# PALLINGHURST


Pallinghurst Resources Limited

## AUDITED ANNUAL RESULTS
for the year ended 31 December 2016

UG2 milling section at the Pilanesberg Platinum Mine.

# HIGHLIGHTS

## Net Asset Value ("NAV")

**US$367 million**

- Sedibelo Platinum Mines achieved annual dispatches of 165,000 4E PGM ounces.
- Sedibelo Platinum Mines recorded more than 4.2 million fatality-free shifts.
- Pioneering "Kell" beneficiation technology successfully completes the feasibility stage.
- Manganese price increased fivefold during 2016, but has since declined.
- Tshipi sold 2.3 million tonnes of manganese ore in its financial year.
- Tshipi distributed ZAR1 billion to its shareholders.
- Jupiter completed a US$55 million equal offer share buy-back in March 2017, at US$0.40 per share.
- Record revenues for Gemfields' 2016 financial year.
- Rough ruby and corundum auction produces record revenues of US$44 million at a single auction.

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"Pallinghurst performed well in 2016, recording an impressive US$45 million profit for the year. Reflecting this strong performance, our shares have also fared well on the JSE, increasing significantly over the past 12 months. With our three business platforms all well positioned for further growth and value-unlock I remain optimistic for 2017 and beyond."

**Arne H. Frandsen**
Chief Executive

# CHAIRMAN'S STATEMENT

**Brian Gilbertson**
Chairman

The past twelve months have demonstrated again that volatility remains a central challenge to a resources investor. Steelmaking materials enjoyed strong price increases during 2016, encouraged by decisions on the part of the main producers to moderate their production and expansion targets. Other commodities, notably the Platinum Group Metals, saw little such leadership, with the major suppliers consistently proclaiming their commitment to maximising output, and the South African Government opposing production cut-backs which would result in job losses. In consequence, the dollar price of platinum has sagged to not much above its low of the past decade, and is trading at a record discount to the price of gold. In such volatile and challenging times, the best returns are likely to accrue to the patient investor who waits for the right conditions to exit.

Since the formation of Pallinghurst, we have not speculated on the volatility of the industry, but have focussed on creating strong businesses which will be attractive regardless of the market environment. We have made significant strides to achieve that aim and each of our investment platforms is uniquely positioned to realise its inherent value as markets improve.

Over the past few years, Gemfields has made tangible strides towards becoming the "De Beers for Coloured Gemstones". The company is now the world's largest emerald and ruby producer, supported by its unique and industry-leading auction platforms. Gemfields also has the potential of entering into other emerald areas, in Ethiopia and Colombia, which would further cement its position as the world's leading gemstone producer.

Tshipi had a record year, thanks to the significant increase in the manganese price in the second half of 2016, and to its tight control over operating costs. Notwithstanding a steep drop in the manganese price in the first quarter of 2017, the company was able to distribute ZAR1 billion to its shareholders, allowing Jupiter to complete its own U$55 million share buy-back. Through our successful partnership with Ntsimbintle, Tshipi has become a large, long-life and low-cost operator of a world-class mine. We are exploring all strategic alternatives to realise shareholder value from this asset.

Our PGM investment, Sedibelo, had its eighth year of production. Due to the challenging PGM price environment, the company has focussed on production optimisation and cash preservation. Whilst other producers have been required to raise equity to survive, including some at large discounts to enforce participation, we have avoided doing so, due to our strategy of avoiding debt and implementing significant cost reductions. Whilst Sedibelo is not immune to the challenges facing the industry, we remain confident that when the market improves, the company will realise its full potential. In the meantime, we are making good progress on the "Kell technology", which could become an industry-transforming beneficiation process.

2017 represents the 10-year anniversary for Pallinghurst. As per our Company's Articles, this anniversary requires that we pause to evaluate how to unlock the inherent value of our assets. We are exploring all options available and will shortly present a proposal to shareholders.

I again thank my fellow Directors and the management teams of our portfolio companies for their hard work and substantial contributions during the past year, particularly in what has been a challenging environment.

**Brian Gilbertson**
Chairman

# CHIEF EXECUTIVE'S STATEMENT

Arne H. Frandsen
Chief Executive

Whilst 2014 and 2015 were two of the most challenging years in recent memory, the past year showed some signs of recovery for the mining industry, and might represent the turning point. Our company performed well, aided by stronger commodity prices and we recorded a profit for 2016 of US$45 million. Our shares have also performed well on the JSE, increasing significantly over the past year.

### Platinum Group Metals

Sedibelo achieved 4.2 million fatality-free shifts in 2016; one of the PGM industry's best safety records. Sedibelo dispatched 165,000 4E PGM ounces during 2016 and whilst this is less than the previous year, it reflects an optimal production level given the continued depressed price environment. Significant cost-cutting measures have successfully been implemented, but with the metal prices remaining at depressed levels, Sedibelo is expected to report a loss for the year. However, Sedibelo continues to benefit from having significant cash reserves and no long-term debt. During the year, the bankable feasibility study for the pioneering "Kell technology" was completed, and Sedibelo and its partners (the IDC and Lifezone) are contemplating the establishment of the first Kell PGM beneficiation plant in Southern Africa. Sedibelo also commenced the construction of its first chrome extraction plant, and with the first cash flow expected by the end of 2017, this new revenue stream could have a significant effect on Sedibelo's profitability.

### Steel Making Materials

Tshipi's management team adapted well to the volatile price environment, with revenue, production and profitability for its financial year all at record levels. The combination of rigorous cost management – positioning Tshipi Borwa in the lowest cost quartile – with the improvement in the manganese price resulted in Tshipi declaring its maiden distribution of ZAR1 billion. In turn, Jupiter distributed US$55 million to its shareholders in March 2017, of which PRL received US$10 million. During the year, Tshipi demonstrated its ability to produce at a rate of up to 3 million tonnes per annum, which could significantly improve profitability when high manganese prices are sustained.

### Coloured Gemstones

Gemfields' ruby revenues remained robust and the Montepuez mine continued to increase production during the scaling-up of its operations. The Indian Government's demonetisation programme affected many of Gemfields' emerald customers, which resulted in the deferral of a higher grade auction from December 2016 to February 2017. Production at Kagem was lower than anticipated, but this is not an unusual attribute for coloured gemstone mining operations and increased production levels are expected to return. In Ethiopia, initial trials and exploration have yielded positive results and the establishment of a mining operation there has the potential to widen Gemfields' emerald offering and increase its market share. Through its successful auction system, Gemfields has positioned itself as the world's leading supplier of both rubies and emeralds. Gemfields also continues to explore all avenues for unlocking Fabergé's value potential.

### Corporate

Whilst metal prices generally increased over the course of 2016, the first quarter of 2017 has seen a reversal of many of those gains. The manganese price in particular increased by fivefold during 2016, but sharp falls in 2017 make it difficult to predict where the price will stabilise. Similarly, the Rand denominated PGM basket price steadily increased during 2016, however the first months of 2017 have seen a retraction, particularly in the platinum price. This commodity price volatility makes it increasingly difficult to value our two unlisted platforms. Whilst there have been many positive initiatives at our PGM platform, we have kept the valuation at last year's level. The strong manganese price, particularly towards the end of 2016, as well as the significant cost-cutting efforts at the Tshipi manganese mine, has resulted in a significant increase in the valuation of Jupiter. Our strategic investment in Gemfields also increased in value during the year. Consequently, we have reported a profit for the year of US$45 million, which represents an improvement of almost US$200 million compared to 2015. The Net Asset Value increased by 14% during 2016, but I believe that this still does not fully reflect the inherent value of our investment platforms and we continue to actively pursue the realisation of their full potential.

The cornerstone of our strategy remains the same; a firm focus on enhancing and unlocking the full value of each of our three investment platforms. Although the current market environment remains challenging, we continue to prepare the assets for eventual value realisation. When commodity prices and market sentiment recover further, each of our investments will be well-positioned to realise significant value for shareholders.

Arne H. Frandsen
Chief Executive

# Condensed Consolidated Statement of Comprehensive Income

for the year ended 31 December 2016

| | 1 January 2016 to 31 December 2016 US$'000 | 1 January 2015 to 31 December 2015 US$'000 |
|---|---|---|
| **INCOME** | | |
| **Investment Portfolio** | | |
| Unrealised fair value gains | 49,768 | – |
| Unrealised fair value losses | – | (142,176) |
| | **49,768** | **(142,176)** |
| **Investment Portfolio revenue** | | |
| Loan interest income | 619 | 731 |
| | **619** | **731** |
| **Net gain/(loss) on investments and income from operations** | **50,387** | **(141,445)** |
| **EXPENSES** | | |
| Investment Manager's Benefit | (4,988) | (6,212) |
| Operating expenses | (904) | (1,398) |
| Foreign exchange gains | 9 | 2 |
| | **(5,883)** | **(7,608)** |
| **Net gain/(loss) from operations** | **44,504** | **(149,053)** |
| Finance income | 1 | 6 |
| Finance costs | (3) | (5) |
| **Net finance income** | **(2)** | **1** |
| **Profit/(loss) before fair value gain/(loss) of associates** | **44,502** | **(149,052)** |
| Fair value gain/(loss) of associates | 71 | (70) |
| **Profit/(loss) before tax** | **44,573** | **(149,122)** |
| Tax | (3) | (4) |
| **NET PROFIT/(LOSS) AFTER TAX** | **44,570** | **(149,126)** |
| Other comprehensive income | – | – |
| **TOTAL COMPREHENSIVE INCOME/(LOSS)** | **44,570** | **(149,126)** |
| **Basic and diluted earnings/(loss) per ordinary share – US$** | **0.06** | **(0.20)** |

*All elements of total comprehensive income/(loss) for the period and all comparative periods are attributable to owners of the parent. There are no material non-controlling interests. The accompanying notes form part of these Financial Statements.*

# Condensed Consolidated Balance Sheet

as at 31 December 2016

| | 31 December 2016 US$'000 | 31 December 2015 US$'000 |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Investments in associates | **1,265** | **1,194** |
| **Investment Portfolio** | | |
| Listed equity investments | 164,615 | 158,603 |
| Unlisted equity investments | 193,869 | 150,113 |
| | **358,484** | **308,716** |
| **Total non-current assets** | **359,749** | **309,910** |
| **Current assets** | | |
| **Investment Portfolio** | | |
| Loans and receivables | 4,948 | 9,804 |
| Cash and cash equivalents | 1,218 | 1,610 |
| Trade and other receivables | 1,175 | 1,662 |
| Other investments | 12 | 48 |
| **Total current assets** | **7,353** | **13,124** |
| **Total assets** | **367,102** | **323,034** |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Trade and other payables | 207 | 709 |
| **Total current and total liabilities** | **207** | **709** |
| **Net assets** | **366,895** | **322,325** |
| **EQUITY** | | |
| **Capital and reserves attributable to equity holders** | | |
| Share capital | 8 | 8 |
| Share premium | 375,227 | 375,227 |
| Retained losses | (8,340) | (52,910) |
| **Total equity** | **366,895** | **322,325** |

The Financial Statements were approved and authorised for issue by the Directors on 27 March 2017 and were signed on its behalf by:

Arne H. Frandsen
Chief Executive
27 March 2017

Andrew Willis
Finance Director
27 March 2017

*The accompanying notes form part of these Financial Statements.*

# Condensed Consolidated Statement of Cash Flows

for the year ended 31 December 2016

| | 1 January 2016 to 31 December 2016 US$'000 | 1 January 2015 to 31 December 2015 US$'000 |
|---|---|---|
| **Cash outflows from operations** | **(5,876)** | **(8,454)** |
| Loans extended to investments | (4,925) | (19,576) |
| Loans repaid by investments | 10,000 | 25,000 |
| Loan interest received | 400 | 556 |
| **Net cash outflows from operating activities** | **(401)** | **(2,474)** |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | **(401)** | **(2,474)** |
| Cash and cash equivalents at the beginning of the year | 1,610 | 4,082 |
| Foreign exchange gains | 9 | 2 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | **1,218** | **1,610** |

*The accompanying notes form part of these Financial Statements.*

# Condensed Consolidated Statement of Changes in Equity

for the year ended 31 December 2016

| | Share capital US$'000 | Share premium US$'000 | Retained earnings/(losses) US$'000 | Total equity US$'000 |
|---|---|---|---|---|
| Balance at 1 January 2015 | 8 | 375,227 | 96,216 | 471,451 |
| Total comprehensive loss for the year | – | – | (149,126) | (149,126) |
| **Balance at 31 December 2015** | **8** | **375,227** | **(52,910)** | **322,325** |
| Total comprehensive income for the year | – | – | 44,570 | 44,570 |
| **Balance at 31 December 2016** | **8** | **375,227** | **(8,340)** | **366,895** |

*The accompanying notes form part of these Financial Statements.*

# Notes to the Condensed Consolidated Financial Statements

for the year ended 31 December 2016

## Investment Portfolio

The reconciliation of the Investment Portfolio valuations from 1 January 2016 to 31 December 2016 is as follows:

| Investment | Opening at 1 January 2016 US$'000 | Unrealised fair value gains US$'000 | Unrealised fair value losses US$'000 | Accrued interest income and structuring fee US$'000 | Additions and disposals US$'000 | Closing at 31 December 2016 US$'000 |
|---|---|---|---|---|---|---|
| *Listed equity investments* | | | | | | |
| Gemfields[1] | 158,603 | 6,012 | – | – | – | 164,615 |
| | 158,603 | 6,012 | – | – | – | 164,615 |
| *Unlisted equity investments* | | | | | | |
| Jupiter[2] | 35,705 | 43,756 | – | – | – | 79,461 |
| Sedibelo Platinum Mines | 114,408 | – | – | – | – | 114,408 |
| | 150,113 | 43,756 | – | – | – | 193,869 |
| Total non-current | 308,716 | 49,768 | – | – | – | 358,484 |
| *Loans and receivables* | | | | | | |
| Gemfields – US$10 million loan[3] | 9,804 | – | – | 596 | (10,400) | – |
| Gemfields – US$5 million loan[4] | – | – | – | 23 | 4,925 | 4,948 |
| | 9,804 | – | – | 619 | (5,475) | 4,948 |
| Total current | 9,804 | – | – | 619 | (5,475) | 4,948 |
| **Total Investment Portfolio** | **318,520** | **49,768** | **–** | **619** | **(5,475)** | **363,432** |

1 *The unrealised fair value gain on Gemfields of US$6.012 million includes an unrealised foreign exchange loss of US$26.336 million.*

2 *The unrealised fair value gain on Jupiter of US$43.756 million does not include any direct foreign exchange gain/loss as the valuation is denominated in US$.*

3 *The Group made a loan to Gemfields of US$9.776 million (US$10 million less an arrangement fee of US$0.224 million). The loan, including interest and arrangement fee was repaid by Gemfields on 9 December 2016.*

4 *The Group has provided a loan to Gemfields of US$4.925 million (US$5 million less an arrangement fee of US$0.075 million). The loan was fully drawn down on 13 December 2016. Interest is payable, calculated per the agreement at three month US$ LIBOR plus 5%. The outstanding balance of the loan at 31 December 2016 is US$4.948 million. The loan is repayable with accrued interest on 30 June 2017.*

# Notes to the Condensed Consolidated Financial Statements
for the year ended 31 December 2016

## Investment Portfolio/continued

The reconciliation of the Investment Portfolio valuations from 1 January 2015 to 31 December 2015 is as follows:

| Investment | Opening at 1 January 2015 US$'000 | Unrealised fair value gains US$'000 | Unrealised fair value losses US$'000 | Accrued interest income and structuring fee US$'000 | Additions and disposals US$'000 | Closing at 31 December 2015 US$'000 |
|---|---|---|---|---|---|---|
| *Listed equity investments* | | | | | | |
| Gemfields[1] | 185,511 | – | (26,908) | – | – | 158,603 |
| | 185,511 | – | (26,908) | – | – | 158,603 |
| *Unlisted equity investments* | | | | | | |
| Jupiter[2] | 69,253 | – | (33,548) | – | – | 35,705 |
| Sedibelo Platinum Mines[3] | 196,128 | – | (81,720) | – | – | 114,408 |
| | 265,381 | – | (115,268) | – | – | 150,113 |
| Total non-current | 450,892 | – | (142,176) | – | – | 308,716 |
| *Loans and receivables* | | | | | | |
| Gemfields – US$10 million loan[4] | – | – | – | 28 | 9,776 | 9,804 |
| Gemfields – US$15 million loan[5] | 15,256 | – | – | 368 | (15,624) | – |
| Kagem Mining Limited – US$10 million loan[6] | – | – | – | 335 | (335) | – |
| | 15,256 | – | – | 731 | (6,183) | 9,804 |
| Total current | 15,256 | – | – | 731 | (6,183) | 9,804 |
| **Total Investment Portfolio** | **466,148** | **–** | **(142,176)** | **731** | **(6,183)** | **318,520** |

1 *The unrealised fair value loss on Gemfields of US$26.908 million includes an unrealised foreign exchange loss of US$9.200 million.*
2 *The unrealised fair value loss on Jupiter of US$33.548 million does not include any direct foreign exchange gain/loss as the valuation is denominated in US$.*
3 *The unrealised fair value loss on SPM of US$81.720 million does not include any direct foreign exchange gain/loss as the valuation is denominated in US$.*
4 *The Group made a loan to Gemfields of US$9.776 million (US$10 million less an arrangement fee of US$0.224 million). The loan, including interest and arrangement fee was repaid by Gemfields on 9 December 2016.*
5 *The Group made a loan to Gemfields of US$15 million in two separate tranches during 2014. The loan, including interest and the arrangement fee was repaid by Gemfields on 30 April 2015.*
6 *The Group made a loan to Kagem Mining Limited ("Kagem") of US$9.8 million (US$10 million less an arrangement fee of US$0.2 million). Interest was payable, calculated per the agreement at three month US$ LIBOR plus 4.5%. The loan, including interest and the arrangement fee was repaid by Kagem on 18 December 2015.*

## Sedibelo Platinum Mines Limited – equity

**Nature of investment**

The Group holds an equity interest in SPM, a producer of PGMs with interests in the Bushveld Complex in South Africa.

**Fair value methodology**

Income Approach– Discounted Cash Flow applying Directors' estimate.

The Directors have estimated that the value of SPM is US$1.75 billion; the Group's indirect 6.54% interest has therefore been valued at US$114 million.

The Directors have considered a range of sources in determining the valuation of SPM. The primary source used by the Directors in their valuation is a competent person's report prepared by an independent third party as at 31 December 2015 ("the competent person's report"). The competent person's report is the latest available report used by the Directors in their valuation of SPM at 31 December 2016.

# Notes to the Condensed Consolidated Financial Statements

for the year ended 31 December 2016

## Investment Portfolio/continued

### Sedibelo Platinum Mines Limited – equity/continued

The competent person's report includes discounted cash flow ("DCF") analysis to value SPM's key assets and includes a range of valuations. The preferred valuation of SPM given by the competent person's report is US$2.47 billion. The Directors have reviewed the competent person's report and have taken into account trading performance and market conditions during the 12 months to 31 December 2016.

The DCF analysis is based on a number of predictions and uncertainties including forecast PGM prices, production levels, costs, exchange rates and the consolidated mine plan. Changing any of these assumptions may materially affect the implied valuation. The Directors note that the valuation of SPM is sensitive to various key inputs, in particular the platinum price, the palladium price and production levels.

At 31 December 2015, the Directors adjusted the preferred valuation given by the competent person's report by a discount factor of approximately 29%, representing the median discount to Net Asset Value ("NAV") that SPM's peer group of listed PGM companies were trading at. At 31 December 2016, the Directors note that the median discount to NAV that these same listed companies is trading at has significantly reduced since 31 December 2015.

The competent person's report used information from a range of sources to forecast PGM prices. The platinum price was forecast to be within a range of US$956 to US$1,300 and the palladium price was forecast to be within a range of US$700 to US$831 over SPM's life-of-mine. Using a range of broker forecasts at 31 December 2016, the platinum price is now forecast to be within a range of US$1,038 to US$1,302 and the palladium price is now forecast to be within a range of US$704 to US$820 over SPM's life-of-mine.

The Directors note that forecast PGM prices as at 31 December 2016 are either in line or slightly above those used in the competent person's report. In addition, at 31 December 2016, the discount to NAV that SPM's peer group of listed PGM companies are trading at has significantly reduced when compared to 31 December 2015. Both factors imply an increase in valuation. The Directors however also note that the competent person's report estimated SPM's production to increase in 2016, whereas in response to the prevailing market conditions, SPM dispatched a reduced level of ounces compared with 2015 in order to preserve its cash position. The Directors note that SPM has optimised its production levels for the prevailing price environment, and therefore production is not expected to significantly increase until market conditions improve. Whilst a short-term reduction in production does not equate to production decreases over the entire life of the mine, this does provide some evidence of a decrease in valuation.

The Directors have reviewed the competent person's report and taken into account these changes to trading performance and market conditions which have occurred throughout 2016. Accordingly, the Directors consider that the fair value of SPM as at 31 December 2016 continues to be US$1.75 billion.

For the purposes of the disclosures required by IFRS13 Fair Value Measurement ("IFRS13") and using sensitivity analysis included within the competent person's report, if the forecasted platinum and palladium prices used in the competent person's report declined by 10% at the balance sheet date and presuming all other indicators and evidence were unchanged, the valuation of SPM included in the balance sheet would decrease from US$114 million to US$91 million. The related fair value decrease of US$23 million would be recognised in profit and loss. Production is also an important factor in determining the valuations. An adjustment to production levels would also have consequent effects on variable costs, thereby reducing the impact on fair value versus the pricing analysis. The competent person's report does not provide such sensitivity analysis for changes in production.

# Notes to the Condensed Consolidated Financial Statements

for the year ended 31 December 2016

## Investment Portfolio/continued

### Sedibelo Platinum Mines Limited – equity/continued

| | |
|---|---|
| Other considerations | No secondary valuation methodologies have been considered for the Company's investment in SPM as the competent person's report has a relatively recent effective date of 31 December 2015.<br><br>The Group's cash cost of investment for SPM is approximately US$123 million and the Group's initial PGM investment was made in August 2008. |

### Gemfields plc – equity

| | |
|---|---|
| Nature of investment | The Group holds an equity interest in Gemfields, the producer of coloured gemstones. Gemfields owns emerald assets in Zambia, Colombia and Ethiopia, ruby assets in Mozambique, amethyst assets in Zambia and sapphire interests in Sri Lanka. Gemfields is listed on AIM.<br><br>The Group owns a see-through interest of 47.13% in Gemfields at 31 December 2016, valued at US$165 million. |
| Fair value methodology | Market Approach – Listed share price<br><br>The Group's interest in Gemfields is valued at the 31 December 2016 mid-price of GBP0.515 per share, translated at the closing rate of US$1/GBP0.8100. |
| Other considerations | No secondary valuation methodologies have been considered for the Company's investment in Gemfields as it is a listed equity in an active market.<br><br>The Group's cost of investment is approximately US$119 million and the Group's initial investment was made in October 2007. |

### Jupiter Mines Limited – equity

| | |
|---|---|
| Nature of investment | The Group holds an equity interest in Jupiter. Jupiter is based in Perth, Western Australia and its main asset is a 49.9% interest in the Tshipi manganese joint venture in South Africa. |
| Fair value methodology | Combination of Income, Market and Cost Approach applying Directors' estimate<br><br>Each of Jupiter's material assets has been valued separately to determine an appropriate valuation for 100% of Jupiter. The Directors have estimated that the fair value of Jupiter at 31 December 2016 is US$431 million; the implied valuation of the Group's 18.45% interest is US$79 million.<br><br>Jupiter's 49.9% interest in Tshipi has been valued based on a competent person's report prepared by an independent third party as at 31 December 2016. The competent person's report includes a DCF analysis for Tshipi Borwa and includes a range of valuations. The preferred valuation of 100% of Tshipi Borwa at 31 December 2016 given by the competent person's report is US$1,436 million; the Group's indirect interest (through Jupiter's 49.9% interest in Tshipi) on this basis would be valued at US$132 million. The DCF analysis is based on a large number of predictions and uncertainties including revenues, production levels, costs and exchange rates. Changing any of the assumptions may materially affect the implied valuation, in particular the long-term forecast manganese price. The Directors have considered each of the variables and have applied different assumptions for the long-term manganese price and long-term US$/ZAR exchange rate than those used in the DCF, which has reduced the implied valuation.<br><br>The Directors have applied a long-term 37% FOB manganese price of US$3.65 per dry metric tonne unit ("dmtu") in the DCF model, which is the average price over the past five years. The Directors believe that long-term past performance is a sensible indicator to what might happen to the manganese price going |

# Notes to the Condensed Consolidated Financial Statements

for the year ended 31 December 2016

## Investment Portfolio/continued

### Jupiter Mines Limited – equity/continued

forwards, particularly given the volatility of the manganese market over the past 15 months. In addition the Directors have applied a long-term average broker consensus rate of US$1/ZAR13.1 in the DCF model.

For the purposes of the disclosures required by IFRS13, if the forecast manganese price of US$3.65 used in the valuation declined by 10% and presuming all other indicators and evidence were unchanged, the valuation of Jupiter included in the balance sheet would decrease from US$79 million to US$61 million. The fair value decrease of US$18 million would be recognised in profit and loss. If the forecast exchange rate of US$1/ZAR13.1 used in the valuation declined by 10% (i.e. the Rand strengthening against the US$) and presuming all other indicators and evidence were unchanged, the valuation of Jupiter included in the balance sheet would also decrease from US$79 million to US$61 million. The fair value decrease of US$18 million would be recognised in profit and loss. Production is also an important factor in determining the valuations. An adjustment to production levels would also have consequent effects on variable costs, thereby reducing the impact on fair value versus the pricing analysis. The competent person's report does not provide such sensitivity analysis for changes in production.

Jupiter's other assets have been valued using a range of different valuation methodologies. Jupiter has made certain shareholder loans to Tshipi which have been valued at amortised cost. Jupiter's interests in Mount Mason and Mount Ida have been written down to zero due to the uncertainty over the future prospects for each asset, however the Directors note that the iron ore price has increased over the course of 2016 which could lead to a revaluation of the assets in future reporting periods. Jupiter's cash has been included at cost which approximates to fair value. Jupiter has no material liabilities.

**Other considerations**

The Directors have compared the price set for the Jupiter buy-back of US$0.40 per share against the sum-of-the-parts valuation of US$0.19 per share. The Directors note that at the time Jupiter first announced the US$55 million distribution to shareholders, 21 November 2016, the manganese price was trading at US$7.29 per dmtu and that the buy-back price per share was underpinned by long-term manganese price assumptions of between US$4-5 per dmtu, which are higher than the US$3.65 price used by the Directors in the valuation of Jupiter. As the share buy-back comprised an off-market transaction that was offered to all of Jupiter's shareholders, with a high acceptance rate of 98%, it is not considered by the Directors to be a third party or external market transaction. Accordingly, the Directors believe that the $0.40 per share is not a better estimate of the fair value of Jupiter as at 31 December 2016 than the primary fair value methodology used in these Financial Statements. Further details of the Jupiter buy-back are disclosed in Note 18 Events occurring after the end of the year..

The Group owned an effective 18.45% interest in Jupiter at 31 December 2016. The Group's cash cost of investment is approximately US$29 million and the Group's initial investment into Jupiter was made in May 2008.

### Gemfields plc – US$5 million loan

**Nature of investment**

On 13 December 2016, the Group agreed to provide a loan of US$5 million to Gemfields, in line with the Group's strategy of providing financial support to its investments. The loan is repayable with accrued interest on 30 June 2017. There are no penalties for early repayment.

**Valuation methodology**

Amortised cost – effective interest method

Interest on the loan to Gemfields has been calculated using the effective interest method meaning that any interest income, fees or similar amounts are accrued for evenly as the loan becomes due for repayment. The loan is repayable in instalments; US$1.5 million on 31 March 2017 and US$3.5 million with accrued interest on 30 June 2017. The Directors have agreed upon Gemfields' request to defer the US$1.5 million repayment until 30 June 2017. The outstanding balance of the loan at 31 December 2016, including interest, is US$4.9 million. The effective interest rate of the loan at 31 December 2016 is approximately 8.90%.

# Notes to the Condensed Consolidated Financial Statements

for the year ended 31 December 2016

**Investment Portfolio**/continued

## Gemfields plc – US$10 million loan

| | |
|---|---|
| Nature of investment | On 18 December 2015, the Group agreed to provide a loan of up to US$10 million to Gemfields, in line with the Group's strategy of providing support to its investments. The loan was repaid, with accrued interest, on 9 December 2016. |
| Valuation methodology | Amortised cost – effective interest method<br><br>The value of the loan to Gemfields was calculated using the effective interest method, with the arrangement fee accruing evenly over the projected life of the loan. The loan was repayable in instalments; US$1 million was repaid on 31 March 2016, US$2.5 million on 30 June 2016, US$2.5 million on 30 September 2016 and US$4 million with accrued interest on 9 December 2016. The outstanding balance on the date of repayment, 9 December 2016, including interest and arrangement fee, was US$4.4 million. The effective interest rate of the loan throughout the duration of the loan was approximately 6.53%. |

## Kagem Mining Limited – US$10 million loan

| | |
|---|---|
| Nature of investment | On 10 August 2015, the Group agreed to provide a loan of up to US$10 million to Kagem Mining Limited ("Kagem"), a 75% subsidiary of Gemfields, in line with the Group's strategy of providing support to its investments. The loan was repaid, with accrued interest, on 18 December 2015. |
| Valuation methodology | Amortised cost – effective interest method<br><br>The value of the loan to Kagem was calculated using the effective interest method, with the arrangement fee accruing evenly over the projected life of the loan. The outstanding balance on the date of repayment, 18 December 2015, including interest and arrangement fee, was US$10.1 million. The effective interest rate on the loan throughout the duration of the loan was approximately 10.48%. |

## Fair value hierarchy

IFRS13 requires disclosure of fair value measurements under the following hierarchy:

| Level | Fair value input description |
|---|---|
| Level 1 | Listed prices (unadjusted) in active markets for identical assets or liabilities |
| Level 2 | Inputs other than listed prices included within level one that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) |
| Level 3 | Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) |

The Group's valuation of Jupiter is based on a number of different valuation methodologies, with each of Jupiter's material assets valued separately. However, the investment in Jupiter as a whole has been categorised as Level 3 as the most significant inputs to the Jupiter valuation are Level 3 inputs.

# Notes to the Condensed Consolidated Financial Statements
for the year ended 31 December 2016

## Investment Portfolio/continued

A breakdown of the Group's financial assets at fair value through profit or loss ("FVTPL"), categorised as Level 1, Level 2 and Level 3 assets is included below:

| 31 December 2016 | Level 1 US$'000 | Level 2 US$'000 | Level 3 US$'000 | **Total US$'000** |
|---|---|---|---|---|
| *Financial assets at FVTPL* | | | | |
| Equity investments | 164,615 | – | 193,869 | **358,484** |
| Investments in associates | – | – | 1,265 | **1,265** |
| Other investments | 12 | – | – | **12** |
| | 164,627 | – | 195,134 | **359,761** |

| 31 December 2015 | Level 1 US$'000 | Level 2 US$'000 | Level 3 US$'000 | **Total US$'000** |
|---|---|---|---|---|
| *Financial assets at FVTPL* | | | | |
| Equity investments | 158,603 | – | 150,113 | **308,716** |
| Investments in associates | – | – | 1,194 | **1,194** |
| Other investments | 48 | – | – | **48** |
| | 158,651 | – | 151,307 | **309,958** |

### Level 3 fair value reconciliation

A reconciliation of the Group's investments during the year is provided below:

| | 2016 US$'000 | 2015 US$'000 |
|---|---|---|
| Opening | 151,307 | 266,645 |
| Fair value gain/(loss) of associates | 71 | (70) |
| Unrealised fair value gains | 43,756 | – |
| Unrealised fair value losses | – | (115,268) |
| **Closing** | **195,134** | **151,307** |

# Notes to the Condensed Consolidated Financial Statements
for the year ended 31 December 2016

## Segmental reporting

The Chief Operating Decision Maker ("CODM") is Mr Gilbertson, the Chairman, who measures the performance of each operating segment by assessing the fair value of the Group's Investment Portfolio on a regular basis in order to allocate resources. The Group's segmental reporting is based around three Investment Platforms; PGMs, Steel Making Materials, and Coloured Gemstones, each of which is categorised as an operating segment. Each investment is assessed on this basis and as such, each of the Group's operating segments may include multiple mines and other assets.

The segmental information provided to the CODM for the year ended 31 December 2016 is as follows:

| 31 December 2016 | PGMs US$'000 | Steel Making Materials[1] US$'000 | Coloured Gemstones[2] US$'000 | Unallocated US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| *Income statement* | | | | | |
| Unrealised fair value gains | – | 43,756 | 6,012 | – | 49,768 |
| Unrealised fair value losses | – | – | – | – | – |
| Loan interest income | – | – | 619 | – | 619 |
| Net segmental income | – | 43,756 | 6,631 | – | 50,387 |
| Other income | | | | – | – |
| Net income on investments and income from operations | | | | | 50,387 |
| Expenses, net finance income, fair value gain of associates and taxation | | | | (5,817) | (5,817) |
| **Net segmental profit/(loss)** | **–** | **43,756** | **6,631** | **(5,817)** | **44,570** |
| *Balance sheet* | | | | | |
| **Net Asset Value** | **114,408** | **79,461** | **169,563** | **3,463** | **366,895** |

1 *The unrealised fair value gain on the Steel Making Materials segment of US$43.756 million does not include any direct foreign exchange gain/loss as the valuation is denominated in US$.*
2 *The unrealised fair value gain on the Coloured Gemstones segment of US$6.012 million includes an unrealised foreign exchange loss of US$26.336 million.*

# Notes to the Condensed Consolidated Financial Statements

for the year ended 31 December 2016

## Segmental reporting/continued

The segmental information provided to the CODM for the year ended 31 December 2015 is as follows:

| 31 December 2015 | PGMs[1] US$'000 | Steel Making Materials[2] US$'000 | Coloured Gemstones[3] US$'000 | Unallocated US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| *Income statement* | | | | | |
| Unrealised fair value gains | – | – | – | – | – |
| Unrealised fair value losses | (81,720) | (33,548) | (26,908) | – | (142,176) |
| Loan interest income | – | – | 731 | – | 731 |
| Net segmental expense | (81,720) | (33,548) | (26,177) | – | (141,445) |
| Other income | | | | – | – |
| Net loss on investments and income from operations | | | | | (141,445) |
| Expenses, net finance income, fair value (loss)/gain of associates and taxation | | | | (7,681) | (7,681) |
| **Net segmental loss** | **(81,720)** | **(33,548)** | **(26,177)** | **(7,681)** | **(149,126)** |
| *Balance sheet* | | | | | |
| **Net Asset Value** | **114,408** | **35,705** | **168,407** | **3,805** | **322,325** |

1 *The unrealised fair value loss on the PGMs segment of US$81.720 million does not include any direct foreign exchange gain/loss as the valuation is denominated in US$.*
2 *The unrealised fair value loss on the Steel Making Materials segment of US$33.548 million does not include any direct foreign exchange gain/loss as the valuation is denominated in US$.*
3 *The unrealised fair value loss on the Coloured Gemstones segment of US$26.908 million includes an unrealised foreign exchange loss of US$9.200 million.*

# Notes to the Condensed Consolidated Financial Statements

for the year ended 31 December 2016

## Per share information

NAV per share and Earnings/(Loss) Per Share ("EPS" or "LPS") are key performance measures for the Group. NAV per share is based on net assets divided by the number of ordinary shares in issue. EPS/(LPS) is based on profit/(loss) for the year divided by the weighted average number of ordinary shares in issue during the year. There are no dilutive indicators or dilutive ordinary shares in issue.

Headline Earnings/(Loss) Per Share ("HEPS" or "HLPS") is similar to EPS/(LPS), except that attributable profit specifically excludes certain items, as set out in Circular 2/2015 "Headline earnings" ("Circular 2/2015") issued by SAICA. None of these exclusions are relevant to the Group and EPS/(LPS) is equal to HEPS/(HLPS) in the current and prior year.

### NAV per share

The Group's US$ NAV per share is as follows:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Net assets – US$'000 | 366,895 | 322,325 |
| *Number of shares in issue* | *760,452,631* | *760,452,631* |
| **NAV per share – US$** | **0.48** | **0.42** |

The Group does not hold any intangible assets and NAV is equal to Tangible NAV.

### Earnings per share

The Group's EPS/(LPS) is as follows:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Profit/(loss) for the year – US$'000 | 44,570 | (149,126) |
| *Weighted average number of shares in issue* | *760,452,631* | *760,452,631* |
| **Earnings/(loss) per share – US$** | **0.06** | **(0.20)** |

There are no dilutive shares and EPS/(LPS) is equal to Diluted Earnings/(Loss) Per Share.

# Notes to the Condensed Consolidated Financial Statements

for the year ended 31 December 2016

## Basis of preparation

The Group Financial Statements for the year ending 31 December 2016 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), the financial reporting guides issued by the Accounting Practices Committee of the South African Institute of Chartered Accountants (the "SAICA Reporting Guides") and the financial reporting pronouncements issued by the Financial Reporting Standards Council of South Africa (the "FRSC Pronouncements"). The Financial Statements also comply with the JSE Listings Requirements, the BSX Listing Regulations and The Companies (Guernsey) Law, 2008 and show a true and fair view.

The Financial Statements have been audited by the Company's auditors, Saffery Champness; their audit opinion was unqualified. The following emphasis of matter was included in their report:

*Emphasis of Matter – Upcoming expiry of initial life-span*

*In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made concerning the Company's intention to extend its initial life-span. The initial life-span of the Company is scheduled to end on 14 September 2017 unless it is extended or the Articles of Incorporation are changed by resolution of the shareholders. The exact nature of any extension to the Company's life beyond 14 September 2017 cannot presently be determined as it is subject to shareholder vote at a general meeting of the Company, which has not yet been held. The financial statements have been prepared on a going concern basis which we consider to be appropriate.*

The audit opinion is available for inspection at the Company's registered office. The Financial Statements will be mailed to shareholders during April 2017, and made available on the Company's website, *www.pallinghurst.com*.

This preliminary announcement includes condensed financial statements (the "Condensed Financial Statements"). The Condensed Financial Statements have been prepared in accordance with IAS34 *Interim Financial Reporting* and do not contain sufficient information to fully comply with IFRS. The Condensed Financial Statements comply with the SAICA Reporting Guides and the FRSC Pronouncements, the JSE Listings Requirements and the BSX Listing Regulations and show a true and fair view.

This abridged report is extracted from audited information, but is not itself audited.

## Accounting policies

The Group's accounting policies were last described in full in the Group's financial statements for the year ended 31 December 2015.

Various new and revised accounting standards, amendments to standards and new interpretations have been issued by the International Accounting Standards Board but are not yet effective. At this stage, the Directors do not believe that these changes will have a material impact on the Group or its financial reporting. The accounting policies applied are consistent with those adopted and disclosed in the Group`s financial statements for the year ended 31 December 2015 other than in respect of these changes.

## Contingent liabilities and contingent assets

The Group has acted as a limited guarantor for the lease of Fabergé's New York retail outlet at 694 Madison Avenue since 31 August 2011. One of the conditions of the Gemfields/Fabergé Merger, which completed on 28 January 2013, was that Gemfields either take over as guarantor from the Company, or that Gemfields indemnify the Group against any potential liability to the landlord. Gemfields have provided an indemnity to the Group against any loss from this guarantee. The Directors' assessment is that the maximum amount of the contingent liability continues to be US$0.219 million, although any such loss should be recoverable from Gemfields under the terms of the indemnity.

The Group had no other significant contingent liabilities or contingent assets at 31 December 2016 or 31 December 2015.

# Notes to the Condensed Consolidated Financial Statements
for the year ended 31 December 2016

## Commitments

The Group had no material commitments at the date of signature of the Financial Statements.

## Events occurring after the end of the year

### Jupiter Buy-Back
On 23 January 2017, Jupiter announced the details of an off-market equal access share buy-back to return up to US$55 million to its shareholders. All Jupiter shareholders were made an equal offer to buy-back 6% of their shares in Jupiter, at a set price of US$0.40 per share.

The Company, as an 18.45% shareholder in Jupiter had the right to have 6% of its 421,042,093 Jupiter shares bought-back. The Company accepted the buy-back by Jupiter, resulting in the sale of 25,262,526 shares in Jupiter for US$0.40 per share. The Directors' estimate of the fair value of the Jupiter shares at 31 December 2016 is US$0.19 per share. The buy-back price per share was underpinned by Jupiter's long-term manganese price assumptions of between US$4-5 per dmtu, which are higher than the US$3.65 price used by the Directors in the valuation of Jupiter. The transaction completed on 13 March 2017 with the Company receiving US$10.1 million.

This transaction will be accounted for in the Company's Interim financial statements for the six months ending 30 June 2017.

### Fall in Gemfields share price
The Gemfields share price has fallen since 31 December 2016. The estimated impact of this non-adjusting event is as follows:

The Gemfields share price on 24 March 2017 was GBP0.4475 and the exchange rate was US$1/GBP0.8019. The fair value of the Group's investment was US$144 million, US$21 million lower than the valuation of US$165 million included in the Balance Sheet.

### Fall in the manganese price
The manganese price has fallen since 31 December 2016. The 37% ore (FOB, Port Elizabeth) manganese price on 24 March 2017 was US$2.90 per dmtu, US$4.48 per dmtu lower than the price of US$7.38 per dmtu at 31 December 2016. The manganese price has an indirect impact on the valuation of Jupiter, through Jupiter's 49.9% interest in the Tshipi Borwa manganese mine.

### Approval of Annual Report
The Annual Report was approved by the Directors and authorised for issue on 27 March 2017.

Pallinghurst Resources Limited | (Incorporated in Guernsey) | (Guernsey registration number: 47656) | (South African external company registration number 2009/012636/10) | Share code on the JSE: PGL | Share code on the BSX: PALLRES | ISIN: GG00B27Y8Z93 | ("Pallinghurst" or the "Company") EXECUTIVE DIRECTORS: Brian Gilbertson, Arne H. Frandsen, Andrew Willis NON-EXECUTIVE DIRECTOR: Dr Christo Wiese INDEPENDENT NON-EXECUTIVE DIRECTORS: Stuart Platt-Ransom, Martin Tolcher, Clive Harris, Lumkile Mondi ADMINISTRATOR AND COMPANY SECRETARY: Vistra Fund Services (Guernsey) Limited[1], 11 New Street, St Peter Port, Guernsey, GY1 2PF, Channel Islands REGISTERED OFFICE: 11 New Street, St Peter Port, Guernsey, GY1 2PF, Channel Islands SOUTH AFRICAN TRANSFER SECRETARY: Computershare Investor Services (Pty) Limited, 70 Marshall Street, Johannesburg, 2001, South Africa AUDITOR: Saffery Champness, PO Box 141, La Tonnelle House, Les Banques, St Sampson, Guernsey, GY1 3HS, Channel Islands JSE SPONSOR: Investec Bank Limited, 100 Grayston Drive, Sandown, Sandton, 2196, South Africa BSX SPONSOR: Clarien Investments Limited, 25 Reid Street, 4th Floor, Hamilton, HM11, Bermuda.

*1 Previously named Orangefield Legis Fund Services Limited.*