



PALLINGHURST

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PALLINGHURST RESOURCES LIMITED-  
RISK ASSESSMENT PROGRAMME AND RISK REGISTER

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*Last update: 27 March 2018*

Pallinghurst Resources Limited is referred to as “PRL”, the “Company” or the “Group”

### Key risks to the Investment Portfolio

	<b>RISK</b>	<b>POSSIBLE IMPLICATION(S)</b>	<b>CONTROLS/ OTHER MITIGATING FACTORS</b>	<b>LIKELIHOOD</b>	<b>IMPACT</b>
i)	<b>Macroeconomic risks</b>	<p>The global macroeconomic outlook can have a major impact on the Group’s operations and investments. Adverse macroeconomic conditions and deterioration in the global economic environment, such as a slowdown in the markets that the Group operates in may have a significant impact on the performance of the Group’s operations and the valuation of the Group’s investments.</p> <p>Gemfields is exposed to macroeconomic risk associated with the consumption of hard luxury goods, directly in its supply of rough gemstones to supply the jewellery manufacturing sector, and via the luxury brand Fabergé. During times of economic uncertainty or downturn, demand for hard luxury goods may fall. The macroeconomic climate may result in wholesale and retail buyers not spending, or at worst defaulting on payments.</p>	<p>The Board considers any specific, material risks as necessary as part of the Board’s review of the Group’s operations and investments at each Board meeting.</p>	Possible	Medium
ii)	<b>Commodity price risk</b>	<p>The Group holds coloured gemstones on its balance sheet in the form of inventory. A decrease in the price of coloured gemstones, specifically rubies and emeralds may have a material impact on the Company’s profitability. For the Group’s other major investments, namely Jupiter and Sedibelo, commodity prices have no direct impact on the Group’s Financial Statements. However, commodity prices can have a significant impact on the valuation of these investments and can impact on the viability of assets that the Group has invested or may invest in. The commodities of most relevance to the Group currently are coloured gemstones, PGMs, manganese and iron ore.</p>	<p>The Group maintains a diversified portfolio of commodities within its portfolio. The Directors continually monitor the commodity markets and consider various options to respond to market demand and price changes through each of the Group’s investments.</p> <p>Gemfields undertakes extensive budgeting, forecasting and monitoring of the market to ensure demand can be met. Auction participants are vetted prior to attending to minimise the likelihood of auction collusion which can affect prices.</p> <p>Gemfields is undertaking a number of initiatives to build increasing demand amongst a wider range of potential buyers.</p>	Possible	High
iii)	<b>Country risks</b>	<p>The Group holds investments which operate in countries including Zambia, Mozambique, South Africa, Australia, Madagascar, Sri Lanka and Ethiopia. Relevant risks associated with these countries and other countries in which the Group’s investments might operate include regulatory and tax risks, political risk, foreign exchange fluctuations, inflation, industrial relations problems, and other local</p>	<p>The Group’s management team is highly experienced in Africa. The Company encourages active and open engagement and dialogue with the relevant government bodies and ministries. The Company’s</p>	Possible	Medium

		<p>economic conditions.</p> <p>Gemfields exposure in emerging markets such as Zambia, Mozambique and Ethiopia are generally subject to greater risk related to changes in legal requirements, mineral royalty rates, taxation policies or restrictions on the export of currency or gemstones, and which may have a material adverse impact on the Company's operations or ability to expand.</p> <p>Political instability may also result in civil unrest, labour disputes or the withdrawal or variation of existing agreements, mining licences and permits. Any of these threats may adversely affect the Company's operations.</p>	<p>relationships with the various governments of the countries where it operates are actively managed by the Company's senior management team.</p> <p>In each country we work with teams who have experience of the operating environment and continue to develop our relationships with state structures and institutions,</p> <p>The Company reviews its commercial arrangements and regulatory requirements then implements them internal controls, policies and procedures to ensure we can meet these. Where necessary we seek external advice to supplement the skills and experience of our internal teams to ensure that we can adequately manage the risks in this area.</p>		
iv)	<b>Resources sector and mining risks</b>	<p>The Group's operations and investments are focussed in the resources sector and have associated performance, political, economic, legal and similar risks. These risks could affect all the Group's operations and investments simultaneously. The development, mining and processing of mineral deposits gives rise to significant uncertainties and operations are subject to all of the hazards and risks normally encountered in such activities. Mining rights and permits may not ever be granted or may be revoked. Exploration activities are generally speculative in nature and there can be no assurance that any mineral deposits will be discovered, successfully extracted or processed.</p> <p>As mining investments move into production, the associated risks may change significantly. Costs may become difficult to predict and control. Safety, sustainable development and energy security are all likely to become more significant. Maintaining good relationships between management, employees, government and unions can be critically important. Strikes by employees may significantly affect the operating performance of an investment. Other specific mining risks include "resource nationalism", which could see the sequestration of mining assets or punitive taxation by national governments.</p> <p>Mining activities are subject to environmental and safety laws and labour and</p>	<p>Any investor in PRL should be fully aware that PRL is a mining company with a small number of investments that have associated risks typical in the sector, but also associated potential rewards. The Company's strategic objectives to acquire a small number of investments and to add value through mergers &amp; acquisition and strategic consolidation were clearly articulated in the 2007 prospectus, and these have not materially changed.</p> <p>The Executive Directors usually participate in the executive leadership/management of each investment and monitor the associated risks on an ongoing basis and report to the Board as necessary.</p> <p>The Group employs highly qualified geologists and mine engineers at each site</p>	Possible	High

		<p>occupational health legislation. A breach of environmental or safety laws and regulations could result in the imposition of fines, or closure of operations on a temporary or permanent basis. Any environmental damage could create negative publicity for the Group and its investments. Such breaches could also affect any future mining licence applications by the Group's investments. Damage to, or destruction of, an investment's facilities or property, environmental damage or pollution and, together with potential legal liability, could have a material adverse impact on an investment's business, operations and financial performance.</p> <p>Under the terms of the United Kingdom's Bribery Act 2010 (the "Bribery Act"), failure to prevent bribery is now a corporate offence. Mining and resources is a relatively high-risk industry for issues such as bribery, extortion or blackmail. Any such incidents could result in restricted activities, reputational damage and financial penalties and even if entirely unfounded and unproven, any allegations of corruption/bribery could lead to significant reputational damage for the Group or one of the investments.</p>	<p>and undertakes succession planning to secure and retain experienced local employees.</p>		
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## Direct risks to the Group

	RISK	POSSIBLE IMPLICATION(S)	CONTROLS/ OTHER MITIGATING FACTORS	LIKELIHOOD	IMPACT
v)	<b>Counterparty risk</b>	<p>The Group holds materially all of its cash balances with three counterparties, Barclays Bank plc (“Barclays”), Deutsche Bank International Limited, which is an indirect subsidiary of Deutsche Bank Group (“Deutsche”) and HSBC Bank plc (“HSBC”). The Group also holds certain cash balances with Investec Bank (Channel Islands) Limited, a subsidiary of Investec Bank plc and Banco Comercial E De Investimentos, S.A (“BCI”). At the reporting date the Group held a small balance with Afrifocus, the Company’s broker facilitating the share buy-back programme. The Group’s subsidiaries and associates may also hold cash balances with various other banks; these are usually immaterial amounts. The Group’s investments hold cash balances with a range of counterparties. Bankruptcy or insolvency of any of these counterparties could have a significant adverse impact on the Group.</p> <p>The Group may make loans to investments within the Investment portfolio; the Group has previously extended loans to Gemfields and its subsidiaries. The non-repayment of these loans would have a material effect on the Group.</p>	<p>The status of the Company's banking counterparties is monitored on an ongoing basis. The Board are informed if there are any changes to counterparty credit ratings. The Directors review the Group's treasury policies, including the policy related to foreign exchange risk, as required.</p> <p>The Executive Directors usually participate in the executive leadership/management of each investment and monitor the banking counterparties of the Group’s Investment Portfolio on an ongoing basis.</p>	Not Likely	Medium
vi)	<b>Exchange rate risk</b>	<p>The Group’s operations are exposed to exchange rate risk on foreign currency sales, purchases and expenses, as no active currency hedging is undertaken. As the majority of revenues are denominated in US\$ and the US dollar plays a dominant role in the Group’s business, funds borrowed and held in US dollars provide a natural hedge to currency fluctuations. Operating costs and costs of locally sourced equipment are influenced by fluctuations in local currencies, primarily the Zambian kwacha and Mozambican metical.</p> <p>Some of the Group’s investments are denominated in currencies other than the US\$ including ZAR, AUD and GBP. These assets are translated into US\$ at each balance sheet date and the Group’s Consolidated Statement of Comprehensive Income includes related unrealised foreign exchange gains or losses. The Group also realises foreign exchange gains or losses on occasion, usually relating to the completion of transactions in assets denominated in currencies other than the US\$.</p> <p>A key tenet of the Group’s treasury policy is that materially all of the Group’s cash is held in US\$, other than amounts allocated for a specific foreign currency investment, which are usually held in the relevant currency. The Group’s cash balance is therefore not subject to material foreign exchange risk in most circumstances.</p>	<p>Material foreign exchange transactions are approved by the Board in advance, as with all material investment decisions.</p> <p>No foreign exchange transactions are entered into without the formal approval (by email) of the Finance Director. The Finance Director ensures that any proposed transactions comply with the Group’s treasury policy before approval.</p>	Possible	Medium

vii)	<b>Risk of inaccurate reporting or loss of accounting records</b>	<p>The valuation of the Group’s investments each reporting period is complex and subjective; if the Group’s investment valuations were misstated, this could materially affect both the Group’s NAV and its reputation. The Directors have made various key accounting policy choices and other subjective decisions, particularly with regard to investment valuations.</p> <p>The Group’s external financial reporting is reliant on the integrity of various information systems at Vistra Fund Services (Guernsey) Limited (“Vistra Guernsey”). Failure of Vistra Guernsey’s information systems could lead to the loss of accounting records and other information. The integrity and quality of Vistra Guernsey’s staff is also important.</p> <p>The relative importance of certain risks compared to others changes over time, in particular as the Group has changed over time and the Investment Portfolio has developed. Users of the Financial Statements should also anticipate further changes in the future. There have been no material changes to the Group’s risk profile since the reporting date.</p>	<p><b>Integrity and quality of staff-</b> The Group employs staff with extensive relevant experience of accounting including knowledge of International Financial Reporting Standards ("IFRS").</p> <p>The auditor reviews and signs off on the Directors' valuations as part of their audit (at 31 December) or their interim review (at 30 June).</p> <p><b>Systems-</b> The Administrator has a disaster recovery programme in place which uses alternative equipment and off-site storage of back up data. The principal software packages used by the Administrator are industry standard systems.</p> <p>Vistra has engaged PricewaterhouseCoopers to produce a report on internal controls in accordance with International Standard of Assurance Engagements 3402 Assurance Reports on Controls at a Service Organisation. The most recent report is dated 7 March 2018 and reports on the internal controls in place at 31 October 2017. The report concluded that Vistra had designed and put in place suitable control procedures in order to meet its control objectives. The Audit Committee is satisfied that Vistra’s internal controls are adequate and fit for purpose.</p> <p>The Group maintains a secondary database of most documents relating to the Group in the unlikely outcome of Vistra suffering a loss of their records.</p>	Remote	Medium
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viii)	<b>Risk caused by excessive levels of gearing</b>	Significant levels of gearing could affect the returns attributable to shareholders. Any default on borrowing could lead to repossession of the assets on which the borrowing has been secured, with an adverse effect on shareholders. The Directors monitor the level of borrowing to ensure the Company is operating and growing sustainably.	<p>Any borrowing by the Company must be approved in advance by the Board, and the terms must be in line with the restrictions detailed in the Company's Memorandum and Articles of Incorporation. Shareholders would be kept updated, and any borrowing would only be undertaken if in the interests of the shareholders of the Company. It is unlikely that any borrowing would subsequently be defaulted on.</p> <p>The Board evaluates the merits of debt and equity funding whenever the need for new capital arises, so far the Directors have not introduced debt funding as an appropriate option for the Company.</p>	Remote	Low
ix)	<b>Community relations</b>	Mining requires the acceptance and support of a wide range local community stakeholders and the workforce itself. The remote locations that Gemfields works are bordered by villages and habitations in Zambia, Mozambique and Ethiopia. Failure to share the benefits of the operations with local communities such as creation of jobs, local procurement or community investment activities, may cause delays or disruptions to our operations and may undermine our "social" licence to operate. Furthermore, the presence of security contractors to protect the assets, local administrative requirements, police/state forces presence and governmental interference, especially close to election periods can exacerbate racial, ethnic and economic tensions and despite legal title to operate a mine, mining operators must be aware that the "social" licence to operate is as crucial as the legal licence to operate.	<p>Strengthening Gemfields' community teams at each operation, supported by expert consultants to ensure best practice</p> <p>Developing and implementing collaborative and long-term community investment programmes and projects.</p> <p>Proactive engagement with local stakeholders and provision of transparent mechanisms for the community to raise grievances</p> <p>Proactive management and engagement with local stakeholders regarding involuntary resettlements within our concessions.</p>	Possible	High

x)	<b>Reputation and brand</b>	<p>Gemfields has a distinct brand identity built on its role as a champion of coloured gemstones and as a responsible mining company. As the Company expands its operations into new countries and new markets it must uphold that brand identity by ensuring that it continues to play a leadership role in the sector as well as maintaining credibility and integrity regarding its responsible mining claims. Any incident that undermines the brand may result in the loss of trust in the wider coloured gemstone and downstream industry and potentially harm commercial relationships.</p>	<p>Gemfields will continue to take a proactive approach to marketing and public relations by furthering positive publicity in the countries of operation and in markets that it, and Fabergé are active.</p> <p>The Company is strengthening local corporate affairs teams and briefs local PR firms regarding media relations.</p> <p>Gemfields continues to develop its corporate responsibility and sustainability strategy and has put in place measures to address health, safety, environment and community issues as well as working with downstream partners on transparency initiatives</p>	Possible	High
xi)	<b>Growth</b>	<p>Gemfields is reliant upon key individuals across the business making decisions and managing key projects across the business. With a lean management structure Gemfields recognises the potential for inefficient use of management time and resource and of the pressure on management that does not allow more judicious decision-making at key moments.</p> <p>Growth is dependent partly on our ability to bring new projects online but ultimately rests on the management team's ability to remove barriers to entry that can prevent new projects from adequately delivering as expected and empower their teams to execute their duties to a high level.</p>	<p>Expanding operations and creating growth opportunities.</p> <p>An ongoing mandate to invest in the training of our people including encouraging knowledge transfer for key positions and projects.</p>	Possible	Medium
xii)	<b>Geology and mining</b>	<p>Due to the unpredictable nature of gemstone geology and nascent nature of mechanised coloured gemstone mining there is no assurance that the Gemfields' exploration and development activities will be successful, or that new projects expenditure will be fully recovered or that ore reserves can sustain the life of mine.</p> <p>There is a risk that exploration activities may not deliver viable mineral resources or that Gemfields may fail to identify attractive acquisition or investment</p>	<p>Continually developing tools and techniques to ensure we can meet our production targets.</p> <p>The Company assesses a wide range of potential exploration opportunities, both from its internal portfolio and external opportunities, to the Company's profile.</p>	High	High



		opportunities.	<p>The Company seeks to balance this risk by building a portfolio of projects and licence areas that carry a range of differing technical and commercial risks, and keeping under careful review the amount invested in any one project.</p> <p>The Company retains historical data on mining to increase confidence levels in production forecast and to facilitate continuous exploration.</p> <p>Employment of highly qualified geologists and mine engineers at each site and undertaking succession planning to secure and retain experienced local employees</p>		
xiii)	<b>Health, safety and environment (“HSE”)</b>	HSE risks are inherent to the mining industry. Failure to maintain adequate health and safety standards may result in a significant incident or deterioration in safety performance. This may result in loss of life, loss of time or disruption to the mining operations and at worse a fine or loss of licence. Mining is an environmentally disruptive process for the majority of a mine’s lifecycle. Consideration of the impact of mining on the environment is therefore very important in existing and future operations. Breaches can damage reputation and impact revenue.	<p>The Company continually reviews and improves the broader HSE approach including sustainability risks and strategy. The HSE Committee guides this process and the associated strategy.</p> <p>Strengthening local HSE teams, supported by expert consultants to ensure compliance and best practice.</p>	Possible	Medium
xiv)	<b>Fabergé</b>	The Fabergé distribution model presently relies on a combination of online sales, directly operated boutiques, a large number of concessions, international client events and a network of independent multi-brand retailers. Failure of the distribution model either wholly or partially would have a material adverse impact on Fabergé and potentially Gemfields.	<p>During the year Fabergé develops a new range of products seeking to attract retail and wholesale clients from different countries and expand its presence.</p> <p>Fabergé continues to monitor the distribution model and the associated agreements in order to provide flexibility and react to market trends.</p>	Possible	Medium

xv)	<b>Security</b>	<p>Theft from both internal collusion and illegal mining, is an inherent risk factor in the gemstone industry.</p> <p>This risk is significant, particularly at the Montepuez ruby mine. Due to its size, it cannot be completely fenced off; hence artisanal miners ("ASM") frequently enter the licence area. ASMs operate without licences and extract gemstones illegally which would otherwise be retrieved and sold by the Company. The loss of gemstones from the licence area impacts the profitability of the Company.</p> <p>The presence of security forces (contracted or otherwise) can have an impact on reputation and community relations.</p>	<p>Security measures and systems are constantly reviewed and revised in order to minimise the risk.</p> <p>The Company works with local authorities, communities and security and police forces in seeking to protect the Company's employees, equipment and mining assets.</p>	Possible	High
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**Glossary of terms**

Bermuda Stock Exchange- BSX  
 Johannesburg Stock Exchange- JSE  
 Vistra Fund Services (Guernsey) Limited - "Vistra", or the "Administrator".