products

- Global primary mine supply deficit since 2015 – excess inventories built during the last cycle have balanced the market to date
- Supply from existing mines expected to decline through depletion
- Additional supply necessary in the short/medium term
- Current prices only profitable for existing producers

# Positive outlook for all products

## Q3 2019 markets update

Ilmenite

### Ilmenite

- Demand for pigment, the main consumer of titanium feedstocks, remains subdued due to global economic uncertainties
- However titanium feedstocks market was tight in Q3 2019 as a result of constrained supply
- Kenmare believes that demand for products comparable to its ilmenite exceeds available supply - higher prices achieved in Q3 2019 than Q2 2019
- Further spot price increases have been agreed with customers for Q4 2019

Zircon

### Zircon

- Zircon market weakened in Q3 2019, primarily due to slower global growth and disruption to downstream industries in China
- Some price softening experienced in Q3 2019, primarily in Chinese market
- Global supply constraints expected to emerge as existing mines deplete and production reduces in coming years – aid pricing in medium term

**Long-term fundamentals for all Kenmare products remain strong**

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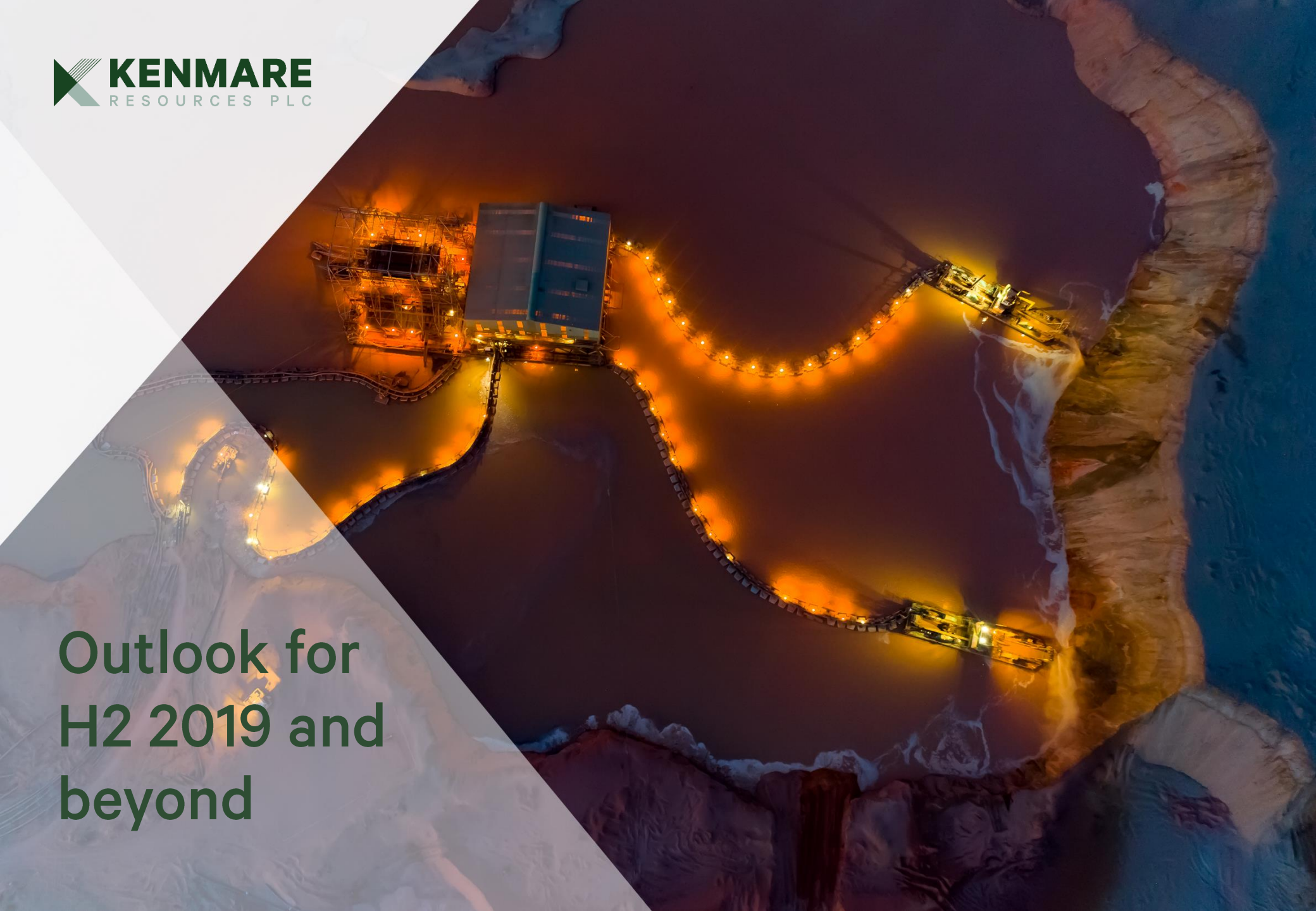

# Outlook for H2 2019 and beyond

# Conclusion: Building on our strategy

| Strategy | H1 2019 | H2 2019 |
|---|---|---|
| **Growth** | | |
| ➢ Low capital intensity growth to fully utilise existing installed facilities | ➢ WCP B delivering 20% increase in throughput following upgrade works<br>➢ DFS for WCP B move to Pilivili completed in June 2019 and Board approval received | ➢ Commissioning of WCP C expected to commence in Q4 2019 |
| **Margin expansion** | | |
| ➢ Focus on margin expansion through cost reductions and/or increased revenue streams | ➢ First mineral sands concentrate despatched from Moma in Q2 2019<br>➢ WCP B dredge automation in commissioning in Q2 2019 | ➢ Continued utilisation improvements targeted due to Projecto Oitenta |
| **Shareholder returns** | | |
| ➢ Returns >20% profit after tax to shareholders and balance sheet strength and flexibility remain core | ➢ Net cash position of US$3.5m at 30 June 2019<br>➢ Maiden dividend declared based on H1 2019 results | ➢ Payment of interim dividend in October 2019<br>➢ Balancing 2019 final dividend based on full-year results |

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# Appendices

# Sustainable operating practices

## Committed to being a responsible corporate citizen

### Safety

- LTIFR of 0.20 per 200k man hours worked to 30 Sept 2019 (30 Sept 2018: 0.29)
- Increased focus on risk assessment and personal accountability
- Increased focus on community safety – theatre workshops and awareness sessions on mining risks and traffic risks

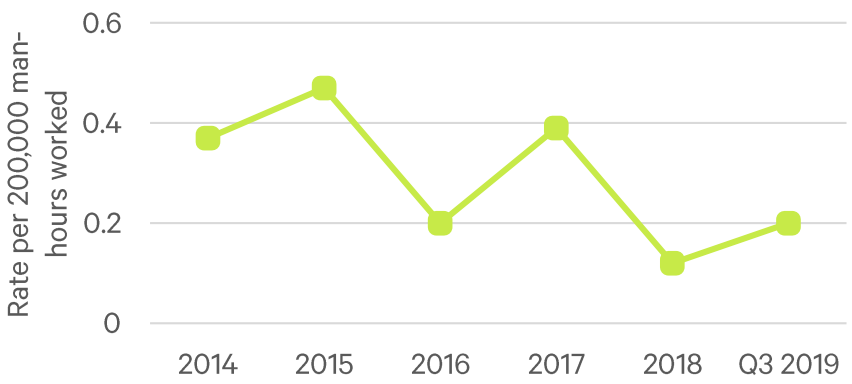
### 95% Mozambican employees

- Localisation of employees increased from 93% to 95% between 2017 and 2018
- 100% of operator personnel and 87% supervisory personnel are Mozambican
- Increasing number of Mozambicans in management positions

### Advancing women

- 7% of workforce was female in 2018, compared to 5% in 2017
- Training initiatives in place to recruit more female employees – targeting 10% female workforce by 2020

### Lost Time Injury Frequency Rate




### Tina Faque, Rehabilitation Officer

# Kenmare Moma Development Association (KMAD)

## Not-for-profit development organisation

Established in 2004, KMAD's objective is to implement development programmes in the Moma Mine's host communities.

Examples of KMAD's initiatives to date:

### Economic Development and Livelihoods

- Funding provided for >65 new local businesses
- Agriculture projects supported to teach local farmers how to increase crop yields

### Healthcare Development

- 24 boreholes drilled to provide clean drinking water for c.24,000 people
- Community health centre constructed to provide care for c.18,000 people per year

### Education Development

- 31 classrooms constructed in local schools, plus 1,100 desks, and 90 scholarships funded
- Technical school constructed and equipped for vocational development

KMAD-constructed technical school

KMAD-constructed health centre

KMAD-supported poultry farm

# Follow Kenmare on social media

## Facebook, Twitter and LinkedIn

## Kenmare has gone social

- Kenmare has profiles on Facebook, Twitter and LinkedIn, which feature regular updates on our corporate social responsibility initiatives, operational and development milestones, news flow and more
- Click the name of the social network to visit out profiles and connect with Kenmare: Facebook, Twitter and LinkedIn

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