

March 2025

Financial Reporting Decision

Decision 1/2025



Annual financial statements – 31 December 2023

Issuer	Kenmare Resources plc
Report type	Annual report and financial statements
Reporting period	Year ended 31 December 2023
Financial reporting framework	IFRS-EU
Applicable financial reporting standards	IAS 36 <i>Impairment of Assets</i>

Summary

This examination considered whether:

- (a) the issuer's mining license contract (MLC) with the Government of Mozambique allowed for an automatic extension to the end of the life of the mine,
- (b) the issuer's value-in-use (VIU) projections were aligned with the life of the mine, and
- (c) the impact of climate change had been reflected in the VIU projections and related disclosures.

Background

The issuer is a mining company producing mineral sands products (from its single mine operating in Mozambique). It has customers in China, US and Europe.

IAASA performed an interactive unlimited examination of the issuer's annual report and financial statements for the year ended 31 December 2023.

Outline of financial reporting treatment applied by the issuer

(a) MLC

In 2002, the issuer agreed and signed a MLC with the Government of Mozambique for:

- (a) an initial period of 25 years to 2027, and
- (b) an automatic right to a MLC extension of 15 years to 2042 (i.e., after the initial MLC term expires in 2027).

The issuer was also of the view that a provision contained in the MLC granted it an automatic right to a MLC extension until the end of the life of the mine which was estimated to be 40 years from 31 December 2023 (i.e. 2063).

In addition, when the issuer signed the MLC with the Government of Mozambique in 2002 the applicable legislation was Mining Law 13/87.

(b) Value-in-use projections

Following examination of the issuer's VIU calculations, IAASA noted that those projections detailed amounts for 18 items for each month between January 2024 and December 2050.

It was not readily apparent to IAASA whether or not the impact of climate change had been reflected in the cash flow projections or in the impairment disclosures in the financial statements.

Outline of findings made by IAASA

(a) MLC

IAASA considered the relevant provisions of the issuer's MLC which appears to allow the issuer an automatic right to licence extensions until the end of the life of the mine subject to compliance with certain conditions.

IAASA also determined that, subsequent to the issuer signing its MLC in 2002 with the Mozambique government, mining legislation has been amended on a number of occasions.

However, amendments to mining legislation contain grandfathering provisions which protect and safeguard the issuer's acquired mining rights. These grandfathering provisions confirm the continuing validity of the mining licences entered into with the Mozambique government before the entry in to force of the amended legislation. These grandfathering provisions reinforce that the same rights continue to be regulated by the provisions of the issuer's 2002 MLC. The grandfathering provisions provide for an opt-in or opt-out regime for undertakings which signed contracts under an earlier legislative provisions regime; the issuer has not exercised the right to move to either Mining Law 14/2002 or Mining Law 20/2014 and, as a result, the issuer continues to be regulated by the legislation in force at the time of the signature of the MLC in 2002 (i.e. mining law 13/87).

Paragraph 122 of IAS 1 *Presentation of Financial Statements* states that:

'An entity shall disclose, along with material accounting policy information or other notes, the judgements, apart from those involving estimations ..., that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.'

IAASA concluded that information relating to the issuer's MLC is a significant judgment in accordance with paragraph IAS 1.122.

(b) Value-in-use

Paragraph 33 of IAS 36 *Impairment of Assets* states that:

'In measuring value-in-use an entity shall:

- (a) base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight shall be given to external evidence.*
- (b) base cash flow projections on the most recent financial budgets/forecasts approved by management, but shall exclude any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts shall cover a maximum period of five years, unless a longer period can be justified.*
- (c) estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate shall not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.'*

IAS 36.35 states that:

*'Detailed, explicit and reliable financial budgets/forecasts of future cash flows for periods longer than five years are generally not available. For this reason, management's estimates of future cash flows are based on the most recent budgets/forecasts for a maximum of five years. Management may use cash flow projections based on financial budgets/forecasts over a period longer than five years if it is confident that these projections are reliable and it **can demonstrate its ability, based on past experience, to forecast cash flows accurately over that longer period** [bold emphasis added].'*

It was not readily apparent to IAASA as to how basing the VIU projections over projected period of 27 years with detailed amounts for each of 18 headings for each month provided reasonable and supportable assumptions that represents management's best estimates of the range of economic conditions that will exist over the life of the mine.

In addition, it was not readily apparent to IAASA how evolving elements (e.g., impact of climate change) had been reflected in the impairment considerations.

Following an IAASA request, issuer amended and re-calculated the VIU projections for the year ended 31 December 2023. A projection period of five years and projection of cashflows based on Year 5 for a period of 35 years to align with the 40-year life of mine assumption in calculating the VIU was performed.

As a result of this exercise, there was no requirement to recognise an impairment charge.

Climate impact

IAASA noted that the issuer has set an ambition to be net zero by 2040 on scope 1 and scope 2 emissions. The issuer's transition plan and the financial impact was still being assessed when the 2023 annual report and financial statements were published.

During the examination the issuer agreed with IAASA to include the impairment of the mine and the VIU assumptions as a source of estimation uncertainty in accordance with paragraph 125 of IAS 1 *Presentation of Financial Statements* in future periodic financial statements.

In the context of the impairment of the mine VIU assumptions being a source of estimation uncertainty in future periodic financial statements, it was determined that the issuer should expand its sensitivity analysis for any costs and benefits associated with its climate plans [IAS 1.129(b) refers].

Outline of corrective actions undertaken or to be undertaken

(a) MLC

The issuer provided an undertaking that the property, plant and equipment disclosures and the significant and critical accounting policies would be expanded in future periodic financial statements by disclosing additional information including:

- (a) the first initial term of the MLC will expire in 2027,
- (b) the issuer can apply for an extension of 15 years to 2042 provided certain conditions are met, and
- (c) under the terms of the contract the issuer can apply for subsequent extensions post-2042 provided the life of the mine allows and subject to the same conditions as the first renewal, and since the issuer signed its MLC in 2002 with the Mozambique government, mining law has been amended on a number of occasions. However, the amendments to mining legislation contain grandfathering provisions which protect and safeguard the issuer's acquired mining rights.

(b) Value-in-use

The issuer provided the following voluntary undertakings to IAASA to provide additional disclosures in future periodic financial statements:

- (a) in accordance with IAS 1.129(d), the issuer will provide further information in future regarding the analysis performed on the potential impact of the environmental risks and its commitments on the growth rates and other assumptions in the VIU cash flow projections,
- (b) to the extent necessary, the issuer will expand the sensitivity analysis for sensitivity tests related to costs and benefits associated with its climate plan,
- (c) to disclose the mine assumptions used in the impairment testing as a key source of estimation uncertainty in future periodic financial statements [IAS 1.125 refers], and
- (d) the issuer will use a projection period of five years and projection of cashflows based on Year 5 for a period of 35 years to align with the 40-year life of mine assumption in measuring the VIU.

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