Sierra Rutile Limited

**Sierra Rutile Limited**

**Unaudited financial results for the period ended 30 June 2016**

London, UK, 30 September 2016: Sierra Rutile Limited ("Sierra Rutile", the "Company", or the "Group") is pleased to announce its results for the period ended 30 June 2016 and has today published its unaudited interim results on the Group's website at http://www.sierra-rutile.com/.

## OPERATIONAL HIGHLIGHTS

- **First half rutile production of 61,408 tonnes**
  - 15% increase from H1 2015 (H1 2015: 53,275 tonnes of rutile)
  - Improvements to plant utilisation and availability driving higher production from core assets

- **Gangama dry mine completed within budget and on time**
  - Feed rates and plant utilisation exceeded design criteria during commissioning
  - Steady-state operation expected to be achieved by end of year

## FINANCIAL HIGHLIGHTS

| **$ million (unless otherwise stated)** | **Six months ended 30 June 2016** | Six months ended 30 June 2015 |
|---|---|---|
| **Revenue** | **47.9** | 45.7 |
| **EBITDA**[1] | **4.9** | 7.2 |
| **Loss before tax** | **(19.8)** | (2.6) |
| **Free Cash Flow**[2] | **(9.9)** | 9.6 |
| **Production cash cost**[3] **($/t)** | **567** | 619 |
| **Net debt**[4] | **(49.0)** | (35.4) |

- **Reduction in production cash cost driven by higher production volumes and continuing tight cost control**
  - EBITDA negatively impacted by finished goods inventory adjustment
  - Non-cash inventory write-off of $6.4 million and impairment charge of $5.1 million against agricultural business included within loss before tax
  - Large volume of sales in June for which cash received post period end reduced Free Cash Flow

- **Strong support from shareholder and lender base**
  - $21 million successfully raised from oversubscribed share placing
  - New monthly repayment profile agreed for Government loan

## OUTLOOK

- **Benefits from commissioning of Gangama dry mine and continued demand from customers**
  - Production guidance revised upwards to between 135,000 and 145,000 tonnes of rutile
  - Production cash cost expected towards lower end of previously guided $540/t and $590/t range
  - Sales volumes expected to be second half weighted

- **Expansion projects continue to progress**
  - Process optimisation, value engineering and market evaluation for the 250tph bolt-on units for the Gangama and Lanti dry mines continue
  - Sembehun dry mine definitive feasibility study underway

## POST PERIOD END

- **Announcement of recommended cash offer by Iluka Resources at 36p per share**
  - Approved by shareholders on 1 September 2016
  - Closing of transaction remains subject to the satisfaction or waiver of certain conditions



*[1] EBITDA is measured as earnings/ (loss) before finance income/costs, tax, depreciation, amortisation, share based payments, impairment charges, inventory write-offs and transaction costs.*
*[2] Free Cash Flow is calculated as EBITDA less stay-in-business capital expenditure, tax payments and working capital movements.*
*[3] Production cash cost defined as the direct costs of production divided by tonnes of rutile produced.*
*[4] Net debt is defined as gross borrowings less cash and cash equivalents.*

Commenting on the first half performance, CEO John Sisay said: "I am pleased to report a strong performance from the business in the first half of 2016 with solid production and cost outcomes. Following its successful commissioning earlier this year, I am also delighted that the Gangama dry mine continues to operate ahead of its budget. On the back of strong first half rutile production, we have raised our guidance for the full year, and indicated that costs per tonne should be towards the lower end of our previously expected range. We are also pleased that buyer confidence is returning which points towards an improvement in the overall health of the sector."

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**About Sierra Rutile Limited**

Sierra Rutile produces titanium feedstock industrial minerals (primarily rutile, with some associated ilmenite), as well as smaller quantities of zircon. Sierra Rutile's mines, located in the south west of Sierra Leone, are based on one of the largest natural rutile deposits in the world, with a JORC-Compliant Mineral Resource for measured, indicated and inferred resources for the Sierra Rutile mine of over 867 million tonnes (as at 30 September 2015).

**Forward-Looking Information**

This document may contain forward-looking statements. These forward-looking statements are made as of the date of this document and Sierra Rutile Limited (the "Company") does not intend, and does not assume any obligation, to update these forward-looking statements, whether as a result of new information, future events or otherwise, except as required under applicable securities legislation.

Forward-looking statements relate to future events or future performance and reflect Company management's expectations or beliefs regarding future events and future performance and include, but are not limited to, statements with respect to the estimation of mineral reserves and resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, success of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" or the negative of these terms or comparable terminology. By their very nature forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward looking statements. Such factors include, among others, risks related to actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of mineral resources; possible variations in ore reserves, grade or recovery rates; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities; as well as those factors detailed from time to time in the Company's interim and annual reports. These risks, uncertainties, assumptions and other factors could adversely affect the outcome and financial effects of the plans and events described herein.

Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

## CHIEF EXECUTIVE'S STATEMENT

I am pleased to report a strong performance in the first half of 2016, which included the successful commissioning of the Gangama dry mine at the end of May which was constructed on time and within budget. Our production and cost achievements in the first half of the year, together with Gangama operating better than budgeted, has led us to raise our production guidance for the full year, and a tightening of cost guidance towards the lower end of the previously announced range.

**Operational and financial performance**

Strong rutile production was achieved in the first half of 2016 at 61,408 tonnes, a 15% increase compared to the first half of 2015. Higher production was due to improved performances from our core mining assets as our focus on raising plant utilisation and availability has been successful. The initial contribution of 6,490 tonnes of rutile from the Gangama dry mine also had a meaningful impact on production in the first half of the year.

Revenue of $47.9 million was 5% higher than the first half of 2015 due to higher volumes of rutile sold offset by lower realised prices. Realised prices for rutile were lower compared to the first half of 2015 as prices were negotiated towards the end of 2015, a time before downstream markets began to show their first signs of improvement.

Our position as a low-cost producer continues to provide competitive advantage in a challenging environment. A strong focus on cost control and increased production resulted in production cash cost of $567/t, an 8% reduction from the first half of 2015, midway within our earlier guidance for the full year of between $540/t and $590/t.

**Major growth projects**

The successful commissioning of the Gangama dry mine delivers on our promise for high-quality, low-risk and low-cost projects. I would like to credit the commitment and expertise of our management, employees and project contractors on the successful completion of the Gangama dry mine on time and within budget.

We are also continuing with process optimisation, value engineering and market evaluation for the 250 tph bolt-on units for the Lanti and Gangama dry mines. Subject to a successful outcome to these studies and appropriate market conditions, we expect to make a decision on construction of these bolt-on units in early 2017.

We also continue to progress towards a definitive feasibility study for the Sembehun dry mine which is expected to be completed in 2017. This project will bring staged, long-term production to our development pipeline.

**Financial position**

Our balance sheet remains robust with a net debt position of $49.0 million as at 30 June 2016. We have access to $15.0 million of liquidity through the undrawn Standby Facility, as well as available cash balances, which amounted to $9.2 million at the period end. As announced earlier in the year, the Group is in the process of refinancing its existing banking facilities with a view to putting in place longer term and more flexible banking arrangements which are better suited to the development profile of the Group's business and to ensure the Group's expansion projects can be funded from existing cash flow.

I was delighted with the strong shareholder support we received during the equity raise in April 2016 which was oversubscribed, with participation by new and existing shareholders. Net proceeds of $19.7 million were raised which provides additional working capital and financial flexibility as we implement our strategy of increasing production through expansion of our dry mining operations.

I also extend my gratitude to the Government of Sierra Leone who agreed to both a further deferral of repayments of their loan until December 2016, but also a re-profiling of the repayment schedule to November 2018. This will allow us to invest more of our operating cash flows in our expansion projects rather than debt servicing.

**Markets**

Sales volumes of rutile for the six months to 30 June 2016 were 15% higher than that achieved in the first half of 2015. This was a result of high demand for our premium quality rutile product. Improved market conditions have generated additional sales and we are able to meet growing customer needs with output from existing mining units and the new Gangama dry mine.

As noted above, realised rutile prices were lower compared to the first half of 2015 as prices were negotiated towards the end of 2015, a time before downstream markets began to show their first signs of improvement. We expect prices to remain at these levels in the second half of 2016 before improving in 2017. Pigment inventories are returning to more normal levels which we expect to result in increases in demand and prices in the medium term.

Sierra Rutile's flexible growth profile and multi-mine operation allows us to be well-positioned to be able to match production to customer demand.

**Guidance**

As a result of improved performances from the existing assets and the successful ramp-up of production from the Gangama dry mine, we expect production to exceed previously stated guidance, with revised guidance for full year rutile production now being between 135,000 tonnes and 145,000 tonnes. Production will be weighted towards the second half of the year given the contribution from the Gangama dry mine.

We maintain our production cash cost guidance for the full year of between $540/t and $590/t. With revised guidance for production volumes for the full year having been increased, we expect production cash cost for the full year to fall towards the lower end of this range.

## CHIEF EXECUTIVE'S STATEMENT (continued)

**Iluka transaction**

As announced on 1 August 2016, Iluka Resources Limited made an all cash offer for the acquisition of Sierra Rutile. The shareholders of Sierra Rutile overwhelmingly voted in favour of the transaction at a general meeting of shareholders convened on 1 September 2016. The closing of the transaction remains subject to the satisfaction or waiver of certain conditions.

In the meantime, until closing of the transaction, Sierra Rutile continues to manage its business and operations in line with existing plans and strategies.

**Outlook**

Sierra Rutile continues to follow a market-led production plan for 2016 and beyond, and will produce to meet its sales requirements, with a focus on profitability over volume. Whilst lower prices have affected margins in the first half of 2016, we are encouraged by the signs of recovery in the market.

As a result of the continued successful delivery of our strategy in recent years, we are in a strong position to withstand the uncertainty in our sector and the wider market, both now and in the future. We will continue to capitalise on Sierra Rutile's strong production base, low cost production status and pipeline for growth and strategic market positioning.

John Bonoh Sisay

Chief Executive Officer and Executive Director

## OPERATIONS REVIEW

The Group's operations include four mining units: Lanti dredge, Lanti dry mine, Gangama dry mine and Mogbwemo tailings. All the mines have their own associated concentrator plants where the feed is passed over progressive stages of spiral gravity separators which separate heavy minerals from silica sand and clay tailings.

**Review of performance**

| MINING | **Six months ended 30 June 2016** | Six months ended 30 June 2015 |
|---|---|---|
| **Ore mined (000 tonnes)** | | |
| Dredge mine | **2,522.4** | 2,121.3 |
| Lanti dry mine | **1,466.2** | 1,344.7 |
| Gangama dry mine | **300.7** | - |
| Total | **4,289.3** | 3,466.0 |
| Tailings treated (000 tonnes) (*) | **1,297.0** | 521.1 |
| **Average grade (%)** | | |
| Dredge mine | **1.35** | 1.36 |
| Lanti dry mine | **1.99** | 1.69 |
| Gangama dry mine | **2.90** | - |
| Total weighted average | **1.68** | 1.49 |
| Tailings grade | **1.38** | 8.41 |
| **PROCESSING** | | |
| **HMC produced (000 tonnes)** | | |
| Dredge mine | **76.7** | 65.7 |
| Lanti dry mine | **65.8** | 55.5 |
| Gangama dry mine | **16.1** | - |
| Tailings* | **43.1** | 111.1 |
| Total | **201.7** | 232.3 |
| **HMC fed to MSP (000 tonnes)** | **192.3** | 218.1 |
| **MSP recovery (%)**** | **77.5** | 76.6 |
| **Production (000 tonnes)** | | |
| Rutile | **61.4** | 53.3 |
| Ilmenite | **8.3** | 16.9 |
| Zircon | **0.7** | 0.7 |
| **Unit cash cost ($/t)** | | |
| Production cash cost | **567** | 619 |
| All-in cash cost | **678** | 772 |

* Tailings include the contract mining at the Mogbwemo deposit and secondary reprocessing of over-sized material at the mineral separation plant

** Besides the closing stock of heavy material concentrate ("HMC"), part of the HMC produced was fed directly into the tails retreatment plant, resulting in the difference between HMC produced and HMC fed into the MSP for the above periods.

### Mining

Sierra Rutile's production performance in the first half of 2016 continued to benefit from improvements to plant utilisation and availability undertaken during 2015 and early 2016, as well as the initial contribution from the Gangama dry mine commencing in May 2016. A total of 4.3Mt (H1 2015: 3.5Mt) of ore with a weighted average ore grade of 1.68% (H1 2015: 1.49%) was mined, as well as 1.3Mt (H1 2015: 0.5Mt) of tailings.

Productivity improvements at the Lanti dredge have led to the average mining rate increasing to 762tph in the first half of 2016, up from 713tph in the comparative period. This improvement has resulted in higher HMC production of 76.7kt (30 June 2015: 65.7kt), despite mining activities moving to lower grades as the deposit in the Lanti south area is nearing depletion.

The Lanti dry mine also continued to benefit from productivity improvements undertaken during 2015, as well as a transition to higher grade areas at the beginning of the period, resulting in a 7% increase in ore mined and a 19% increase in HMC produced of 65.8kt (30 June 2015: 55.5kt). Mining activities will trend towards the long term grade of the deposit across the second half of the year.

## OPERATIONS REVIEW (continued)

**Mining (continued)**

The Gangama dry mine was commissioned on 31 May 2016, with the first HMC being produced in the second half of that month during its commissioning period. Plant utilisation of 86% was achieved in the month of June and higher production is expected in the second half of 2016 as the Gangama dry mine ramp up continued in the third quarter of 2016.

Production from the Mogbwemo tailings operation continued to improve due to higher throughput from the additional units commissioned in late 2015, despite the lower grade profile of the tailings in the first half 2016 as compared to the corresponding period. Production from tailings is expected to reduce in the second half of 2016 due to the lower grade of the tailings.

**Processing**

Although total HMC produced from all mining operations declined to 201.7kt from 232.3kt, HMC produced from the three core mining operations (Lanti dredge, Lanti dry mine and Gangama dry mine) that contains higher recoverable rutile, increased from 121.2kt to 158.5kt with the improvements noted above, together with an initial contribution from Gangama. With greater volumes of higher recoverable rutile content being fed to the mineral separation plant, together with an improvement in the recovery rate, production of rutile increased by 15% to 61.4kt, up from 53.3kt in the corresponding period. Ilmenite production was lower than the comparative period as mining operations focused on the production of rutile over ilmenite in line with customer demand.

Recovery rates at the mineral separation plant are expected to further improve for the rest of the year as further enhancements are implemented. In addition, recoverable rates should benefit from increased volumes of HMC with higher recoverable rutile content as the Gangama dry mine ramps up.

**Guidance for production in 2016**

As a result of improved performances from the existing assets and the successful ramp-up of production from the Gangama dry mine, Sierra Rutile expects production to exceed previously stated guidance, with revised guidance from the full year now being between 135,000 tonnes and 145,000 tonnes. Production is expected to be weighted towards the second half of the year given the contribution from the Gangama dry mine.

**Stay-in business capital expenditure**

Sustaining capital expenditure totaled $2.8 million for the first half of 2016, which was $0.4 million higher than the same period in 2015. A number of projects were implemented to improve the efficiency of the operations. These projects included further improvement work at the mineral separation plant to increase recoveries and an overhaul of one generator at the power plant for security of power supply.

### Projects

*Gangama dry mine*

As described above, the Gangama dry mine project was commissioned on 31 May 2016. Once fully ramped-up, the Gangama dry mine is expected to contribute around 45kt of rutile production per annum.

The approved capital cost of the project is $44 million and to the end of June, $32.4 million has been spent on the project excluding capitalised interest and finance costs. The total cost of the project once fully operational is expected to be around $38.2 million excluding capitalised interest and finance costs. The project is funded 40% by the Senior Loan facility and 60% by internally generated cash.

*Other expansion projects*

Process optimisation, value engineering and market evaluation for the planned 250 tph bolt-on units for the Lanti and Gangama dry mines continue. Subject to a successful outcome to these studies and market conditions, Sierra Rutile expects to be in a position to make a decision on construction of these bolt-on units in early 2017. These short-lead times and low-capital brownfield expansions allow Sierra Rutile to react quickly to a firming market to profitably meet potential demand as markets allow. These expansions are expected to be funded from operating cash flows.

Sierra Rutile also continues to progress towards a definitive feasibility study for the Sembehun dry mine which is expected to be completed in 2017.

### Agriculture business

Sierra Rutile has a joint venture agreement with Carmanor Limited to grow its agricultural business, African Lion Agriculture ("ALA"), which includes palm oil, rubber and cacao plantations. Upon entering into this agreement, the Group's interest in ALA was reduced to 49%. Carmanor met the objectives for 2015 as set out in the business plan approved at inception of the joint venture agreement, and as a consequence, the Group's interest was reduced to 35% with effect from 1 March 2016.

Since April 2016, the Group believes there has been a marked deterioration in the internal and external environment in which the business operates. In light of these factors and the likelihood of future returns, the Group's residual 35% investment in the joint venture has been fully impaired. The Group is considering options for its joint venture business, and should the situation improve, the impairment would be reversed.

## FINANCE REVIEW

**Basis of preparation**

The unaudited interim condensed consolidated financial statements for the six month period ended 30 June 2016 have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting" using accounting policies consistent with those adopted in the consolidated financial statements for the year ended 31 December 2015.

**Income statement**

An abridged analysis of the income statement for the period ended six months to 30 June 2016 is shown below.

| | **Six months ended 30 June 2016 $'000** | Six months ended 30 June 2015 **$'000** |
|---|---|---|
| **Revenue** | **47,896** | 45,665 |
| Operating costs (excluding depreciation, impairment charges, inventory write off, transaction costs and impairment charges) | **(43,119)** | (38,482) |
| Other income | **101** | 33 |
| **EBITDA** | **4,878** | 7,216 |
| Depreciation and amortisation | **(10,775)** | (10,747) |
| Share of results of joint venture | **(57)** | - |
| Transaction costs | **(61)** | - |
| Inventory write-off | **(6,366)** | - |
| Share based payments | **(334)** | (419) |
| **Operating loss before impairment charges** | **(12,715)** | (3,950) |
| Impairment charges | **(5,073)** | - |
| **Loss before finance items and taxation** | **(17,788)** | (3,950) |
| Net finance (costs)/income | **(2,028)** | 1,369 |
| **Loss before taxation** | **(19,816)** | (2,581) |
| Income tax expense | **(1,692)** | (1,603) |
| **Loss for the period** | **(21,508)** | (4,184) |
| **Loss per share (US cents per share)** | | |
| Basic and diluted | **(3.9)** | (0.8) |

**Revenue**

The Group's revenues from the sales of rutile, ilmenite, zircon and tailings were $47.9 million in the first six months of 2016 (30 June 2015: $45.7 million), a 5% increase. The increase in revenue was principally as a result of an increase in rutile sales' volumes offset by lower prices.

Total sales volume of rutile for the six months to 30 June 2016 was 60,930 tonnes, which compares to 50,623 tonnes in the corresponding period, a 20.4% increase. The higher sales' volumes were driven by the continued strong demand for premium quality rutile.

The average realised price for rutile on an ex-Sierra Leone basis (i.e. Free Along Side or "FAS") was $719/t, a 9.5% reduction compared to the corresponding period. The reduction in prices was driven by lower prices negotiated towards the end of 2015, a time when market conditions were affected by pigment manufacturers continuing to destock into the second half of 2015.

By-product revenues decreased to $3.4 million (30 June 2015: $4.8 million) driven by lower sales' volumes of ilmenite reflecting weaker customer demand for this product, which was partially offset by an increase in sales of tailings.

Revenue in the income statement is stated including the freight costs for those sales conducted by a Cost, Insurance and Freight ("CIF") basis. CIF costs of these sales amounted to $0.7 million versus $0.9 million in the comparative period.

## FINANCE REVIEW (continued)

### EBITDA

For the six months ended 30 June 2016, the Group recorded EBITDA of $4.9 million compared to $7.2 million for the period ended 30 June 2015. Although revenues were slightly higher compared to the corresponding period, the reduction in EBITDA was largely attributable to the inventory adjustment for finished goods. In the first half of 2016, finished goods produced at a higher production cost in 2015 were sold down resulting in a negative adjustment to EBITDA, whereas in the comparative period, there was a build-up in finished goods inventory which resulted in a positive inventory adjustment within EBITDA.

| | **Six months ended 30 June 2016 $'000** | Six months ended 30 June 2015 $'000 |
|---|---|---|
| **Revenue** | **47,896** | 45,665 |
| Other income | **101** | 33 |
| Operating costs (excluding depreciation, inventory write off, transaction costs and impairment charges) | | |
| Production costs | **35,360** | 29,343 |
| Freight costs | **668** | 873 |
| Selling costs | **2,462** | 3,075 |
| General and administrative costs (excluding share based payments) | **4,629** | 5,191 |
| **EBITDA** | **4,878** | 7,216 |

### Production costs

Production costs for the six months ended 30 June 2016 include a charge of $0.5 million (30 June 2015: income of $3.6 million) relating to the inventory adjustment for finished goods as noted above, and production cash costs of $34.8 million (30 June 2015: $33.0 million).

Production cash costs primarily relate to the costs of mining, secondary processing, and support and infrastructure services located at the mine site. Overall, production cash costs increased by $1.8 million due to the mining of higher ore volumes to support increased production as well as operating costs attributable to the recently commissioned Gangama dry mine after its commissioning date on 31 May 2016. Offsetting these factors, lower fuel prices and improved pricing from suppliers had a beneficial impact on production cash costs.

### Selling costs

Selling costs mainly comprise royalties paid to the Government based on the terms of the mining agreement. Royalties incurred were $1.8 million (30 June 2015: $1.6 million). Other costs included in selling costs are port authority and maritime authority charges, as well as freight and storage costs for certain products which are sold to customers from a warehouse in Amsterdam.

### General and administrative costs (excluding share based payments)

General and administrative costs include the costs of running the Freetown office as well as costs incurred for corporate activities, mainly relating to the Group's listing and board related expenditure. These costs have reduced to $4.6 million (30 June 2015: $5.2 million), following cost saving initiatives which saw a reduction in discretionary expenditure.

As at 30 June 2016, the Group had incurred $0.1 million of transaction costs related to the potential acquisition by Iluka Resources.

### Inventory write-off

During the period, certain finished goods inventory became contaminated with water following the commencement of the rainy season. Although retreatment of this inventory was possible, in light of increased production volumes and limited on-site storage options, it was decided to liquidate this inventory at discounted prices in July and August 2016. A write-down of $6.4 million has therefore been recognised to reduce the carrying value of this inventory to net realisable value.

## FINANCE REVIEW (continued)

### Cash cost performance

Overall production cash costs were $34.8 million as compared to $33.0 million during the six months to 30 June 2015. With the higher production volumes in the six months to 30 June 2016 versus the same period in 2015, the unit production cash cost reduced to $567/t in 2016 compared to $619/t in 2015, representing an 8% decrease.

During the six months to 30 June 2016, all-in cash cost on a per tonne basis decreased to $678/t, compared to $772/t in the corresponding period due to higher sales' volumes. Stay-in-business capital expenditure was consistent with 2015 given the continuing tight market conditions.

The unit cash costs across the current and prior periods are as follows:

| | **Six months ended 30 June 2016 $'000** | Six months ended 30 June 2015 $'000 |
|---|---|---|
| Production cash costs | **34,843** | 32,975 |
| Selling cash costs | **2,462** | 3,075 |
| General and administrative cash costs (excluding share based payments and transaction costs) | **4,629** | 5,191 |
| Sustaining capital expenditure | **2,827** | 2,380 |
| **All-in cash cost** | **44,761** | 43,621 |
| By-product revenues | **3,447** | 4,843 |
| **All-in cash cost net of by-product revenue** | **41,314** | 38,778 |
| Rutile produced (tonnes) | **61,408** | 53,275 |
| Rutile sold (tonnes) | **60,930** | 50,263 |
| **Unit cash cost ($/t)** | | |
| Production cash cost | **567** | 619 |
| All-in cash cost | **678** | 772 |

We maintain our production cash cost guidance for the full year of between $540/t and $590/t. With revised guidance for production volumes for the full year having been increased, we expect production cash cost for the full year to fall towards the lower end of this range.

### Operating loss before impairment charges

The operating loss before impairment charges for the six months period to 30 June 2016 was $12.7 million, compared to $4.0 million for the six months to 30 June 2015. As well as the reported EBITDA of $4.9 million, operating loss also includes a depreciation charge of $10.8 million, versus $10.7 million in the comparative period. Operating loss also include an inventory write off of $6.4 million as noted above.

### Impairment charges

Since April 2016, the Group believes there has been a marked deterioration in the internal and external environment in which the Group's agricultural business operates. In light of these factors and the likelihood of future returns, the Group's residual 35% investment in the joint venture of $5.1 million has been fully impaired. The Group is considering options for its joint venture business, and should the situation improve, the impairment would be reversed.

### Net finance (costs)/income

Net finance costs of $2.0 million (30 June 2015: income of $1.4 million) have been recognised during the period. Included within net finance costs are:

- Interest charges on the loan due to the Government of $0.9 million (30 June 2015: $0.6 million)
- Interest charges on the Working Capital Facility of $0.6 million (30 June 2015: $0.5 million)
- Finance costs and fees of $0.5 million (30 June 2015: $0.4 million)
- Unwind of discount and interest on retirement benefit obligation of $0.1 million (30 June 2015: $0.2 million)
- Net foreign exchange gains of $0.1 million (30 June 2015: gains of $2.6 million)

The exchange gains mainly arose from the movement of the Euro against the US Dollar and the resulting impact on the Euro-denominated loan from the Government. In the comparative period, the Euro devalued by 8%, but there was a 2% appreciation in the first half of 2016.

# FINANCE REVIEW (continued)

### Net finance (costs)/income (continued)

Interest charges and other finance costs relating to the Senior Loan Facility which has been arranged for the construction of the Gangama dry mine project amounted to $0.5 million (30 June 2015: $1.5 million ). These costs were capitalised to the cost of the project in accordance with IAS 23 "Borrowing Costs".

### Taxation

The taxation of the Group's operations in Sierra Leone is aligned to the Sierra Rutile Agreement (Ratification) Act 2002, under which tax is charged at an amount not less than 3.5% of turnover and not more than the standard Sierra Leone corporate income tax rate (up to a maximum rate of 37.5%) on taxable profits. The standard corporate income tax rate in Sierra Leone enacted at the balance sheet date is 30%.

The breakdown of the taxes is set out below:

| | **Six months ended 30 June 2016 $'000** | Six months ended 30 June 2015 $'000 |
|---|---|---|
| **Income tax expense** | | |
| Current tax – UK tax at 20.0% (30 June 2015: 21.5%) | **16** | 5 |
| Minimum turnover tax – Sierra Leone at 3.5% (30 June 2015: 3.5%) | **1,676** | 1,598 |
| Total income tax expense | **1,692** | 1,603 |

*Unrecognised tax losses*
At the beginning of the period, the Group had unused tax losses of $401.1 million available for offset against future profits. No deferred tax asset has been recognised for these losses as there is insufficient certainty on the existence of taxable profits against which tax losses can be utilised given the Group's planned capital expenditure programme which should result in further accelerated capital allowances being generated.

### Loss for the period

The loss for the period attributable to shareholders amounted to $21.5 million (30 June 2015: $4.2 million). The loss for the period was due to an operating loss of $12.7 million after taking into account an inventory write off of $6.4 million, an impairment charge of $5.1 million related to the Group's joint venture investment in the agricultural business, net finance costs of $2.0 million and tax charges of $1.7 million.

### Basic and diluted earnings per share

| | **Six months ended 30 June 2016** | **Six months ended 30 June 2015** |
|---|---|---|
| Loss attributable to owners of the parent ($'000) | **(21,508)** | (4,184) |
| Weighted average number of ordinary shares in issue for basic and diluted earnings per share | **553,696,773** | 522,231,508 |
| Basic and diluted loss per share (US cents per share) | **(3.9)** | (0.8) |

Basic and diluted earnings per share was a loss of 3.9 US cents per share, compared to a loss of 0.8 US cents per share in the corresponding period principally arising from the increased loss realised during the period. In addition, there was an increase in the weighted average number of shares in issue arising from the equity raise in April 2016.

## FINANCE REVIEW (continued)

### Cash flows

A summary of cash flows is shown below:

| | Six months ended 30 June 2016 $'000 | Six months ended 30 June 2015 $'000 |
|---|---|---|
| **EBITDA (excluding transaction costs and impairment charges)** | **4,878** | 7,216 |
| Working capital movements: | | |
| Increase in inventories | **(3,143)** | (4,411) |
| (Increase)/decrease in trade and other receivables | **(13,216)** | 10,008 |
| Increase/(decrease) in trade and other payables | **4,666** | (328) |
| Increase in provisions | **240** | 80 |
| Income taxes paid | **(470)** | (490) |
| **Net cash flows from operating activities before capital expenditure** | **(7,045)** | 12,075 |
| Stay-in-business capital expenditure | **(2,827)** | (2,380) |
| **Free Cash Flow** | **(9,872)** | 9,695 |
| Expansionary and other capital expenditure | **(9,835)** | (7,900) |
| Interest paid | **(1,360)** | (1,173) |
| Equity raise | **19,713** | - |
| Other movements | **(206)** | (943) |
| **Cash flow movement in net debt** | **(1,560)** | (321) |

**Working capital**

The working capital movements resulted in a $11.6 million outflow (30 June 2015: inflow of $5.3 million). The principal movements are explained below:

- Inventory: consumables increased by $3.1 million due to an increase in spares to support the recently commissioned Gangama dry mine and the ongoing initiative to raise the level of critical spares to support increased production volumes.
- Trade and other receivables: increased by $13.2 million due to the timing of cash receipts whereby remittances from some significant sales in June were only received after the period end.
- Trade and other payables: increased by $4.7 million during the period, primarily driven by an improvement in payment terms with key suppliers.

**Income taxes paid**

Income taxes paid remained consistent with the comparative period as they reflect two quarterly payments on account.

**Stay-in-business capital expenditure**

Stay-in-business capital expenditure for the six months to 30 June 2016 totaled $2.8 million (30 June 2015: $2.4 million). A number of projects were implemented to improve the efficiency of the operations. These projects included further improvement work at the mineral separation plant to increase recoveries and an overhaul of one generator at the power plant for security of power supply.

**Free Cash Flow**

Free Cash Flow for the period was an outflow of $9.9 million which compared to an inflow of $9.6 million in the prior period. Although EBITDA decreased from the prior period due to the effect of the inventory adjustment for finished goods, the major impact on Free Cash Flow was the timing of customer receipts which negatively impacted working capital. This timing effect is expected to reverse in the second half of the year.

**Expansionary and other capital expenditure**

Expansionary capital expenditure on the Gangama dry mine totaled $9.8 million, excluding capitalised interest and other finance costs, which was $1.7 million higher than the prior period. The total cost of the Gangama dry mine to 30 June 2016, excluding capitalised interest and other finance costs, amounted to $32.4 million.

**Interest paid**

Interest paid during the period was $1.4 million (30 June 2015: $1.2 million). The increase is due to interest paid on the Senior Loan Facility, first drawn in April 2015, which is being used to fund 40% of capital expenditure on the Gangama dry mining project.

## FINANCE REVIEW (continued)

**Equity raise**

In April 2016, the Group raised $21.0 million in gross proceeds or $19.7 million after issuance costs, through an equity raise to existing and new shareholders. The shares issued represented 12.3% of the enlarged issued share capital.

The proceeds from the equity raise are being used to provide additional working capital and financial flexibility to enable Sierra Rutile to continue to implement its strategy of increasing production through expansion of its dry mining operations in a way that aligns production with anticipated customer demand.

**Balance sheet**

The Group's capital employed position at 30 June 2016 is shown below:

| | **30 June 2016 $'000** | 31 December 2015 $'000 |
|---|---|---|
| Total equity | **174,099** | 175,560 |
| Borrowings | **58,214** | 51,455 |
| **Capital employed** | **232,313** | 227,015 |

**Summary of movements**

The capital employed (as defined by the Group) comprises equity attributable to shareholders and interest-bearing loans and borrowings. Capital employed increased by $5.3 million, predominantly due to $5.4 million drawn down under the Senior Loan Facility to fund the Gangama dry mine project and $19.7 million through the equity raise noted above, offset by the retained loss for the period of $21.5 million.

**Net debt**

Net debt comprises cash and cash equivalents and interest-bearing loans and borrowings. A summary of the net debt position is shown below:

| | **30 June 2016 $'000** | 31 December 2015 $'000 |
|---|---|---|
| Cash and cash equivalents | **9,187** | 5,017 |
| Short term borrowings | **(30,431)** | (30,249) |
| Long term borrowings | **(27,783)** | (21,206) |
| **Net debt** | **(49,027)** | (46,438) |

At 30 June 2016, the Group had cash and cash equivalents of $9.2 million (30 December 2015: $5.0 million). Gross borrowings increased to $58.2 million as a result of the $5.4 million drawn under the Senior Loan Facility to fund the Gangama dry mine project.

During the reporting period, the debt facilities available to the Group have not materially changed from those disclosed in the 2015 Annual Report and Accounts.

Further to the deferral of the repayment of the Group's loan from the Government announced in March 2016, in August 2016 agreement was reached with the Government on a monthly loan repayment schedule. The loan will be repaid in 23 equal instalments of €1 million commencing from December 2016 with a final instalment of €660,000 payable in November 2018, instead of the previous semi-annual repayment profile. The carrying value of the loan from the Government as at 30 June 2016 was $23.5 million.

## COMPLIANCE AND RISK

### Going concern

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in the Finance Review on pages 7 and 12. At 30 June 2016, the Group had cash and cash equivalents of $9.2 million and total borrowings of $58.2 million. Details on the Group's borrowings are set out in note 10 to the condensed consolidated financial statements.

The Group has prepared a cash flow forecast based on its best estimate of the key variables including sales volumes, prices, operating costs and capital expenditure through to October 2017 that shows that the Group will be able to operate within the level of its current facilities and comply with its financial covenants for the foreseeable future.

The Directors acknowledge that the Group faces ongoing risks, the most significant of which is exposure to rutile prices and sales volumes. The Group has already contracted the majority of its sales' volumes in 2016, mostly with agreed pricing, and in respect of the uncontracted sales the most recent equity analyst forecasts indicates a steady increase in rutile prices over the coming twelve months that would allow the Group to continue to meet its funding obligations during the forecast period. The Group has already commenced discussions with customers on projected sales' volumes for 2017 and the outcome of these discussions form the basis of the sales volume assumptions included in the cash flow forecast. If there was a fall in prices or sales' volumes below the levels forecast for the going concern period, the Directors believe that they have a number of options available to them, such as deferring capital expenditure, actively managing working capital, and accessing the Standby Facility (as set out in Note 10 "Borrowings") which is available for general corporate purposes, which would allow the Group to meet its cash flow requirements through this period.

Accordingly, the Board continues to adopt the going concern basis in preparing the interim financial information for these condensed consolidated financial statements.

### Principal risks and uncertainties

The significant risks identified by Sierra Rutile are those that could have a material impact on the Group's financial condition, performance, strategy over the remaining six months of the year and which could cause actual results to differ materially from expected results. These are set out on pages 40 to 43 of the 2015 Annual Report and Accounts, which is available at www.sierra-rutile.com.

The significant risks have not materially changed and remain appropriate in 2016. There may be other risks unknown, or currently believed immaterial by the Group, which might become material.

## DIRECTORS' RESPONSIBILITY STATEMENT

Each Director confirms to the best of their knowledge:

a) the condensed set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting"; and

b) the half yearly financial report includes a fair review of the information:

- being an indication of important events that have occurred during the first six months of the financial year, and their impact on the half yearly financial report and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- being disclosure of related party transactions that have taken place in the first six months of the financial year and that have materially affected the financial position or the performance of the Group during that period and any changes in the related party transactions described in the last annual report that could have a material effect on the financial position or performance of the Group in the first six months of the current financial year.

By order of the Board

| | |
|---|---|
| John Bonoh Sisay | Stephen Gill |
| 29 September 2016 | 29 September 2016 |

**INDEPENDENT REVIEW REPORT TO SIERRA RUTILE LIMITED**

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2016 which comprises the unaudited condensed consolidated income statement, the unaudited condensed consolidated statement of comprehensive loss, the unaudited condensed consolidated balance sheet, the unaudited condensed consolidated statement of cash flows and the unaudited condensed consolidated statement of changes in equity, the cash flow statement and related notes 1 to 16. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

**Directors' responsibilities**

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rules of the London Stock Exchange.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting," as adopted by the European Union.

**Our responsibility**

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

**Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM Rules of the London Stock Exchange.

**Deloitte LLP**

Chartered Accountants and Statutory Auditor

London, UK

29 September 2016

**Unaudited Condensed Consolidated Income Statement**
**Period ended 30 June 2016**

| | Note | Six months ended 30 June 2016 $'000 | Six months ended 30 June 2015 $'000 |
|---|---|---|---|
| **Revenue** | 3 | **47,896** | 45,665 |
| Cost of sales: | | | |
| Production and freight expenses | | **(46,803)** | (40,963) |
| Inventory write-off | 4 | **(6,366)** | - |
| | | **(53,169)** | (40,963) |
| **Gross (loss)/ profit** | | **(5,273)** | 4,702 |
| Selling and distribution expenses | | **(2,462)** | (3,075) |
| General and administrative expenses | | **(5,024)** | (5,610) |
| Other income | | **101** | 33 |
| Share of results of joint venture | | **(57)** | - |
| **Operating loss before impairment charges** | | **(12,715)** | (3,950) |
| Impairment charges | 8 | **(5,073)** | - |
| **Operating loss** | | **(17,788)** | (3,950) |
| Finance income | 5 | **129** | 3,214 |
| Finance costs | 5 | **(2,157)** | (1,845) |
| **Loss before taxation** | | **(19,816)** | (2,581) |
| Income tax expense | 6 | **(1,692)** | (1,603) |
| **Loss for the period** | | **(21,508)** | (4,184) |

**Unaudited Condensed Consolidated Statement of Comprehensive Loss**
**Interim period ended 30 June 2016**

| | | | |
|---|---|---|---|
| **Loss for the period** | | **(21,508)** | (4,184) |
| *(Items will not be subsequently reclassified to the income statement)* | | | |
| **Total comprehensive loss for the period** | | **(21,508)** | (4,184) |
| **Loss per share (US cents per share)** | | | |
| - basic and diluted | 7 | **(3.9)** | (0.8) |

**Unaudited Condensed Consolidated Balance Sheet**
**30 June 2016**

| ASSETS | Note | 30 June 2016 $'000 | Audited 31 December 2015 $'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | | **11,554** | 11,494 |
| Property, plant and equipment | | **174,310** | 171,825 |
| Investment in joint venture | 8 | **-** | 5,130 |
| | | **185,864** | 188,449 |
| **Current assets** | | | |
| Inventories | | **51,214** | 54,437 |
| Trade and other receivables | | **21,219** | 8,003 |
| Cash and cash equivalents | 9 | **9,187** | 5,017 |
| | | **81,620** | 67,457 |
| **Total assets** | | **267,484** | 255,906 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | **(25,027)** | (20,361) |
| Current tax liabilities | | **(3,768)** | (2,546) |
| Short-term borrowings | 10 | **(30,431)** | (30,249) |
| Provisions for liabilities and charges | | **(256)** | (303) |
| | | **(59,482)** | (53,459) |
| **Non-current liabilities** | | | |
| Medium and long-term borrowings | 10 | **(27,783)** | (21,206) |
| Retirement benefit obligations | | **(3,246)** | (2,945) |
| Provisions for liabilities and charges | | **(2,874)** | (2,736) |
| | | **(33,903)** | (26,887) |
| **Total liabilities** | | **(93,385)** | (80,346) |
| **Net assets** | | **174,099** | 175,560 |
| **EQUITY AND LIABILITIES** | | | |
| Share capital | 11 | **294,815** | 275,102 |
| Share capital option reserve | | **2,687** | 2,379 |
| Retained loss | | **(123,403)** | (101,921) |
| **Total equity attributable to equity holders of the parent** | | **174,099** | 175,560 |

**Unaudited Condensed Consolidated Statement of Cash Flows**
**Period ended 30 June 2016**

| | Note | Six months ended 30 June 2016 $'000 | Six months ended 30 June 2015 $'000 |
|---|---|---|---|
| **Operating cash inflow before working capital changes** | 12 | **4,817** | 7,216 |
| Increase in inventories | | **(3,143)** | (4,411) |
| (Increase)/decrease in trade and other receivables | | **(13,216)** | 10,008 |
| Increase/(decrease) in trade and other payables | | **4,666** | (328) |
| Increase /(decrease) in provisions | | **240** | (6) |
| **Net cash (outflow)/inflow from operating activities before interest and taxes paid** | | **(6,636)** | 12,479 |
| Interest paid | | **(1,360)** | (1,173) |
| Income taxes paid | | **(470)** | (490) |
| **Net cash (outflow)/inflow from operating activities** | | **(8,466)** | 10,816 |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | | **(12,662)** | (10,280) |
| Purchase of biological assets | | **-** | (231) |
| Purchase of intangible assets | | **(145)** | (43) |
| **Net cash used in investing activities** | | **(12,807)** | (10,554) |
| **Financing activities** | | | |
| Net proceeds from borrowings | | **5,433** | 2,735 |
| Issue of shares | 11 | **19,713** | - |
| Charges under derivative financial instruments | | **-** | (583) |
| **Net cash from financing activities** | | **25,146** | 2,152 |
| **Net increase in cash and cash equivalents** | | **3,873** | 2,414 |
| **Cash and cash equivalents at beginning of the period** | | **5,017** | 6,564 |
| Net increase in cash and cash equivalents | | **3,873** | 2,414 |
| Effect of foreign exchange rate change | | **297** | 42 |
| **Cash and cash equivalents at end of the period** | 9 | **9,187** | 9,020 |

**Unaudited Condensed Consolidated Statement of Changes in Equity**
**Period ended 30 June 2016**

| | Note | Share capital $'000 | Share option reserve $'000 | Retained loss $'000 | Total equity $'000 |
|---|---|---|---|---|---|
| Balance at 1 January 2015 | | 275,102 | 2,637 | (89,698) | 188,041 |
| Total comprehensive loss for the period | | - | - | (4,184) | (4,184) |
| Forfeiture of share options | | - | (237) | 237 | - |
| Recognition of share-based payments | | - | 419 | - | 419 |
| Balance at 30 June 2015 | | 275,102 | 2,819 | (93,645) | 184,276 |
| **Balance at 1 January 2016** | | **275,102** | **2,379** | **(101,921)** | **175,560** |
| Total comprehensive loss for the year | | **-** | **-** | **(21,508)** | **(21,508)** |
| Issue of shares | 11 | **19,713** | **-** | **-** | **19,713** |
| Forfeiture of share options | | **-** | **(26)** | **26** | **-** |
| Recognition of share-based payments | | **-** | **334** | **-** | **334** |
| Balance at 30 June 2016 | | **294,815** | **2,687** | **(123,403)** | **174,099** |

**Notes to the unaudited interim condensed consolidated financial statements**
**Period ended 30 June 2016**

## 1. General information

Sierra Rutile Limited (the "Company") is a public limited company listed on the Alternative Investment Market ("AIM") of the London Stock Exchange. The Company is incorporated and domiciled in the British Virgin Islands. The address of its registered office is at P.O. Box 4301, Trinity Chambers, Road Town, Tortola, British Virgin Islands. The Group comprises Sierra Rutile Limited and its consolidated subsidiaries.

The Group's principal activity is exploring, producing and marketing natural rutile and related by-products from its assets in Sierra Leone.

## 2. Significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

#### (i) Condensed consolidated financial statements

The condensed consolidated financial statements for the six month period ended 30 June 2016 have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting".

These financial statements are condensed financial statements and accordingly do not include all of the information required for a full annual financial report and are to be read in conjunction with the Group's audited financial statements for the year ended 31 December 2015, which were prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use by the European Union. The financial information for the year ended 31 December 2015 does not therefore constitute statutory accounts. This information was derived from the audited financial statements for the year ended 31 December 2015. The auditor's report on these accounts was unqualified and did not include a reference to any matters to which the auditor drew attention by way of an emphasis of matter.

#### (ii) Basis of accounting

The condensed consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments which have been measured at fair value.

The Group has not adopted any new standards in 2016. The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2015.

The Group has not early adopted any standard, interpretation or amendment that was issued but is not yet effective.

In preparing these condensed consolidated financial statements, the Group has adopted all the applicable extant accounting standards issued by the IASB and all the applicable extant interpretations issued by the IFRIC as at 30 June 2016, as adopted by the European Union up to 30 June 2016.

The condensed consolidated financial statements are presented in US dollars ($) and all financial information has been rounded to the nearest thousand dollars ($'000) except where otherwise indicated.

#### (iii) Going concern

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in the Finance Review on pages 7 and 12. At 30 June 2016, the Group had cash and cash equivalents of $9.2 million and total borrowings of $58.2 million. Details on the Group's borrowings are set out in note 10 to the condensed consolidated financial statements.

The Group has prepared a cash flow forecast based on its best estimate of the key variables including sales volumes, prices, operating costs and capital expenditure through to October 2017 that shows that the Group will be able to operate within the level of its current facilities and comply with its financial covenants for the foreseeable future.

The Directors acknowledge that the Group faces ongoing risks, the most significant of which is exposure to rutile prices and sales volumes. The Group has already contracted the majority of its sales' volumes in 2016, mostly with agreed pricing, and in respect of the uncontracted sales the most recent equity analyst forecasts indicates a steady increase in rutile prices over the coming twelve months that would allow the Group to continue to meet its funding obligations during the forecast period. The Group has already commenced discussions with customers on projected sales' volumes for 2017 and the outcome of these discussions form the basis of the sales volume assumptions included in the cash flow forecast. If there was a fall in prices or sales' volumes below the levels forecast for the going concern period, the Directors believe that they have a number of options available to them, such as deferring capital expenditure, actively managing working capital, and accessing the Standby Facility (as set out in Note 10 "Borrowings") which is available for general corporate purposes, which would allow the Group to meet its cash flow requirements through this period.

Accordingly, the Board continues to adopt the going concern basis in preparing the interim financial information for these condensed consolidated financial statements.

## 2. Significant accounting policies (continued)

### 2.2 Critical accounting judgement and key sources of estimation uncertainty

In the course of preparing these condensed consolidated financial statements, the Directors make necessary judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Judgements are based on the Directors' best knowledge of the relevant facts and circumstances having regard to prior experience, but actual results may differ from the amounts included in the financial statements. Estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions applied are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

In preparing these condensed consolidated financial statements, significant judgements made by the Directors in applying the Group's accounting policies and the key sources of estimation uncertainty used were consistent, in all material respects, as those applied to the Group's consolidated financial statements for the year ended 31 December 2015.

## 3. Segment information

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating Decision Maker of the Group to allocate resources to the segments to assess their performance.

The strategy of the Group is to produce, refine and sell natural rutile. Information reported to the Board is on an integrated basis, which is how decisions over resource allocation are made. The Group itself has only one primary mining product being rutile, with ilmenite, zircon and other concentrates being considered by-products of the integrated rutile production process.

As such, the Group considers there to be one segment being the production, refining and sale of rutile.

***Segment revenue***

Revenue represents the invoiced amount in respect of sales of rutile, ilmenite and zircon and other concentrates sold during the period including freight costs for those sales conducted on a Cost, Insurance and Freight' ("CIF") basis. By separately analysing freight costs for those sales conducted on a CIF basis, revenue by product in the table below is therefore stated on an equivalent 'Free Along-Side' ("FAS") basis.

Revenue consists of the following:

| | Six months ended 30 June 2016 $'000 | Six months ended 30 June 2015 $'000 |
|---|---|---|
| Rutile | **43,781** | 39,949 |
| Ilmenite | **1,206** | 4,021 |
| Zircon and other concentrates | **2,241** | 822 |
| Freight costs | **668** | 873 |
| | **47,896** | 45,665 |

**Geographical information**

Segment revenue is derived from sales to external customers domiciled in various geographical regions. Details of segment revenue by location of customers are as follows:

| | Six months ended 30 June 2016 $'000 | Six months ended 30 June 2015 $'000 |
|---|---|---|
| Middle East/Asia | **14,631** | 3,945 |
| Europe | **22,405** | 27,754 |
| North and South America | **10,008** | 12,644 |
| Africa | **184** | 449 |
| Freight costs | **668** | 873 |
| | **47,896** | 45,665 |

No customers are currently located in Sierra Leone.

For the period ended 30 June 2016 revenues of $22.6 million and $17.3 million were generated from two customers (30 June 2015: Revenues of $14.4 million, $8.4 million and $7.9 million were derived from three customers) all of whom accounted for more than 10% of the Group's total sales for the period.

***Segment assets***

All of the Group's assets are in Sierra Leone except certain inventory balances valued at $3.9 million (31 December 2015: $3.7 million) held in a warehouse in Europe.

All the Group's assets belong to one segment, that being the production, refining and sale of rutile.

### *Seasonality information*

Whilst certain of the activities at the Group's operations are subject to the effects of seasonality, the effect on the results of the Group are minimal.

## 4. Non-GAAP performance indicators

The Directors monitor the financial performance and financial position of the Group based on a number of key performance indicators including EBITDA, production cash cost, all-in cash cost and net debt.

### (a) EBITDA

The Group presents EBITDA because it believes that EBITDA is a useful measure of the profitability of the Group and is a proxy for cash earnings from current trading performance. The Group calculates EBITDA as earnings/(loss) before finance income/costs, tax, depreciation, amortisation, share based payments, transaction costs, inventory write-offs and impairment charges.

| | **Six months ended 30 June 2016 $'000** | **Six months ended 30 June 2015 $'000** |
|---|---|---|
| Operating loss | **(17,788)** | (3,950) |
| Depreciation and amortisation | **10,775** | 10,747 |
| Share of results of joint venture | **57** | - |
| Share-based payments | **334** | 419 |
| Transaction costs | **61** | - |
| Inventory write off (refer note below) | **6,366** | - |
| Impairment charges (refer note 8) | **5,073** | - |
| **EBITDA** | **4,878** | 7,216 |

During the period, certain finished goods inventory became contaminated with water following the commencement of the rainy season. Although retreatment of this inventory was possible, in light of increased production volumes and limited on-site storage options, it was decided to liquidate this inventory at discounted prices. A write-down of $6.4 million has therefore been recognised to reduce the carrying value of this inventory to net realisable value.

### (b) Production cash cost and all-in cash cost

Production cash cost is defined as the direct costs of production divided by tonnes of rutile produced. The direct costs of production include mining, processing, support and infrastructure services at the mine site which are utilised in order to produce finished rutile in readiness for shipment to the customer.
All-in cash cost is defined as operating costs (direct production, selling, general and administrative costs), stay-in-business capital expenditure less by-product revenue divided by tonnes of rutile sold.

| | **Six months ended 30 June 2016 $'000** | **Six months ended 30 June 2015 $'000** |
|---|---|---|
| Cost of sales | **(53,169)** | (40,963) |
| Add: Depreciation and amortisation | **10,775** | 10,747 |
| Add: Inventory write off | **6,366** | - |
| Add: Freight costs | **668** | 873 |
| Add/(deduct): Change in value of finished goods inventory | **517** | (3,632) |
| **Production cash costs** | **(34,843)** | (32,975) |
| Selling and distribution expenses | **(2,462)** | (3,075) |
| General and administrative expenses | **(5,024)** | (5,610) |
| Sustaining capital expenditure | **(2,827)** | (2,380) |
| Deduct*:* Share-based payments | **334** | 419 |
| Deduct: Transaction costs | **61** | - |
| Deduct*:* By-product revenue | **3,447** | 4,843 |
| **All-in cash costs** | **(41,314)** | (38,778) |
| Rutile produced (tonnes) – unaudited and unreviewed | **61,408** | 53,275 |
| Rutile sold (tonnes) – unaudited and unreviewed | **60,930** | 50,263 |
| **Unit cash cost ($/tonne)** | | |
| Production cash cost – unaudited and unreviewed | **567** | 619 |
| All-in cash cost – unaudited and unreviewed | **678** | 772 |

## 4. Non-GAAP performance indicators (continued)

### (c) Net debt

Net debt as defined by the Group is calculated as total borrowings less cash and cash equivalents.

| | Six months ended 30 June 2016 $'000 | Audited 31 December 2015 $'000 |
|---|---|---|
| Cash and cash equivalents | **9,187** | 5,017 |
| Current borrowings | **(30,431)** | (30,249) |
| Non-current borrowings | **(27,783)** | (21,206) |
| **Net debt** | **(49,027)** | (46,438) |

## 5. Finance income and finance costs

| (a) Finance income | Six months ended 30 June 2016 $'000 | Six months ended 30 June 2015 $'000 |
|---|---|---|
| Net foreign exchange transaction gains | **129** | 3,214 |
| | **129** | 3,214 |

Exchange gains primarily arise on the revaluation of the Euro denominated loan payable to the Government of Sierra Leone (refer to note 10), the cash balances held in local currency and upon the revaluation of other foreign currency denominated balances.

### (b) Finance costs

| | Six months ended 30 June 2016 $'000 | Six months ended 30 June 2015 $'000 |
|---|---|---|
| ***Interest expense:*** | | |
| Government of Sierra Leone loan | **911** | 647 |
| Working Capital Facility | **550** | 520 |
| Standby Facility | **42** | - |
| Senior Loan Facility | **514** | 153 |
| Total interest expense | **2,017** | 1,319 |
| Less: Interest expense capitalised | **(514)** | (153) |
| Interest expense charged to the income statement | **1,503** | 1,167 |
| Charges under derivative financial instruments | **-** | 292 |
| Financing costs | **499** | 1,561 |
| Less: Financing costs capitalised | **-** | (1,380) |
| Unwinding of discount on provision | **8** | 43 |
| Interest expense on retirement benefits | **147** | 162 |
| **Finance costs charged to the income statement** | **2,157** | 1,845 |

Interest and finance costs of $0.5 million (30 June 2015: $1.5 million) relating to the Senior Loan Facility have been capitalised to the cost of the Gangama dry mine project.

Financing costs include arrangement fees, political risk insurance for facilities secured on the Group's assets in Sierra Leone, legal fees incurred in relation to finance raising activities and bank charges.

## 6. Income taxes

The taxation of the Group's operations in Sierra Leone reverted back to the provisions of the Sierra Rutile Agreement (Ratification) Act 2002, ("Sierra Rutile Act") as at 1 January 2015, under which tax is charged at an amount not less than 3.5% of turnover and not more than the standard Sierra Leone corporate income tax rate (up to a maximum rate of 37.5%) on taxable profits. Prior to this date, the business was subject to a minimum tax charged at 0.5% of turnover.

Tax components for the periods presented are as follows:

| | **Six months ended 30 June 2016 $'000** | Six months ended 30 June 2015 $'000 |
|---|---|---|
| **Income tax expense** | | |
| Current tax – UK tax at 20.0% (30 June 2015: 20%) | **16** | 5 |
| Deferred tax | **-** | - |
| Minimum turnover tax – Sierra Leone | **1,676** | 1,598 |
| Income tax expense | **1,692** | 1,603 |

A reconciliation between tax expense and the Group's loss before tax for the period ended 30 June 2016 and 30 June 2015 is as follows:

| | **Six months ended 30 June 2016 $'000** | Six months ended 30 June 2015 $'000 |
|---|---|---|
| Loss before tax | **(19,816)** | (2,581) |
| Tax at Sierra Leone corporate income tax rate applicable to the Group – 0%[1] | **-** | - |
| Minimum turnover tax 3.5% (30 June 2015: 3.5%) | **1,676** | 1,598 |
| UK Corporation tax at 20.0% (30 June 2015: 20.0%) | **16** | 5 |
| Income tax expense | **1,692** | 1,603 |

[1] Although in 2016 Sierra Leone operations are, prima facie, subject to Sierra Leone corporate tax at 30%, a rate of 0% has been applied due to the loss-making position of those operations and the consequent application of the minimum turnover tax.

## 7. Basic and diluted loss per share

### (a) Basic loss per share

| | **Six months ended 30 June 2016** | **Six months ended 30 June 2015** |
|---|---|---|
| Loss attributable to owners of the parent ($'000) | **(21,508)** | (4,184) |
| Weighted average number of ordinary shares in issue for basic and diluted earnings per share | **553,696,773** | 522,231,508 |
| Basic loss per share (US cents per share) | **(3.9)** | (0.8) |

Basic loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

## 7. Basic and diluted loss per share (continued)

### (b) Diluted loss per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of all potentially dilutive ordinary shares. Potential ordinary shares shall be treated as dilutive only when their conversion to ordinary shares would decrease earnings per share or increase loss per share.

The outstanding share options at 30 June 2016 and 2015 represent anti-dilutive potential ordinary shares, therefore basic and diluted earnings per share are the same for the current and prior period.

## 8. Investment in joint venture

Sierra Rutile has a joint venture agreement with Carmanor Limited to grow its agricultural business, African Lion Agriculture ("ALA"), which includes palm oil, rubber and cacao plantations. Upon entering into this agreement, the Group's interest in ALA was reduced to 49%. Carmanor met the objectives for 2015 as set out in the business plan approved at inception of the joint venture agreement, and as a consequence, the Group's interest was reduced to 35% with effect from 1 March 2016.

Since April 2016, the Group believes there has been a marked deterioration in the internal and external environment in which the business operates. In light of these factors and the likelihood of future returns, the Group's residual 35% investment in the joint venture has been impaired. The Group is considering options for its joint venture business, and should the situation improve, the impairment would be reversed.

| | **30 June 2016 $'000** |
|---|---|
| At 1 January 2016 | **5,130** |
| Share of net loss | **(57)** |
| Impairment charge | **(5,073)** |
| **At 30 June 2016** | **-** |

The Group provided services worth $43,000 to the joint venture during the period related mainly related to camp accommodation and fuel, and this amount is included in other receivables at period end.

## 9. Cash and cash equivalents

| | **30 June 2016 $'000** | **30 June 2015** $'000 |
|---|---|---|
| Restricted cash | **8** | 5,406 |
| Unrestricted cash | **9,179** | 3,614 |
| **Cash and cash equivalents** | **9,187** | 9,020 |

If the Working Capital Facility is utilised, any future cash receipts from sales are restricted until either they cover the balance drawn down or the subsequent rollover date, whereupon the restricted cash balance becomes unrestricted provided no default exists. The restriction may be waived in the event the Group requests for its major shareholder, Pala Investments Limited, to place cash collateral with the lender, and provided Pala Investments Limited consents to such a request, restricted funds may be released to the value of the cash collateral. Financing fees of 1% are payable to Pala Investments Limited on any cash balances collateralised.

The restricted cash balances shown above were released at the July rollover date of the loan in each respective year.

## 10. Borrowings

| | Inception date | Maturity date | Interest rate | 30 June 2016 $'000 | 31 December 2015 $'000 |
|---|---|---|---|---|---|
| **Secured:** | | | | | |
| Working Capital Facility | August 2013 | May 2017 | 5.00% | 20,000 | 20,024 |
| Senior Loan Facility | December 2013 | April 2020 | 5.25% | 14,689 | 9,256 |
| | | | | **34,689** | **29,280** |
| **Unsecured:** | | | | | |
| Government Loan | August 2004 | November 2018 | 8.0% | 23,525 | 22,175 |
| | | | | **23,525** | **22,175** |
| Total borrowings | | | | **58,214** | **51,455** |

| | 30 June 2016 $'000 | 31 December 2015 $'000 |
|---|---|---|
| **Analysed as:** | | |
| Current | **30,431** | 30,249 |
| Non-current | **27,783** | 21,206 |
| | **58,214** | 51,455 |

### (a) $20 million Working Capital Facility – secured

This facility carries an interest rate of LIBOR + 5.00% and was fully drawn at 30 June 2016 and 31 December 2015. It has a maturity date of May 2017.

If the Working Capital Facility is utilised, any future cash receipts from sales are restricted until either they cover the balance drawn down or the subsequent rollover date, whereupon the restricted cash balance becomes unrestricted provided no default exists. The restriction may be waived in the event the Group requests for its major shareholder, Pala Investments Limited, to place cash collateral with the lender, and provided Pala Investments Limited consents to such a request, restricted funds may be released to the value of the cash collateral.

The mechanics of the facility allow the principal to be fully repaid and drawn down on a rolling basis and hence this facility is presented as current. The loan is secured against the assets of the Group.

Borrowing costs of $0.6 million have been expensed and paid during the period to 30 June 2016.

### (b) $30 million Senior Loan Facility – secured

This facility carries an interest rate of LIBOR plus 5.25%. The facility was drawn by $14.7 million as at 30 June 2016 (31 December 2015: $9.2 million). The loan is secured against the assets of the Group and is restricted for use on the construction of the Gangama dry mine. The Gangama dry mine was funded 40% by the facility and the remaining 60% being funded by internally generated cash flows.

Borrowing costs of $0.5 million have been paid and capitalised to the capital cost of the Gangama dry mine project during the period to 30 June 2016.

### (c) Government Loan – unsecured

On 18 March 2016, a six month deferral of repayments of principal and payment of interest in respect of the loan payable to the Government was agreed with the Government such that the next repayment due under this loan commences in December 2016.

The balance outstanding as at 30 June 2016 was $23.5 million (31 December 2015: $22.1 million). No principal or interest payments were made in the period. Movements during the period reflect capitalised interest and the effect of the appreciation of the Euro against the US dollar as the loan is denominated in Euros. The loan carries a fixed interest rate of 8.0%.

### (d) $15 million Standby Facility – unsecured

This facility is available until May 2017 and can be utilised for general corporate purposes and carries an interest rate of LIBOR plus 2% with no associated arrangement or commitment fees. Borrowing costs of $59,000 have been expensed during the period to 30 June 2016.

The mechanics of the facility is that for each utilisation applied for, the Group's majority shareholder, Pala Investments Limited, deposits the same amount with the lender as cash collateral.

This facility was undrawn as at 30 June 2016 as well as at 31 December 2015.

## 11. Share capital

| | 30 June 2016 Number of shares | 30 June 2016 $'000 | 30 June 2015 Number of shares | 30 June 2015 $'000 |
|---|---|---|---|---|
| **Issued and fully paid** | | | | |
| At 1 January | **522,231,508** | **275,102** | 522,231,508 | 275,102 |
| Allotment during the year | **73,555,166** | **19,713** | - | - |
| | **595,786,474** | **294,815** | 522,231,508 | 275,102 |

The total authorised number of ordinary shares is unlimited with no par value. All issued shares are fully paid and are admitted on the Alternative Investment Market ("AIM") of the London Stock Exchange.

The Group issued 73,555,166 new shares in April 2016 through an equity raise to existing and new shareholders, generating net proceeds of $19.7 million after deducting placement costs of approximately $1.0 million.

## 12. Operating cash flow before working capital changes

| | Six months ended 30 June 2016 $'000 | Six months ended 30 June 2015 $'000 |
|---|---|---|
| **Loss before taxation** | **(19,816)** | (2,581) |
| *Adjustments for*: | | |
| Depreciation on property, plant and equipment | **10,690** | 10,662 |
| Amortisation of intangible assets | **85** | 85 |
| Share of results of joint venture | **57** | - |
| Finance costs | **2,157** | 1,845 |
| Finance income | **(129)** | (3,214) |
| Share-based payments | **334** | 419 |
| Impairment of investment | **5,073** | - |
| Inventory write off | **6,366** | - |
| **Operating cash flow before working capital changes** | **4,817** | 7,216 |

## 13. Movement in net debt

| | At 1 January 2016 $'000 | Cash flow $'000 | Other movements $'000 | At 30 June 2016 $'000 |
|---|---|---|---|---|
| Cash and cash equivalents | **5,017** | **3,873** | **297** | **9,187** |
| Borrowings | **(51,455)** | **(5,433)** | **(1,326)** | **(58,214)** |
| Net debt | **(46,438)** | **(1,560)** | **(1,029)** | **(49,027)** |

| | At 1 January 2015 $'000 | Cash flow $'000 | Other movements $'000 | At 30 June 2015 $'000 |
|---|---|---|---|---|
| Cash and cash equivalents | 6,564 | 2,414 | 42 | 9,020 |
| Borrowings | (43,000) | (2,735) | 1,267 | (44,468) |
| Net debt | (36,436) | (321) | 1,309 | (35,448) |

Other movements comprise net foreign exchange movements and other non-cash reconciling items. For the period ended 30 June 2016, the $1.3 million other movement on borrowings consists of $0.4 million of foreign exchange differences on the loan payable to the Government together with $0.9 million of interest capitalised on the loan. For the period ended 30 June 2015, the $1.3 million other movement on borrowings consists of $2.0 million of foreign exchange differences on the loan payable to the Government offset by $0.7 million of interest capitalised on the loan.

## 14. Capital commitments

| | **30 June 2016 $'000** | 31 December 2015 $'000 |
|---|---|---|
| Property, plant and equipment | **5,885** | 11,168 |

The Group has capital expenditure commitments for the purchase of property, plant and equipment. Commitments as at 30 June 2016 mainly relate to the remaining orders for the lump-sum turn-key contract for the Gangama dry mine.

## 15. Related party transactions and balances

| | **Amounts receivable/ (payable) $'000** | **Purchases/ project fees/interest $'000** |
|---|---|---|
| **(a) 30 June 2016** | | |
| *Shareholder:* | | |
| Interest paid on cash collateral to Pala Investments Limited [1] | **(4)** | **(17)** |
| Expense reimbursement [2] | **(255)** | **(83)** |
| *Joint venture:* | | |
| Transactions and receivables from joint venture [3] | **122** | **43** |
| *Director:* | | |
| Enterprise in which Mr Kamara is also a director – Cemmats Group [3] | **(8)** | **(82)** |
| **(b) 30 June 2015** | | |
| *Shareholder:* | | |
| Expense reimbursement [2] | (106) | (130) |
| *Director:* | | |
| Enterprise in which Mr Kamara is also a director – Cemmats Group [4] | (57) | (299) |

[1] Amounts paid to Pala Investments Limited, the Group's major shareholder, relates to the payment of a 1% financing fee when cash is collateralised in order to allow access to either restricted funds under the terms of the Working Capital Facility or any utilisation under the terms of the Standby Facility.

[2] In the ordinary course of business, certain individuals employed by Pala Investments Limited, the Company's majority shareholder, provide management services to the Group. Whilst no fees are payable for these management services, disbursements are incurred, mainly relating to travel, and the fees disclosed above relate to such disbursements.

[3] The Group provided services worth $43,000 to the joint venture during the period related mainly to camp accommodation and fuel, and this amount is included in other receivables at the period end.

[4] Mr. Kamara is a Director of the Group. Mr. Kamara is also a non-executive director of Cemmats Group, a Sierra Leonean company which has a number of contracts with Sierra Rutile to supply mining services and equipment. All transactions have been undertaken on an arm's length transaction.

## 16. Events after the reporting period

<u>Government Loan</u>

Further to the deferral of the repayment of the Group's loan from the Government announced in March 2016, in July 2016 an agreement was reached with the Government on a monthly loan repayment schedule. The loan will be repaid in 23 equal instalments of €1 million commencing from December 2016 with a final instalment of €660,000 payable in November 2018, instead of the previous semi-annual repayment profile.