

AUDIT & RISK COMMITTEE REPORT



GABRIEL SMITH
Chairman of the Audit & Risk Committee

Chairman's Overview

I am pleased to present the report of the Audit & Risk Committee for 2020. During the year, the Committee met five times and the main areas of focus were as set out on page 97. This report describes how the Committee has fulfilled its responsibilities during the year under its terms of reference and under the relevant requirements of the UK Corporate Governance Code 2018.

External audit

Independence and Non-Audit Services

The Committee is responsible for ensuring that the external auditor is independent and for implementing appropriate safeguards where the external auditor also provides non-audit services to the Group. The Committee closely monitors the level of audit and non-audit services that audit firms provide to the Group. The Committee has adopted a policy on the provision of non-audit services by the external auditor on the basis that they may provide such services only 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.

KPMG is the Group's external auditor and has confirmed to the Committee that it is independent from the Group under the requirements of the Irish Auditing and Accounting Supervisory Authority's (IAASA) Ethical Standards for Auditors. The Committee reviews and approves any

Principal responsibilities of the Committee:

- Monitoring the integrity of the Group's financial statements and any formal announcements relating to the Group's financial performance and reviewing significant financial reporting judgements contained in them;
- Assessing whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's performance, business model and strategy;
- Monitoring the external auditor's independence and objectivity and, in particular, the appropriateness of the provision of non-audit services;
- Monitoring the effectiveness of the Group's internal control and risk management systems;
- Considering the appropriate risk appetite for the Group and overseeing the current and prospective risks faced by the Group and its strategy in relation to future risks;

- Ensuring the risk management function is properly resourced, with adequate information rights and sufficient independence such that it is free from management interference;
- Making recommendations for the Board to put to shareholders for their approval in General Meetings regarding the appointment, remuneration and terms of engagement of the external auditor;
- Monitoring the effectiveness of the internal audit function; 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.

The Chairman of the Audit & Risk Committee attends the Annual General Meeting to answer questions on the report on the Committee's activities and matters within the scope of the Committee's responsibilities.

See the Committee's terms of reference at www.kenmareresources.com/application/files/8315/7004/4339/2019-10-02_Terms_of_Reference_-_Audit_Risk_Committee.pdf.

Membership and meetings

The Audit & Risk Committee consists of its Non-Executive Chairman, Mr. G. Smith, and Non-Executive Directors Mr. P. Bacchus, Mr. C. Fonseca and Ms. D. Somers. As outlined in the Directors' biographical details, set out on pages 80 and 81, members bring considerable financial, accounting and mining industry experience to the work of the Committee. Mr. G. Smith has been designated by the Board as the Committee's financial expert. He together with Mr. P. Bacchus and Ms. D. Somers, who are both Chartered Accountants, all meet the specific requirements for recent and relevant financial experience, as set out in the 2018 Code. Details of the skills and experience of the Committee members are set out on pages 80 and 81.

Ms. E. Headon attended both Committee meetings held prior to her retirement as a Director. Mr. C. Fonseca and Ms. D. Somers have attended all Committee meetings held since their respective appointments to the Committee.

Name	Role	Independent	Date of Appointment to Committee	Meetings Attended
Mr. G. Smith	Chairman	Yes	12/03/2013	👤👤👤👤👤
Mr. P. Bacchus	Member	Yes	25/05/2017	👤👤👤👤👤
Mr. C. Fonseca	Member	Yes	13/05/2020	👤👤👤
Ms. D. Somers	Member	Yes	19/08/2020	👤

appointment of an individual, within three years of having previously been employed by the current external auditor, to a senior managerial position in the Group.

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 auditor discuss, without management present, matters relating to its remit and any issues.

KPMG was approved as auditor by the Company at the AGM in May 2019 and began their engagement in July 2019. Since the commencement of KPMG's engagement, the lead audit partner has been David Meagher.

In 2020, KPMG provided a number of audit services and non-audit services. The non-audit services consisted mainly of audit related assurance concerning the review of the half-yearly financial statements and Mozambican tax compliance services and other related matters. The Committee is satisfied that the external auditor's knowledge of the Group was an important factor in choosing them to provide these services. The fees paid to KPMG for non-audit work in 2020 amounted to US\$82,000 and represented 33% of the total KPMG fees for the year. The Committee is therefore satisfied that the non-audit work did not compromise KPMG's independence or objectivity and that it was in the interests of the Group to retain KPMG for those services. Details of the amounts paid to KPMG during the year for audit and other services are set out in Note 7 to the consolidated financial statements on page 147.

Effectiveness

The Committee, on behalf of the Board, is responsible for the relationship with the external auditor and for monitoring the effectiveness and quality of the external audit process. The Committee's primary means of assessing the effectiveness of the external audit process is by monitoring performance against the agreed audit plan. In addition, we consider the following:

- The experience and knowledge of the external audit team;
- The quality of presentations to the Board and Committee;
- The technical insights provided relevant to the Group;
- Demonstration of a clear understanding of the Group's business and key risks; and
- The results of post-audit interviews with management and the Audit & Risk Committee Chairman.



AUDIT & RISK COMMITTEE REPORT CONTINUED

Based on the above, the Committee is satisfied with the effectiveness of the external auditor for 2020.

Financial reporting and significant financial judgements

A key responsibility of the Committee is to consider the significant areas of complexity, management judgement and estimation that have been applied in the preparation of the financial statements. The Committee has reviewed the suitability of the accounting policies which have been adopted and whether management have made appropriate judgements and disclosures. The table on page 97 sets out the significant matters considered by the Committee in relation to the financial statements for the year ended 31 December 2020.

Under Provision 25 of the 2018 UK Corporate Governance Code, the Committee, upon request from its Board, should 'provide advice on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.' The Board has tasked the Committee with this role, which is incorporated into the Committee's terms of reference. In line with the above, the Committee has undertaken a review of the 2020 Annual Report and Accounts and confirmed to the Board that it was the opinion of the Committee that, taken as a whole, the 2020 Annual Report and Accounts are fair, balanced and understandable and provided the information necessary for shareholders to assess the Group's position and performance, business model and strategy. In advance of providing such a confirmation to the Board, the Committee considered the adequacy of the systems and internal controls, the consistency of the various elements of the 2020 Annual Report and Accounts (taking into account reports received by the Board during the year), the level of information provided, the narrative reporting and the language used.

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's operational risks to the business are reviewed quarterly and updated. The Group's operational risks are reviewed annually and the corporate and business risks on the Group's risk register are updated.

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 & Risk 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 58 to 65. As part of the internal audit function, controls identified in the risk register are tested to ensure they are operating effectively.

The Committee assessed the Group's risk management and internal control framework in line with the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting and reviewed the audit and review summary reports from the external auditor. The Committee, having assessed the above information, is satisfied that the internal control and risk management framework is operating effectively and has reported this opinion to the Board.

Internal audit

The Internal Auditor prepares an Internal Audit plan for each financial year proposing the audit areas to be covered and the timeframe for each. This is presented to the Committee for approval. The Internal Auditor updates the Committee on progress at regular intervals and prepares a final report on his findings which he presents at a meeting with the Committee for discussion. The Committee can question the Internal Auditor on the contents of the report and the processes employed by him in investigations. This report is considered by the Committee and material matters and recommendations are then reported to the Board.

The Committee is responsible for monitoring and reviewing the operation and effectiveness of the Internal Audit function including its focus, plans, activities and resources. To fulfil its duties during 2020, the Committee:

- Reviewed and approved the Internal Audit annual plan to ensure alignment with the Group's principal risks;
- Considered and was satisfied that the competencies, experience of and level of resources available to the Internal Auditor were adequate to achieve the proposed plan;

- Considered the role and effectiveness of internal audit in the overall context of the Group's risk management framework and was satisfied that the function has appropriate standing within the Group;
- Ensured that the Internal Auditor had access to the Chairman of the Board if required; and
- Ensured co-ordination between Internal Audit and the external auditor to maximise the benefits from clear communication and co-ordinated activities.

On the basis of the above the Committee concluded that, for 2020, the Internal Audit function was performing well and is satisfied that the quality, experience and expertise of the function is appropriate for the Group.

Whistleblowing

The Company has a Whistleblowing Policy in place and a third-party service provider is engaged to provide a confidential 24/7 whistleblowing service available to all employees to report any wrongdoing in the workplace. Two reports were received in 2020. Both reports were fully investigated and the matters closed out. 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 & Risk Committee Chairman is also positioned to receive written complaints in confidence on accounting, risk issues, internal controls, auditing issues and related matters for reporting to the Audit & Risk Committee.

Areas of focus in 2020 and to date in 2021

Area of focus	Audit & Risk Committee action
Financial Reporting	<ul style="list-style-type: none"> The Committee reviewed the 2020 Half Yearly Financial Report issued in August 2020, the 2020 Annual Report and Accounts in March 2021 and all formal announcements relating to these statements before submitting them to the Board of Directors with a recommendation to approve. The Committee undertook a review of the 2020 Annual Report and Accounts and confirmed to the Board that it was the opinion of the Committee that, taken as a whole, the 2020 Annual Report and Accounts are fair, balanced and understandable and provided the information necessary for shareholders to assess the Group's position and performance, business model and strategy.
Risk Management and Internal Control	<ul style="list-style-type: none"> The Committee reviewed the Group's risk management and internal control framework established for identifying, evaluating and managing key risks. The principal risks facing the Group were reviewed and considered. The Committee reviewed and approved Anti-Bribery and Whistleblowing Policies.
Internal Audit	<ul style="list-style-type: none"> The Committee approved the internal audit charter and the plan for 2020. The Committee reviewed internal audit reports during the year covering: IT audit of the Kenmare network, third party risk management, crop compensation processes, inventory management, fuel management and various procurement related reviews.
External Audit	<ul style="list-style-type: none"> The Committee agreed the fees and audit plan of the external auditor, KPMG, for their audit of the 2020 Annual Report and Accounts and their review of the 2020 Half Yearly Financial Report. The Committee reviewed the safeguards designed to avoid the possibility that the auditor's 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. At the November 2020 Committee meeting, KPMG outlined to the Committee in detail the external audit plan. Post completion of the 2020 audit and half year review, in conjunction with KPMG, review meetings were held with senior finance management and it was confirmed by both parties that no issues had arisen during the audit or review process.
Terms of Reference	<ul style="list-style-type: none"> The Committee considered its terms of reference to ensure they remain appropriate for the Group's needs. The terms of reference are available on the Kenmare website at www.kenmareresources.com/about-us/corporate-governance/audit-committee

Estimates and judgements

The Committee reviewed in detail the following areas of significant judgement, complexity and estimation in connection with the 2020 financial statements. The Committee considered the report from the external auditor on the audit work undertaken and conclusions reached as set out in their audit report on pages 128 to 133.

Areas of judgement	Audit & Risk Committee considerations
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. As a result of the review no impairment provision is required in the financial year 2020. Details of the impairment review, assumptions and judgements are included in Note 13 to the consolidated financial statements.
Revenue recognition	The Group sells its mineral products on the Incoterms FOB, CFR and CIF and has identified the performance criteria and recognition of revenue in relation to products, freight and insurance. Following discussions with management, the Audit & Risk Committee was satisfied that the revenue recognition methodology used by management is appropriate.

Audit & Risk Committee effectiveness and priorities for 2021

As outlined in the Corporate Governance Report, during 2020 there was an internal evaluation of the Committee's performance and effectiveness. I am pleased to confirm that the Committee continues to operate effectively. The Committee will continue to focus on internal control, external audit planning and risk management during 2021.

The Committee would like to thank KPMG for their work on the 2020 financial statements. I would also like to thank my fellow Committee members for their commitment and input to the work of the Committee during 2020 as well as the Company Secretary and the financial team for their assistance, guidance and support. I wish Deirdre Somers well in her role as Chair of the Committee after my retirement in May.

Gabriel Smith

Chairman of the Audit & Risk Committee

31 March 2021