Sierra Rutile Limited

Sierra Rutile Limited

Unaudited Interim Results for the Six Months Ended 30 June 2015

London, UK, 27 August 2015: Sierra Rutile Limited (AIM: SRX) ("Sierra Rutile" or the "Group" or the "Company") is pleased to announce its unaudited interim results for the six months ended 30 June 2015.

Highlights

- Improved cash generation with cash inflows from operations of US$10.8 million (H1 2014: US$1.6 million) largely due to effective management of US$5.3 million working capital release;
- EBITDA[1] margin of 15.8%, a significant improvement on H1 2014 of 13.6% and full-year 2014 of 12.1%;
- Excellent cost control with a 24.6% reduction in operating, administration and marketing costs (H1 2015: US$49.6 million, H1 2014: US$65.8 million);
- On-target to meet full-year production and unit cost guidance of 120,000-130,000 tonnes and total operating cash cost[3] of US$595-615/tonne, despite lower production volumes of 53,275 tonnes of rutile and 16,920 of ilmenite in H1;
- Despite a 29.8% decrease in rutile sales volume in H1 2015 compared to H1 2014, loss for the period of US$4.2 million in line with H1 2014;
- Planned rutile sales now fully contracted for the remainder of 2015;
- Realised rutile prices consistent with average realised prices for 2014;
- Strong balance sheet with US$9.0 million of cash and US$74.0 million of current assets at 30 June 2015 (31 December 2014: US$6.6 million cash and US$76.8 million current assets); and
- Commencement of Gangama Dry Mine construction with US$7.9 million capital expenditure invested in the project during the period.

Commenting on the first half performance, CEO John Sisay said: "We are extremely pleased with the first half financial performance. Against the backdrop of a flat sales price environment and a challenging first quarter of production, it was a great achievement to lower costs, significantly improve EBITDA margin and, most importantly, to generate substantial cash, which has been reinvested into Gangama construction.

Due to the actions we have taken in recent years our balance sheet is very healthy, and with our expectation of meeting full-year production and unit cost guidance, together with securing all second half rutile sales, we expect a strong performance for the second half and full-year as a whole."

[1] Earnings before interest (including foreign exchange), tax, depreciation and amortisation, excluding exceptional items and non-cash stock option expense.
[2] Direct operating cash cost (includes direct operating costs but excludes depreciation) less by-product revenue divided by tonnes of rutile produced.
[3] Total operating cash cost (includes direct operating costs, general administrative costs and corporate costs but excludes depreciation) less by-product revenue divided by tonnes of rutile produced.
[4] All-in cash costs (Total operating cash cost plus stay-in-business capital cost, but excludes depreciation) less by-product revenue divided by tonnes of rutile produced.

Financial Review

Revenue

Revenue from sales of rutile, ilmenite, zircon and other concentrates was US$45.7 million in H1 2015, 28.7% lower than H1 2014 of US$64.1 million. The lower revenue figure was driven by rutile sales volumes being 29.8% lower than in H1 2014 slightly offset by an 8.0% increase in ilmenite sales volumes. The lower rutile volumes are mainly a function of the opening inventory being lower at the start of 2015 than 2014 and the schedule of shipments during the course of 2015. Full-year rutile sales are fully contracted for the remainder of 2015, meaning sales volumes are heavily weighted towards the second half of 2015.

Realised sale prices of rutile in H1 2015 were an average of US$809/tonne, 1.1% lower than the average for 2014, illustrative of the relatively stable pricing conditions experienced through 2014 and the first half of 2015.

Cost of Sales

The Group remains committed to controlling costs and continues to focus on the implementation of its cost efficiency programmes. On an absolute basis, this resulted in cost of sales being 24.2% lower at US$44.1 million (H1 2014: US$58.1 million). This reduction was largely driven by the lower sales volumes in H1 2015, but there were also underlying reductions in certain key fixed operating costs, offset by a 9.3% increase in depreciation.

As previously announced, on a unit basis, total operating cash costs[3] were higher in H1 2015 than in H1 2014 (H1 2015: US$676/tonne, H1 2014: US$ 609/tonne), driven by lower production volumes, in particular the production challenges encountered in Q1 2015. Direct operating cash cost[2] and all-in cash costs[4] were also higher in H1 2015 than H1 2014 at US$573/tonne (H1 2014: US$481/tonne) and US$721/tonne (H1 2014: US$627/tonne) respectively. The Company remains on-target to meet full year production guidance, which is expected to bring direct operating cash cost, total operating cash costs and all-in cash costs to within the previously announced targets of US$520/tonne-US$530/tonne, US$595/tonne-US$615/tonne and US$650/tonne-US$670/tonne respectively.

Administrative and Marketing Expenses

Administrative expenses decreased by 27.5% (US$2.1 million) from US$7.7 million in H1 2014 to US$5.6 million in H1 2015 due to the continued successful focus on cost control.

EBITDA

EBITDA[1] was US$7.2 million compared to US$8.7 million in H1 2014, which was a very successful result on sales volumes that are 28.7% lower for the half year. This resulted in a positive improvement of EBITDA margin, from 13.6% in H1 2014 to 15.8% for H1 2015, and compares favorably to the full year EBITDA margin from 2014 of 12.1%.

Cash Flow

Net cash inflow from operating activities for the six months ended 30 June 2015 was US$10.8 million, US$9.2 million above the comparative period in June 2014, largely due to effective management of working capital resulting in a US$5.3 million working capital in-flow, an essential function during the funding of the Gangama Dry Mine capital expenditures.

Capital expenditures

Capital expenditure was US$10.3 million during the half year (H1 2014: US$6.8 million), of which US$7.9 million was incurred on the construction of the Gangama Dry Mine.

Financial Position

At 30 June 2015, the Company had cash and cash equivalents of US$9.0 million (31 December 2014: US$6.6 million) and current assets of US$74.0 million (31 December 2014: US$76.8 million). A significant portion of trade and other receivables as at 30 June 2015 have been received subsequent the end of the half year.

[1] Earnings before interest (including foreign exchange), tax, depreciation and amortisation, excluding exceptional items and non-cash stock option expense.
[2] Direct operating cash cost (includes direct operating costs but excludes depreciation) less by-product revenue divided by tonnes of rutile produced.
[3] Total operating cash cost (includes direct operating costs, general administrative costs and corporate costs but excludes depreciation) less by-product revenue divided by tonnes of rutile produced.
[4] All-in cash costs (Total operating cash cost plus stay-in-business capital cost, but excludes depreciation) less by-product revenue divided by tonnes of rutile produced.

Borrowings

Following the approval of the construction of the Gangama Dry Mine, the Group reached financial close on a US$30 million Nedbank Senior Loan facility on 21 April 2015 with the loan having a tenure of four years from this date. This was drawn down by US$ 2.7 million at 30 June 2015 to fund, in part, the US$7.9 million capital expenditures on Gangama construction. This is in addition to the existing $20 million Nedbank Working Capital Facility entered into in August 2013 which expires in August 2016.

As previously announced, Sierra Rutile reached an agreement with the Government of Sierra Leone in December 2014 to defer repayment of the loan from the Government during the construction of the Gangama project. Payments will resume in June 2016 and the loan is expected to be fully repaid by June 2018. The balance outstanding on the loan at 30 June 2015 was US$21.6 million.

The Company has also secured a standby loan facility of up to US$15 million from its majority shareholder, Pala Investments, the "Standby Facility". The Standby Facility is available during the construction of the Gangama Dry Mine. The Standby Facility has a tenure of 18 months from initial drawdown, carries an interest rate of LIBOR plus 5.25%, and has no associated arrangement or commitment fees. The closure and drawdown of this facility is subject to satisfaction of a number of conditions customary for a financing of this type.

Net finance costs/(income) decreased from costs of US$2.1 million in H1 2014 to an income of US$1.4 million in H1 2015. This was principally due to the depreciation of the Euro against the US Dollar and the impact this had on the Euro-denominated loan from the Government of Sierra Leone, which contributed to the net foreign exchange gain of US$2.6 million in H1 2015 (H1 2014: US$0.3 million).

Going Concern

At 30 June 2015, the Group had cash and cash equivalents of US$9.0 million and total borrowings of US$44.5 million.

The Board has considered the Group's cash flow forecasts for the period to the end of September 2016, which includes the potential requirement to repay the US$20 million Nedbank Working Capital Facility in August 2016 if it has not been extended or refinanced prior to this date. The Board is satisfied that the Group's forecasts and projections, taking account of reasonably possible changes in trading performance show that the Group will be able to operate with the level of its current facilities for the foreseeable future. In the event of certain adverse pricing and production scenarios (including a delay to the commissioning of the Gangama project), management has within its control the option of deferring uncommitted capital expenditure to maintain the Group's funding position and, subject to agreement from Nedbank which management is confident will be received, extending the tenure of the Working Capital Facility. Accordingly, the Board continues to adopt the going concern basis in preparing the financial statements.

Post-balance sheet events

These are disclosed in note 14.

Related party

Related party transactions are disclosed in note 12 to the condensed set of financial statements.

Principal risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the year and which could cause actual results to differ materially from expected results. These risks were set out in detail in the Annual Report for the year ended 31 December 2014 and remain appropriate in 2015. Key risks relate to the following:

- Exploration and estimates of mineral reserves and resources
- Operating risks
- Insurance
- Competition
- Volatility of mineral prices
- Political risk
- Protection of assets and personnel

- Government regulation
- Title to properties
- Environmental regulation
- Rehabilitation
- Energy cost and supply
- Currency risk
- Interest rate risk
- Financing risk
- Dependence on key personnel, contractors, experts and other advisers
- Ebola health risk

Forward looking information

This financial report contains certain forward looking statements with respect to the financial condition, results, operations and business of the Group. These statements and forecasts involve risk and uncertainty because they relate to events that depend on circumstances in the future. There are a number of factors that could cause actual results or developments to differ from those expressed or implied by these forward looking statements.

Conference call

John Sisay, Chief Executive Officer, will host a conference call for investors and analysts at 08.00 a.m. (BST) today. Access details for the call are as follows:

UK Toll Number: +44 (0)203 139 4830

UK Toll-Free Number: 0808 237 0030

Passcode: 28996862#

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John Sisay Chief Executive Officer	+44 (0)20 7074 1800
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Marc Cohen / Christina Clark /Fiona Cumberland	+44 (0)20 7074 1800

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm to the best of our 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 Sisay	Alex Kamara
26 August 2015	26 August 2015

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 2015 which comprises the unaudited condensed consolidated income statement, the unaudited condensed consolidated statement of comprehensive income, the unaudited condensed consolidated statement of financial position, the unaudited condensed consolidated statement of cash flows, the unaudited condensed consolidated statement of changes in equity and related Notes 1 to 14. 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 them 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 2015 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

26 August 2015

Sierra Rutile Ltd and its subsidiaries

Unaudited condensed consolidated income statement
Interim period ended 30 June 2015

	Notes	6 months to 30 June 2015 US$'000	6 months to 30 June 2014 US$'000
Revenue	3	**45,665**	64,052
Cost of sales		**(44,051)**	(58,116)
Gross profit		**1,614**	5,936
Administrative and marketing expenses		**(5,597)**	(7,722)
Other income		**33**	131
		(3,950)	(1,655)
Finance income /(costs)	4	**1,369**	(2,150)
Loss before taxation		**(2,581)**	(3,805)
Income tax expense	5	**(1,603)**	(320)
Loss for the period		**(4,184)**	(4,125)

Unaudited condensed consolidated statement of comprehensive income

Loss for the period		**(4,184)**	(4,125)
Total comprehensive loss for the year		**(4,184)**	(4,125)
Loss per share (US$)			
- basic and diluted	6	**(0.008)**	(0.008)

Sierra Rutile Ltd and its subsidiaries

Unaudited condensed consolidated statement of financial position
Interim period ended 30 June 2015

	Notes	30 June 2015 US$'000	Audited 31 December 2014 US$'000
ASSETS			
Non-current assets			
Intangible assets		**11,582**	11,624
Property, plant and equipment	7	**160,232**	159,276
Biological assets	8	**-**	4,927
Investment in joint venture	8	**5,271**	-
		177,085	175,827
Current assets			
Biological assets	8	**415**	184
Inventories		**54,320**	49,909
Trade and other receivables		**9,347**	19,914
Current tax assets		**-**	228
Cash and cash equivalents		**9,020**	6,564
Derivative financial instruments	14	**902**	-
		74,004	76,799
Total assets		**251,089**	252,626
LIABILITIES			
Current liabilities			
Trade and other payables		**(16,104)**	(16,432)
Current tax liabilities		**(891)**	(6)
Short-term borrowings	9	**(24,962)**	(20,046)
Provision for liabilities and charges		**(192)**	(288)
		(42,149)	(36,772)
Non-current liabilities			
Medium-and-long-term borrowings	9	**(19,506)**	(22,954)
Retirement benefit obligations		**(3,296)**	(2,931)
Provision for liabilities and charges		**(1,862)**	(1,928)
		(24,664)	(27,813)
Total liabilities		**(66,813)**	(64,585)
Net assets		**184,276**	188,041
EQUITY AND LIABILITIES			
Share capital	10	**275,102**	275,102
Share capital option reserve		**2,819**	2,637
Retained loss		**(93,645)**	(89,698)
Total equity attributable to equity holders of the parent		**184,276**	188,041

Sierra Rutile Ltd and its subsidiaries

Unaudited condensed consolidated statement of cash flows
Interim period ended 30 June 2015

	6 months to 30 June 2015 US$'000	6 months to 30 June 2014 US$'000
Operating activities		
Loss before taxation	**(2,581)**	(3,805)
Adjustments for:		
Depreciation on property, plant and equipment	**10,662**	9,757
Amortisation of intangible assets	**85**	86
Write off of property, plant and equipment	**-**	473
Total borrowing costs	**1,234**	2,473
Exchange gain	**(2,596)**	(313)
Share option expense	**419**	544
Provision for doubtful debts	**-**	336
Changes in working capital		
- (Increase)/decrease in inventories	**(4,411)**	10,039
- Decrease/(increase) in trade and other receivables	**10,008**	(17,732)
- (Decrease)/increase in trade and other payables	**(328)**	1,764
- Movement in provisions	**(6)**	(78)
Interest paid	**(1,173)**	(1,532)
Tax paid	**(490)**	(398)
Net cash inflow from operating activities	**10,823**	1,614
Investing activities		
Purchase of property, plant and equipment	**(10,280)**	(6,806)
Purchase of biological assets	**(231)**	(1,576)
Purchase of intangible assets	**(43)**	(151)
Net cash used in investing activities	**(10,554)**	(8,533)
Financing activities		
Net proceeds from borrowings	**2,735**	20,000
Repayment of borrowings	**-**	(24,939)
Cash flow from derivative financial instruments	**(583)**	-
Net cash from/(used in) financing activities	**2,152**	(4,939)
Net increase/(decrease) in cash and cash equivalents	**2,421**	(11,858)
Cash and cash equivalents at beginning of the period	**6,564**	22,628
Net increase/(decrease) to cash and cash equivalents	**2,421**	(11,858)
Effect of foreign exchange rate changes	**35**	48
Cash and cash equivalents at end of period	**9,020**	10,818

Sierra Rutile Ltd and its subsidiaries

Unaudited condensed consolidated statements of changes in equity
Interim period ended 30 June 2015

	Share capital US$'000	Share option reserve US$'000	Retained loss US$'000	Total equity US$'000
Balance at 31 January 2014	275,102	6,439	(84,329)	197,212
Total comprehensive income for the period	-	-	(9,948)	(9,948)
Exercise of share options	-	(3,842)	3,842	-
Forefeiture of share options	-	(737)	737	-
Recognition of share-based payments	-	777	-	777
Balance at 31 December 2014	275,102	2,637	(89,698)	188,041
Balance at 31 January 2015	**275,102**	**2,637**	**(89,698)**	**188,041**
Total comprehensive income for the period.	**-**	**-**	**(4,184)**	**(4,184)**
Forefeiture 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**

Notes to unaudited interim condensed consolidated financial statements
Interim period ended 30 June 2015

1. General information

Sierra Rutile Limited ("Sierra Rutile") is a public limited company 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.

2. Accounting policies

Basis of preparation

The condensed consolidated financial statements for the six month period ended 30 June 2015 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 financial statements for the year ended 31 December 2014, 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 2014 does not therefore constitute statutory accounts. This information was derived from the statutory accounts for the year ended 31 December 2014. 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.

The condensed consolidated financial statements have been prepared under the historical cost convention.

The accounting policies used by the Group in these condensed financial statements are consistent with those applied by the Group in its financial statements for the year ended 31 December 2014, as amended to reflect the adoption of new standards, amendments and interpretations which became effective in the period as shown below:

- Amendments to IAS19 – Employee Benefits: Defined Benefit Plans – Employee Contributions
- Annual Improvements to IFRSs 2010 – 2012 cycle
- Annual Improvements to IFRSs 2011 – 2013 cycle

The adoption of these new accounting pronouncements has not had a significant impact on the accounting policies, methods of computations or presentation applied by the Group. The Group has not early adopted any amendment, standard or interpretation that has been issued but is not yet effective. It is expected that where applicable, these standards and amendments will be adopted on each respective effective date.

Going concern

At 30 June 2015, the Group had cash and cash equivalents of US$9.0 million and total borrowings of US$44.5 million.

The Board has considered the Group's cash flow forecasts for the period to the end of September 2016, which includes the potential requirement to repay the US$20 million Nedbank Working Capital Facility in August 2016, if it has not been extended or refinanced prior to this time. The Board is satisfied that the Group's forecasts and projections, taking account of reasonably possible changes in trading performance show that the Group will be able to operate with the level of its current facilities for the foreseeable future. In the event of certain adverse pricing and production scenarios (including a delay to the commissioning of the Gangama project), management has within its control the option of deferring uncommitted capital expenditure to maintain the Group's funding position and subject to agreement from Nedbank extending the tenure of the Working Capital Facility, which management is confident will be received.

Accordingly, the Board continues to adopt the going concern basis in preparing the financial statements (see page 3 of this report).

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 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 mining product being rutile, with ilmenite, zircon and other concentrates and other revenue streams 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. Since the beginning of 2013, the Group has begun to grow certain agricultural products (see note 8), but at 30 June 2015 this is not considered material enough to be a reportable segment.

Segment revenue

Revenue represents the invoiced amount in respect of sales of rutile, ilmenite and zircon and other concentrates extracted during the period excluding sales discount and consists of the following:

	6 months to 30 June 2015 US$'000	**6 months to 30 June 2014 US$'000**
Rutile	**40,648**	58,477
Ilmenite	**4,042**	4,208
Zircon and other concentrates	**975**	1,367
	45,665	64,052

Geographical information

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

	6 months to 30 June 2015 US$'000	**6 months to 30 June 2014 US$'000**
Asia	**4,022**	7,044
Europe	**28,295**	11,031
North America	**12,604**	18,370
South America	**286**	884
MENA (Middle East and North Africa)	**458**	26,723
	45,665	64,052

No customers are currently located in Sierra Leone.

For the period ended 30 June 2015 revenues of US$14,364,000, US$8,417,000 and US$7,901,000 were generated from three customers (30 June 2014 revenues of US$26,316,000, US$18,321,000 and US$10,347,000 were generated from three customers), each of whom accounted for more than 10% of our total sales in each period.

Seasonality information

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

Notes to unaudited interim condensed consolidated financial statements
Interim period ended 30 June 2015

3. Segment information (continued)

Segment assets

All of the Group's assets are in Sierra Leone except certain inventory balances valued at US$1.8 million (31 December 2014: US$4.0 million) held in a warehouse in Europe.

4. Finance income/(costs)

	6 months to 30 June 2015 US$'000	6 months to 30 June 2014 US$'000
Net finance income/(costs)		
Interest expense and arrangement fees:		
- Government of Sierra Leone loan	**(647)**	(1,168)
- Nedbank loan	**(700)**	(1,112)
- Other	**(292)**	-
Unwinding of discount on rehabilitation provision	**(43)**	(46)
Unrealised gain on derivative financial instruments	**610**	-
Interest expense on retirement benefit	**(162)**	(147)
Total borrowing costs	**(1,234)**	(2,473)
Net foreign exchange transaction gains	**2,603**	323
Total finance income/(costs)	**1,369**	(2,150)

5. Income taxes

(a) Income tax expense

	6 months to 30 June 2015 US$'000	6 months to 30 June 2014 US$'000
Current tax	**5**	-
Deferred tax	-	-
Minimum turnover tax at 3.5% (2014: 0.5%)	**1,598**	320
Income tax expense	**1,603**	320

From 1 January 2015, the taxation of the Group's operations in Sierra Leone reverted to the provisions of 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 was 30%.

5. Income taxes (continued)

(a) Income tax expense (continued)

Based on the above, the income tax expense can be reconciled to the Company's loss before tax as follows:

	6 months to 30 June 2015 US$'000	**6 months to 30 June 2014 US$'000**
Loss before tax	**(2,581)**	(3,805)
Current tax	**5**	-
Minimum turnover tax at 3.5% (H1 2014: 0.5%)	**1,598**	320
Deferred tax	**-**	-
Income tax expense	**1,603**	320

(b) Current tax liabilities/(assets)

	6 months to 30 June 2015 US$'000	**6 months to 30 June 2014 US$'000**
Opening balance	**(222)**	(241)
Charged to the income statement	**1,603**	320
Paid during the period	**(490)**	(398)
At end of period	**891**	(319)

6. Loss per share

	6 months to 30 June 2015 US$'000	6 months to 30 June 2014 US$'000
(a) Basic loss per share		
Loss attributable to owners of the parent	**(4,184)**	(4,125)
Weighted average number of ordinary shares in issue	**522,231,508**	516,920,956
Basic loss per share	**(0.008)**	(0.008)

	6 months to 30 June 2015 US$'000	6 months to 30 June 2014 US$'000
(b) Diluted loss per share		
Loss attributable to owners of the parent	**(4,184)**	(4,125)
Weighted average number of ordinary shares in issue	**522,231,508**	516,920,956
Effect of dilutive ordinary shares-share options	**-**	-
Weighted average number of ordinary shares for diluted loss per share	**522,231,508**	516,920,956
Diluted loss per share	**(0.008)**	(0.008)

The outstanding share options at 30 June 2015and at 30 June 2014 represent anti-dilutive potential ordinary shares, therefore basic and diluted earnings per share are the same for the respective periods. 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 when, only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share.

7. Property, plant and equipment

During the period the Group spend US$10.3 million on acquisition of property, plant and equipment, of which US$7.9 million related to expenditures on Gangama Dry Mine.

The amount of borrowing costs related to this project and capitalised during the six months ended 30 June 2015 was approximately US$1.5 million.

The Group also scrapped certain fully depreciated machinery which no longer had economic value to the Group worth US$2.7 million.

8. Investment in joint venture

In June 2015, Sierra Rutile sold 51% of its agricultural business Agricultural Resources Group ("ARG") to Carmanor for $1 and an agreement by Carmanor to fund all work commitments for the years ending 31 December 2015 and 2016. Subject to successful completion of these work commitments in each of the years, Carmanor's interest will increase to 65% and 75% respectively.

Under the terms of the shareholder agreement, Sierra Rutile has retained joint control over ARG and consequently will equity account for its 49% holding.

	30 June 2015 US$'000
Assets disposed	
Property, plant and equipment	195
Biological assets	5,076
	5,271
Satisfied by:	
Investment in joint venture	5,271
	5,271

The fair value of the joint venture of $5.3 million equals the net assets disposed and as result there is no gain or loss recorded in the consolidated income statement.

Certain biological assets with a value of $415,000 included within ARG were not subject to the agreement with Carmanor and they continue to be controlled by Sierra Rutile.

9. Borrowings

	30 June 2015 US$'000	31 December 2014 US$'000
Unsecured borrowings:		
Government of Sierra Leone Loan (a)	**21,571**	22,954
	21,571	22,954
Secured borrowings:		
Nedbank Loan (b)(i)	**20,035**	20,046
Nedbank Loan (b)(ii)	**2,862**	-
	22,897	20,046
Total borrowings:		
Current	**24,962**	20,046
Non-current	**19,506**	22,954
	44,468	43,000

The group has three principal loans:

(a) **Government of Sierra Leone Loan "GOSL" Loan-unsecured**

The GOSL borrowing is subject to interest of 8% per annum and became repayable semi-annually from June 2013. There are no covenants attached to the loan and the Group does not have any undertaking, nor is it contractually bound to create, any lien on or with respect to any of its rights or revenues. In December 2014, the Group obtained approval for the deferral of repayments for the loan from the GOSL. Repayments will resume in June 2016 and the loan is expected to be fully repaid by June 2018. The balance at 30 June 2015 is Euro 19,475,016 (US$ 21,570,600).

(b) **US$50 million Nedbank Facility–secured**

(i) US$20 million Nedbank Working Capital Facility –secured

Initially this revolving facility had a tenor of one year from 19 August 2013 and this was renewed for a further two years on 22 July 2014 and is committed until August 2016. The facility carries an interest rate of LIBOR plus 5%, and is secured against the assets of the Group. If a portion of the loan is drawn down, any future cash receipts from sales are restricted until they cover the portion of the loan drawn down. At the 30 June 2015 test date the Group was fully compliant with the interest cover ratio covenant for the facility and the facility was fully drawn down. The liability at 30 June 2015 and 31 December 2014 includes certain interest balances paid after the period end date.

(ii) US$30 million Nedbank Senior Loan Facility –secured

This facility has a tenor of four years from financial close on 21 April 2015, carries an interest rate of LIBOR plus 5.25%, and is secured against the assets of Sierra Rutile. This facility is restricted for use on the Gangama Dry Mine project and US$ 2,735,000 is drawn down at 30 June 2015. The first covenant measurement period on this facility is December 2016.

9. Borrowings (continued)

(c) **US$15 million Pala Standby Facility–unsecured**

The facility will have a tenor of 18 months from initial drawdown, and carries an interest rate of LIBOR plus 5.25%. It is available during the construction of Gangama Dry Mine. Closing and drawdown of this facility is subject to satisfaction of a number of conditions customary for a financing of this type. This facility is currently undrawn at 30 June 2015.

The carrying values of all the Groups borrowing approximate fair value.

10. Share capital

Issued shares and options	**Number of shares**	**Share capital US$'000**
At 1 January 2014	514,900,417	275,102
Options exercised	6,189,441	-
At 30 June 2014	521,089,858	275,102
Options exercised	1,141,650	-
At 31 December 2014	522,231,508	275,102
Options exercised (a)	-	-
At 30 June 2015	**522,231,508**	**275,102**

(a) During the period no share options held by management and directors were exercised.

The total authorised number of ordinary shares is unlimited with no par value. All issued shares are fully paid and are admitted on the AIM market of the London Stock Exchange.

11. Capital commitments

	30 June, 2015 US$'000	**31 December, 2014 US$'000**
Property, plant and equipment acquisition contracted for at the end of the reporting period but not yet incurred:	22,328	741

At 30 June 2015, the Group had capital commitments of US$22,328,000 (31 December 2014: US$741,000) principally relating to construction of Phase 1 of the Gangama Dry Mine project.

12. Related party transactions

The following table provides the total amount of transactions that have been entered into with related parties during the six months ended 30 June 2015 and 2014, as well as balances with related parties as at 30 June 2015 and 31 December 2014:

(a) Transactions and balances	**Amount payable US$'000**	**Purchases/ project fees US$'000**	**Amounts receivable US$'000**
At 30 June 2015			
Director:			
Enterprise in which Mr. Alex Kamara is also a director – Cemmats Group *	(57)	(299)	-
At 30 June 2014			
Director:			
Advances to a director**	-	-	50
Director:			
Enterprise in which Mr. Alex Kamara is also a director – Cemmats Group *	(8)	(59)	-
At 30 December 2014			
Director:			
Advances to a director**	-	-	8
Director:			
Enterprise in which Mr. Alex Kamara is also a director – Cemmats Group *	-	(289)	-

* Mr. Alex B. 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.

** Included in trade and other receivables in 2014 was an amount owed to the company by one of the directors. The advance was made to Mr. A Kamara to cover medical and travel expenses. This amount does not carry interest and was fully settled in January 2015.

(b) Agreements with senior officers, directors and advisers

During the period the company granted 10,550,000 share options (30 June 2014: 4,375,000) to Directors, senior officers of the company with exercise price of £0.30 (30 June 2014:£0.51).

(c) Transactions with significant shareholder

As disclosed in note 9, the Group secured a US$15 million Standby Facility from Pala Investments, the Group's majority shareholder. The Standby Facility is available during the construction of the Gangama Dry Mine. The Standby Facility has a tenor of 18 months from initial drawdown, carries an interest rate of LIBOR plus 5.25%, and has no associated arrangement or commitment fees. Closing and drawdown of this facility is subject to satisfaction of a number of conditions customary for a financing of this type and the facility was undrawn as at 30 June 2015.

13. Financial instruments

In the first half of 2015, the Group entered into forward diesel and marine fuel oil contracts covering 75% of its estimated fuel requirements for the year ending 31 December 2015. These derivative financial instruments are measured at fair value and are considered as level 2 in the fair value hierarchy as they are valued using techniques based significantly on observable market data.

	30 June 2015 US$'000	Quoted prices in active markets for identifiable assets/liabilities US$'000
Derivative financial instruments	902	902
	902	**902**

The Group had no financial instruments in the current or previous year with fair values that are determined by reference to significant unobservable inputs i.e. those that will be classed as level 3 in the fair value hierarchy nor has there been any transfers of assets and liabilities between levels of the fair value hierarchy.

The carrying value of the Group's other financial assets (trade and other receivables and cash and cash equivalents) and financial liabilities (trade and other payables and borrowings) are deemed to approximate fair value. All other financial assets are classified as loans and receivables and all financial liabilities are held at amortised cost.

14. Events after reporting period

Events after the reporting period are disclosed only to the extent that they relate directly to the interim financial statements and are material in effect. As at date of issuing this report, there were no material events after the reporting period to disclose.