

PALLINGHURST



Pallinghurst Resources Limited
ANNUAL REPORT 2013

01	OVERVIEW	Welcome from management	1
		Our value	2
		What we have already achieved	4
		What the future holds	5
		The Pallinghurst Co-Investors	6
02	REVIEW	Chairman's statement	8
		Chief Executive's statement	9
03	INVESTMENT PLATFORMS	Platinum Group Metals	10
		Steel Making Materials	13
		Coloured Gemstones	16
04	PEOPLE	Directors	20
		Partners of the Investment Manager	23
05	GOVERNANCE	About the Group	24
		Principal Risks and Uncertainties	26
		Statement of Directors' Responsibilities	28
		Directors' Report	29
		Corporate Governance Report	31
		Audit Committee Report	33
		Remuneration Committee Report	35
Nomination Committee Report	36		
06	FINANCIAL STATEMENTS	Independent Auditor's Report	39
		Consolidated Statement of Comprehensive Income	40
		Consolidated Balance Sheet	41
		Consolidated Statement of Cash Flows	42
		Consolidated Statement of Changes in Equity	43
		Notes to the Consolidated Financial Statements	44
07	OTHER INFORMATION	Shareholder Information	75
		Company Information	76
		Notice of Annual General Meeting	77
		Form of Proxy	Perforated

Cover photos from left to right:

Loading ore at Sedibelo Platinum Mines.

Fabergé Devotion Emerald Ring and Impératrice Emerald Tassel Pendant, both featuring Gemfields Zambian emeralds.

Rail car inspection at Tshipi.

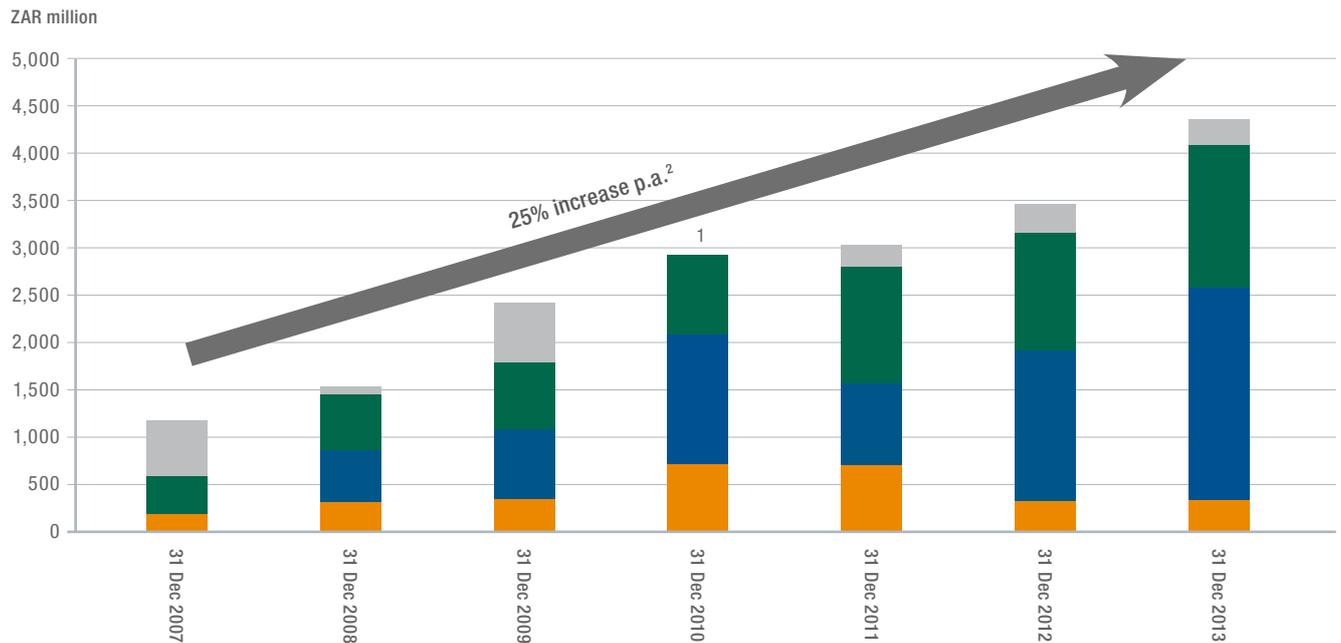
Welcome from management



Pallinghurst's three unique investments are each well-positioned to provide superior returns for shareholders.

Our value

Net Asset Value by Investment Platform (in ZAR)



¹ Other net liabilities at 31 December 2010 was ZAR282,960,485

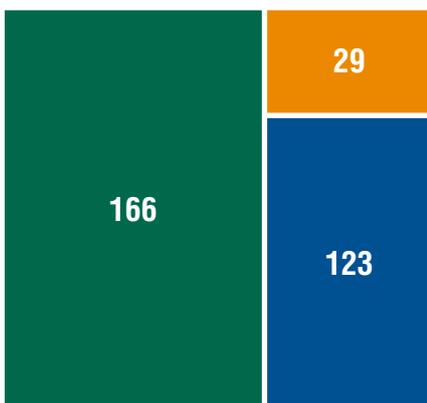
² Average annual growth rate in NAV from 31 December 2007 to 31 December 2013

- Other net assets/(liabilities)
- Coloured Gemstones
- Platinum Group Metals
- Steel Making Materials

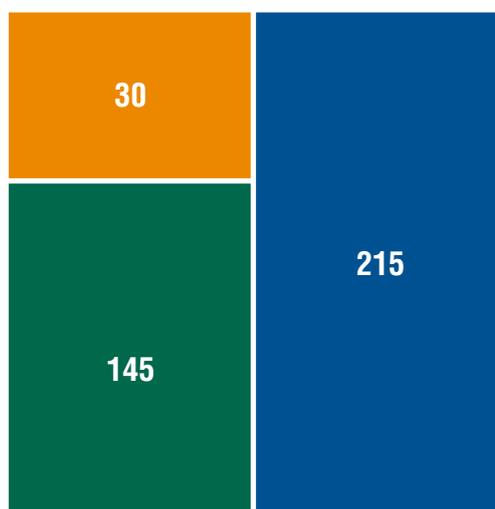
Net Asset Value per Investment Platform at 31 December 2013

Net funds invested by Investment Platform at 31 December 2013

US\$318m

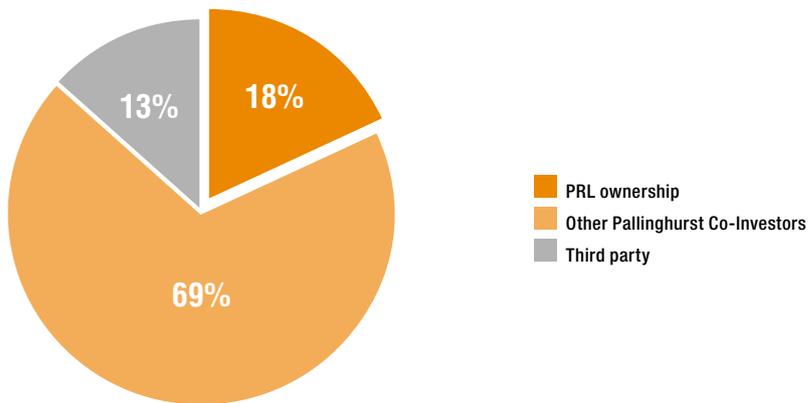


US\$390m

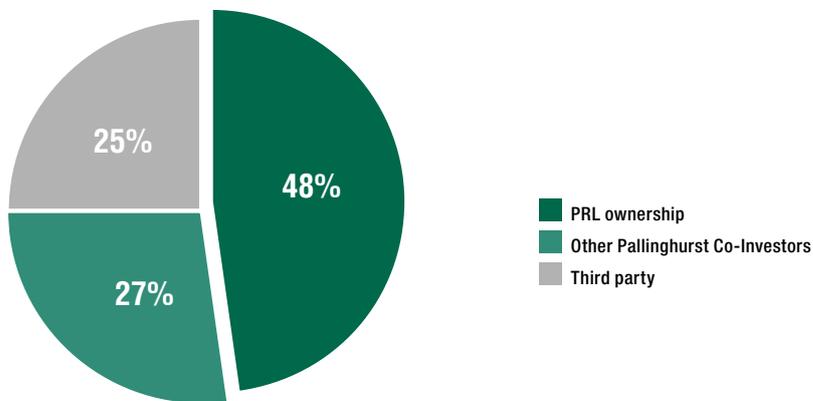


Active management of each of the investments

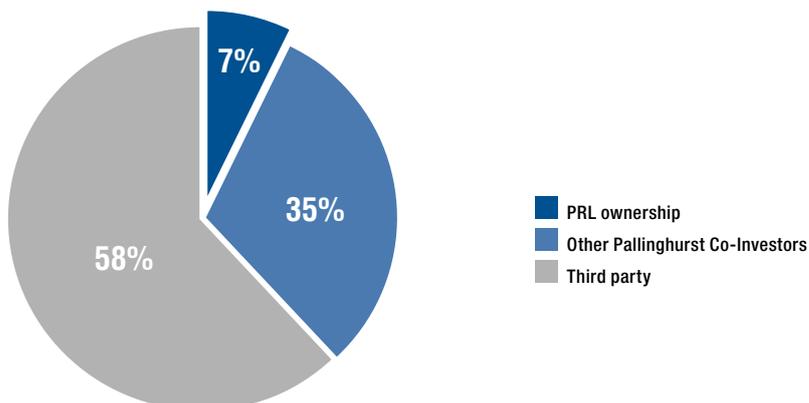
Jupiter ownership at 31 December 2013



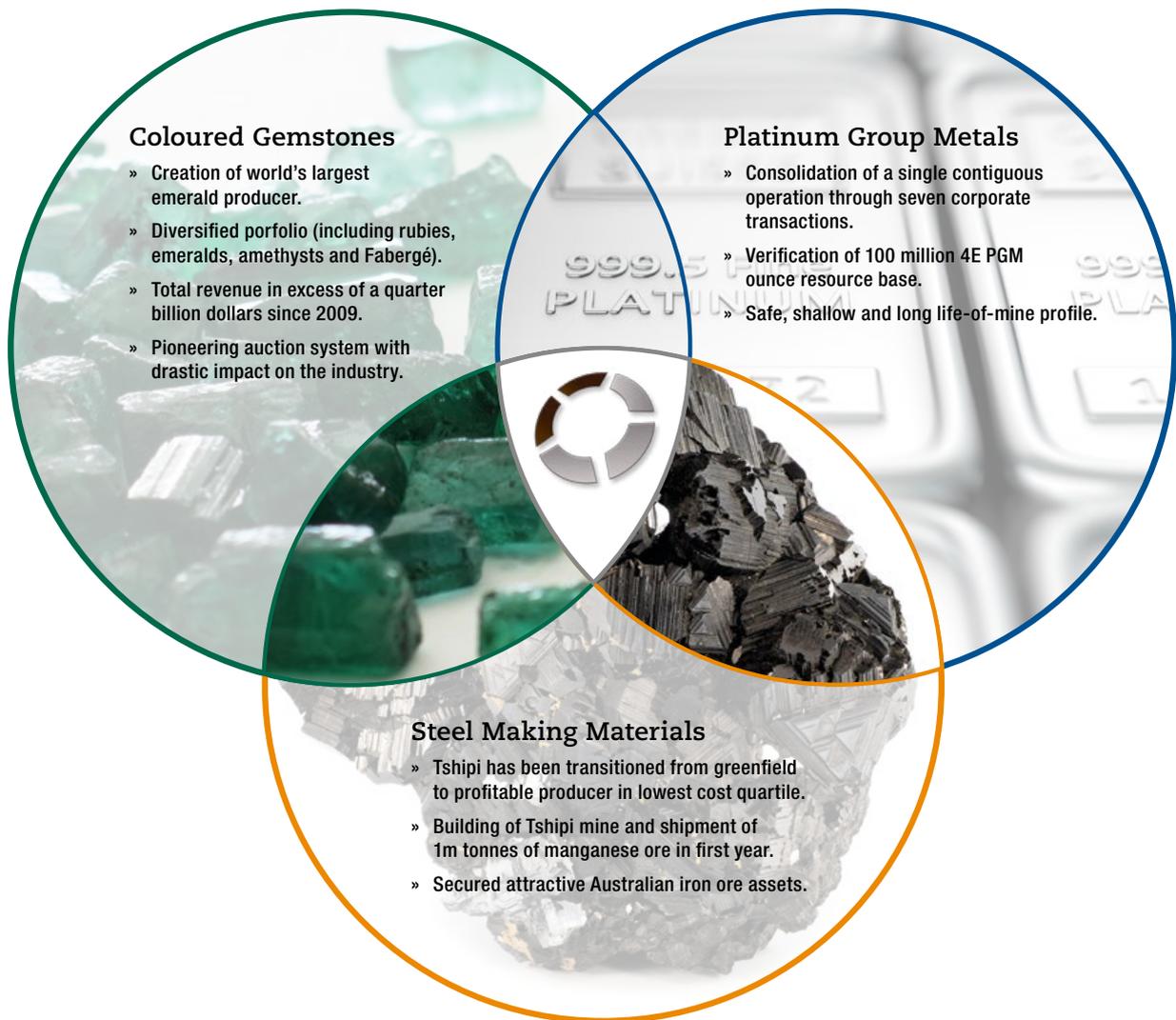
Gemfields ownership at 31 December 2013



Sedibelo Platinum Mines ownership at 31 December 2013



What we have already achieved



What the future holds



The Pallinghurst Co-Investors



AMCI CAPITAL

AMCI Capital is a leading private equity house that specialises in global energy and resources investments, and employs some of the world's leading energy and mining industry experts. AMCI Capital is a private equity fund of the AMCI Group. The AMCI Group is an active global investor in coal, iron ore, base metals, power, shipping, logistics and trading.

www.amcicapital.com

APG

Algemene Pensioen Groep ("APG") is one of Europe's largest pension funds. It carries out collective pension schemes for participants in the education, government and construction sectors, housing corporations and energy and utility companies. APG manages pension assets of approximately €344 billion (December 2013) for these sectors. APG provides for the income of around 4.5 million participants and looks after the pensions of one in five families in the Netherlands.

www.apg.nl

ENERGY AND MINERALS GROUP

The Energy and Minerals Group ("EMG") is a US-based private equity fund invested in selected areas of the energy infrastructure and natural resources sectors. EMG enters into equity investments in entities with talented and experienced management teams, focussed on hard assets that are integral to existing and growing markets.

www.emgtx.com

INVESTEC

Investec Bank Limited ("Investec") is an international banking group. Investec operates in three principal markets, the United Kingdom, South Africa and Australia, providing a diverse range of financial products and services.

www.investec.com

PALLINGHURST RESOURCES LIMITED

www.pallinghurst.com

POSCO

POSCO is the largest steel producer in South Korea and the fifth largest producer in the world (based on 2012 steel output). POSCO owns and operates two major steel plants, Pohang and Gwangyang.

www.posco.com

SMEDVIG/SOUTHERN PROSPECTING GROUP

The Smedvig family invests across a range of asset classes and has considerable experience in successfully investing in the natural resources sector globally. The Smedvig Family Office makes direct investments as a lead investor within property, private equity and thematically related investments, as well as investing with third party private equity funds.

www.smedvigcapital.com

The Southern Prospecting Group invests in the identification, acquisition and turning to account of exploration and mining opportunities. Historically, it was responsible for securing the mineral rights that gave rise to Impala Platinum, the world's second largest platinum producer.

TEMASEK

Temasek is the Asia investment company headquartered in Singapore. Temasek invests in many areas, including resources, with assets concentrated principally in Singapore, Asia and growth markets, with a portfolio valued at approximately SGD215 billion (March 2013).

www.temasek.com.sg

Chairman's statement



During 2013, there were signs of growth in the developed economies though emerging markets are still weak. Commodity prices remain relatively low, with the sharp drop in the gold price during 2013 contributing to a lower platinum price. The South African operations of the three largest platinum producers are now into their third month of industrial action, with significant loss of production and the increased likelihood of mine closures; yet the platinum price has hardly responded. This inconsistency is unlikely to continue for a protracted period and when the turn comes, Sedibelo Platinum Mines, with its improving production profile and unique growth story, will be prepared to proceed with a listing.

We have taken Tshipi Borwa from a greenfields site to production and it is well on the way to becoming one of the world's important manganese mines. Even in this ramp-up phase and in an environment of depressed prices, Tshipi has operated profitably in its first full financial year. In the Central Yilgarn region of Western Australia, there has been progress in the plans to expand the handling capacity at the port of Esperance. If port access can be secured, Mount Mason has the potential to rapidly generate profits and establish Jupiter as an emerging iron ore producer.

Gemfields again achieved a good operating and share price performance during 2013 and its emerald auctions continue to set record prices. Its years of hard work have transformed the rough emeralds industry and these skills are now being rolled out to its ruby interests. These initiatives are now supported in the global luxury markets by the iconic Fabergé name, with its "Art of Colour" focus and I look forward to Gemfields entrenching its position as the world's leading coloured gemstone company.

Our portfolio companies are well-positioned to benefit from any recovery in commodity prices as global demand picks up and as the Company seeks to realise the full value of our investments over the coming years.

Brian Gilbertson
Chairman

Chief Executive's statement



I am pleased to report that the Company delivered a strong financial performance in 2013, with a profit for the year of US\$15 million and a 28% increase in the Net Asset Value ("NAV") since 30 June 2013. This is a result of each of our three Investment Platforms making significant progress during the year. Whilst the Company is still trading at a significant discount to its underlying NAV, the share price has risen by some 60% since January 2013.

Platinum Group Metals

In a difficult year for the PGM industry, Sedibelo Platinum Mines saw record production of almost 150,000 4E PGE ounces, approximately 50% higher than the prior year. The company agreed to acquire Kruidfontein, a property contiguous to and directly down-dip of its Magazynskraal ore body. With this acquisition, Sedibelo Platinum Mines has increased its resource base to over 100 million 4E PGM ounces, underpinning its long-life and unique growth profile. Sedibelo Platinum Mines continues to prepare for its IPO and intends to list once market conditions are favourable.

Steel Making Materials

Before the delisting of Jupiter, we acquired an additional 40.8 million shares, increasing the Group's interest to 18.45%. Jupiter's manganese business performed strongly, with its Tshipi Borwa mine ramping up during 2013 to produce one million tonnes of manganese ore and profitability in its first full financial year. The production build-up to design capacity of 2.4 million tonnes per annum is set to continue in line with the anticipated increase in logistics capacity. In Australia, the large Mount Ida iron ore project remains on hold until market conditions improve. However, Jupiter plans to secure access to the expansion of the port of Esperance and thereby fast-track its Mount Mason hematite project into production.

Coloured Gemstones

Gemfields continues to see strong revenues from its emerald auctions, with robust increases in average per carat prices. Kagem, its flagship emerald mine in Zambia, has now produced over a quarter of a billion dollars of revenues under Pallinghurst's ownership, representing a remarkable turnaround and strong growth in just six years. Additional revenues have been added from auctions of "traded" emeralds and the Montepuez ruby operation is planning its first auction in the next few months. The merger with Fabergé was completed in 2013 and we expect good progress as Fabergé integrates coloured gemstones into its designs and collections. Joint marketing initiatives have boosted Gemfields' international presence and consumer perception of high quality, ethically sourced gemstones.

As I mentioned last year, we have now entered the "harvesting period", and our focus remains on realising the inherent value of the Investment Portfolio. This effort has resulted in growth in the NAV as well as an increase in the Company's market capitalisation. That said, there is still a significant gap between the share price and the Company's NAV. However, I believe that the share price will respond positively and continue to narrow the discount as we move closer to monetising the underlying value of the Investment Portfolio.

Arne H. Frandsen
Chief Executive

Platinum Group Metals

Highlights

- Sedibelo Platinum Mines saw record production of almost 150,000 4E PGM ounces.
- Sedibelo Platinum Mines increased resource base to over 100 million 4E PGM ounces.

Investment strategy

In 2007, Pallinghurst identified the platinum group metals (“PGM” or “PGMs”) industry as having attractive investment fundamentals. PGMs are essential to a wide range of industries and do not have any substitutes in their main applications, particularly in automotive catalytic converters. An estimated 20% of consumer products either contain PGMs or use them during the manufacturing process. Demand for PGMs is also driven by their use in high-end jewellery, investments in physical metals and Exchange Traded Funds. The strong demand fundamentals for PGMs are expected to continue as the global population grows, global economies expand and the consuming middle class numbers increase in emerging market countries.

Conversely, the supply of PGMs is constrained. The Bushveld Complex (“BC”), north of Johannesburg, South Africa, contains approximately 80% of the world’s known PGM resources and accounts for over 80% of the world’s annual output. Significant safety, operating cost and capital expenditure challenges arise from the ever increasing depth of mining. Recent industry-wide labour disputes have disrupted production and taking all these factors into consideration, South African production is likely to fall rather than increase in the near to medium-term. The diverse and solid demand dynamics, combined with ongoing supply pressures and high barriers to entry, should bring stronger future prices.

Investment history

In 2007, Pallinghurst identified three shallow PGM deposits north of the Pilanesberg on the Western Limb of the BC which, while individually attractive, could benefit significantly from economies of scale and synergies if combined into a consolidated entity. Pallinghurst assembled a consortium of Pallinghurst Co-Investors, including the Group, to invest in this PGM strategy. The Bakgatla Ba Kgafela Tribe (the “Bakgatla”), which already held interests in the deposits, joined the consortium as its Black Economic Empowerment (“BEE”) partner.

Over a period of five years, Pallinghurst and its partners acquired the three properties, Pilanesberg Platinum Mine (“PPM”), Sedibelo and Magazynskraal, and in 2012, consolidated them into a single contiguous operation with shallow resources of approximately 70 million 4E PGM (platinum, palladium, rhodium and gold) ounces. This consolidation was



a key step to unlocking the investment value inherent in the property, which promises safe and low cost operations for many years to come.

Following the consolidation, the Industrial Development Corporation (“IDC”) invested ZAR3.24 billion for a 16.2% interest in Sedibelo Platinum Mines Limited (“Sedibelo Platinum Mines”, formerly Platmin). This represented the IDC’s largest equity investment to date into the mining industry, providing funding for the next phase of development of the consolidated operations and acting as a catalyst for wealth and job creation to benefit all stakeholders.

Operational build-up

During 2013, Sedibelo Platinum Mines focussed on the build-up of operations at PPM and the integration of the other two properties. Following the restructuring of its mining contracts and after taking direct control of the pit and plant, Sedibelo Platinum Mines has achieved significant improvements in its key operating parameters.

PPM saw record production levels in the last three quarters of the year, reaching 149,000 ounces of 4E PGMs for 2013, approximately 50% higher than the prior year. Further increase will occur as Sedibelo



Platinum Mines takes advantage of its large resource base across the consolidated properties. With the majority of the resources being shallower than 700 metres, Sedibelo Platinum Mines expects to benefit from considerable safety and cost advantages over some of the other producers who are recording declining production levels and are mining deep, challenging and marginally profitable deposits.

Sedibelo Platinum Mines' production increases have occurred against a backdrop of strikes and unrest in the industry sector. On 23 January 2014, a coordinated strike began at the three largest platinum producers, led by AMCU, a new union seeking significant wage increases. At the date of this report, the strikes are now into their third month, inflicting losses on operations that produce a significant portion of global PGMs. This is likely to accelerate the closure of loss-making operations, which should ultimately have a positive effect on PGM prices.

As a debt-free company with a strong balance sheet, Sedibelo Platinum Mines remains alert to potential opportunities triggered by current low PGM prices. In January 2014, Sedibelo Platinum Mines agreed to acquire the prospecting right on Kruidfontein, a property contiguous to and directly down-dip of its Magazynskraal ore body.

Kruidfontein contains an estimated 45 million PGM ounces and has been acquired from Aquarius Platinum for US\$30 million (US\$0.75 per ounce). The acquisition remains subject to Section 11 approval from the Department of Mineral Resources ("DMR"). The significant increase in mineable resources to over 100 million ounces is expected to improve Sedibelo Platinum Mines' attractiveness in an IPO and further cement its position as a long-life mining operation.

A PGM beneficiation joint venture between Sedibelo Platinum Mines and the IDC is set to explore, develop and fund PGM beneficiation opportunities in South Africa. The first project is expected to use the KELL process, an environmentally friendly technology which improves recovery rates but requires only a small amount of electricity compared to traditional plants. A feasibility study for a full-scale commercial plant at Sedibelo Platinum Mines has been prepared, based on extensive pilot plant tests. Assuming the formal go-ahead decision, this new plant is expected to benefit not only Sedibelo Platinum Mines but also the rest of the industry, the local community and other stakeholders.

The existing mine employs approximately 1,300 people, many of whom are from the Bakgatla community. The expansion of operations is

Platinum Group Metals (continued)



expected to increase the number of sustainable jobs for the local community and be a catalyst for community development and lasting social benefits for the region. Sedibelo Platinum Mines provides further services to the local community, maintaining and developing roads and water supplies, and providing upliftment of skills, sports sponsorships and other infrastructure projects, including medical clinics. This tangible commitment to and involvement in the local community is one of the cornerstones for the successful development of the PGM portfolio.

The DMR has approved Sedibelo Platinum Mines' revised environmental management plan that provides for the conversion of the PPM pit into a water capture and storage facility at the end of the mine's life, for the benefit of the local community. In addition to the environmental and local developmental benefits, the plan involves lower costs than typical pit rehabilitation. Applications have therefore been made to the DMR to approve the release of a portion of Sedibelo Platinum Mines' statutorily mandated rehabilitation escrow funds.

Outlook

While cost pressures and industrial action are likely to keep the supply of PGMs constrained, recovery in the global economies should give rise to increases in automotive sales, industrial production and jewellery purchases, driving demand for PGMs. Sedibelo Platinum Mines is well-positioned to benefit as it builds its production across the consolidated properties.

Sedibelo Platinum Mines has formed a team led by Pallinghurst representatives to prepare for an IPO. Experts have been appointed to complete geological, structural and resource modelling, along with a consolidated life of mine plan as part of a Competent Person's Report. Sedibelo Platinum Mines' improving operational results, long-life assets and strong growth profile are expected to attract broad investor interest. Subject to prevailing market conditions, the IPO is expected to occur on the Johannesburg and London Stock Exchanges as soon as conditions are favourable.

Steel Making Materials

Highlights

- Tshipi Borwa produced one million tonnes of manganese ore and recorded a profit during first full year of operations.
- PRL's interest in Jupiter increased to 18.45%.
- Jupiter delisted from the ASX in January 2014.

Investment strategy

In 2007, Pallinghurst identified the raw materials needed for steel-making as having attractive investment fundamentals. Steel is an important driver of the global economy and has shown consistent growth through a number of economic cycles, in particular when developing economies expand rapidly.

Manganese is a key component in steelmaking, removing impurities and increasing the strength and impact resistance of steel. The global supply of manganese is concentrated within South Africa, with approximately 80% of the world's known economically mineable manganese deposits located in the Kalahari Manganese Field ("KMF") in the Northern Cape Province.

Investment history

In 2008, Pallinghurst assembled a consortium of Pallinghurst Co-Investors, including the Group, to acquire a 49.9% interest in Tshipi é Ntle Manganese Mining (Pty) Limited ("Tshipi"), an early stage manganese exploration opportunity within the KMF. The property is well located, being adjacent to Samancor's Mamatwan manganese mine that has been in operation since 1964, and its deposit is an extension of the same ore body. The balance of 50.1% of Tshipi is held by Ntsimbintle Mining (Pty) Limited ("Ntsimbintle"), a broad-based BEE consortium consisting of Safika Resources, Nkojane Economic Prospecting, and a number of national and local economic development and community organisations and social trusts. The Pallinghurst Co-Investors provided exploration funding, proving a 163 million tonne manganese deposit at an estimated average grade of 37%.

In 2010, South Korea's POSCO, one of the world's largest steel producers, acquired a stake in Tshipi from the Pallinghurst Co-Investors. This transaction realised a profit for the Group, a significant valuation uplift, and introduced to Tshipi the skills and expertise of a leading manganese end-user. In 2011, Jupiter Mines Limited ("Jupiter"), then an Australian Securities Exchange ("ASX") listed company in which the Group already held an investment, acquired the Pallinghurst Co-Investors' 49.9% interest in Tshipi.



Tshipi Borwa

In February 2011, approval was given to construct an open pit manganese mine at Tshipi Borwa with a capacity of 2.4 million tonnes per annum. Through the deployment of a temporary crushing and screening plant, Tshipi Borwa had mined, railed and exported its first manganese by the end of 2012.

The ramp-up at Tshipi Borwa saw production of over one million tonnes, of which 734,000 tonnes of lump and 202,000 tonnes of fines manganese were exported in its financial year to 28 February 2014. Tshipi will record a profit in the year to 28 February 2014, a significant achievement in its first full year of operations and in weak markets. The production build up is set to continue in line with the anticipated increase in logistics capacity, with 1.7 million tonnes expected in the 2015 financial year.

Transnet provides two bulk trains per week to Tshipi; an additional train may be provided at Transnet's discretion. Alternative road and rail solutions have been implemented to increase the logistics capacity available to Tshipi, including the use of sea containers and open-top containers ("skiptainers").

Steel Making Materials (continued)

In March 2013, Jupiter announced that the estimated capital expenditure for the construction of Tshipi Borwa had increased to ZAR1,878 million (US\$200 million), approximately ZAR160 million (US\$17 million) higher than the original budget. This increase is primarily a consequence of the phased introduction of the permanent infrastructure, which is expected to be completed during 2014. Jupiter's 49.9% share of the increase has been met out of its cash reserves, which were AUD48 million (US\$43 million) at 31 December 2013.

In September 2013, Tshipi entered a Joint Venture Agreement whereby a new entity, OM Tshipi ("OMT"), jointly owned by Jupiter, Ntsimbintle and OM Holdings, an ASX-listed manganese miner and trader, will market all of the manganese ore produced by Tshipi and any other similar grade South African manganese ore sourced by the OM Holdings Group. OMT has sold most of Tshipi's production since September 2013, achieving competitive market prices for the ore and enabling Jupiter to capture a portion of the fee typically paid to external marketers. OMT combines the network and management expertise of its shareholders and is poised to become a major supplier of manganese.

In February 2014, Brendan Robinson was appointed as CEO of Tshipi. Mr Robinson has been closely associated with the project for many years and has acted as Tshipi's CFO since November 2011.

Environment, safety and corporate social responsibility

Tshipi Borwa boosts the local economy, creating permanent employment for approximately 400 people and as a result of Tshipi's commitment to utilise and develop local service providers, an estimated 2,000 additional jobs in associated businesses. Such job opportunities are rare in remote rural areas such as the John Taolo Gaetsewe District Municipality where Tshipi Borwa is located.

Tshipi has established an employee housing assistance programme to promote home ownership and improved water infrastructure in the district. Tshipi is committed to minimising its impact on the environment and plans to plant more than 2,000 camelthorn acacia trees. In partnership with the Endangered Wildlife Trust, Tshipi supports the study of the threatened Secretary Bird, one of South Africa's most iconic creatures.

Jupiter's Central Yilgarn iron ore assets

Jupiter holds two iron ore assets in the Central Yilgarn region of Western Australia, the Mount Mason Direct Shipping Ore ("DSO") hematite project and the Mount Ida magnetite project. Mount Mason has a measured/indicated DSO resource of 5.9 million tonnes at a grade of 60.1% Fe (iron) and has the potential to rapidly generate significant profits as a two million tonne per annum operation. Mount Ida has a JORC-compliant inferred resource of 1.85 billion tonnes at





29.48% Fe and has the ability to produce ten million tonnes per annum of high grade magnetite concentrate when market demand and infrastructure permits.

The two projects are located within 110 kilometres of an existing railway line to Esperance, which has a deep water port capable of taking Capesize vessels, with proven ability to handle bulk commodities, in particular iron ore. There is currently no spare capacity at Esperance but a decision on the selected contractor to expand the iron ore handling capacity is expected by the end of April 2014. If Jupiter can secure access, Mount Mason has the potential to generate profits by 2016 and to establish Jupiter as a producer in the Central Yilgarn region.

Work continued during the year on optimising the forecast capital and operating expenditures at Mount Mason as part of the hematite project's feasibility study. The majority of the primary environmental approvals have been granted, with the remaining approvals expected over the next few months.

The Mount Ida project remains suspended pending clarity on access to Esperance and stronger iron ore markets. Jupiter has retained a

level of staffing sufficient to ensure that the necessary permits are obtained at Mount Mason and have appointed Priyank Thapliyal, a partner of the Investment Manager, as its CEO.

The Group acquired 40.8 million Jupiter shares during June/July 2013, increasing its interest to 18.45%. A further 22.4 million shares were acquired by other Pallinghurst Co-Investors in July 2013, taking the consortium's collective interest in Jupiter to 86.69%. In October 2013, Jupiter announced its intention to delist from the ASX and following approval from its shareholders and the ASX, did so on 10 January 2014. Jupiter now focuses on maximising value for its shareholders without reference to a market price that did not reflect the fundamental value of Tshipi and its other assets.

Outlook

As Tshipi Borwa ramps-up towards its capacity of 2.4 million tonnes per annum during the course of 2014, it is set to become one of the world's large manganese producers. If Jupiter can secure access to the Esperance port expansion, Mount Mason should be able to start exporting hematite ore within two to three years.

Coloured Gemstones

Highlights

- Gemfields/Fabergé Merger completed in January 2013.
- Gemfields continued to record strong revenues from emerald auctions.

Investment strategy

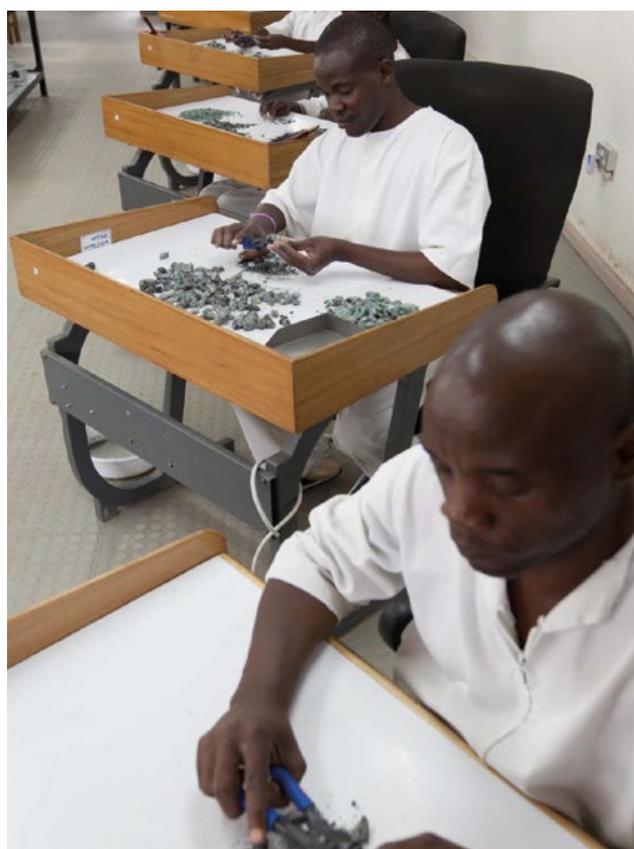
In 2007, Pallinghurst identified the coloured gemstone sector as an “overlooked” industry that offered a unique investment opportunity. Demand for coloured gemstones by the jewellery and fashion sectors was increasing, but supply was constrained and fragmented due to the lack of large, reliable producers able to consistently deliver sufficient quantities of gemstones. Pallinghurst saw an opportunity to unlock value by bringing capital, scale and professionalism to the industry, to which end it assembled a consortium of Pallinghurst Co-Investors, including the Group.

Kagem, an emerald mine in the “Copperbelt” region of northern Zambia – currently producing nearly a quarter of the world’s emeralds – was the consortium’s first acquisition in the sector. Kagem had been producing emeralds for nearly 25 years, but was performing poorly due to a combination of poor management, theft, shareholder conflicts and a lack of capital. Through a series of transactions, the consortium acquired 75% of Kagem, with the balance held by the Government of the Republic of Zambia. In pursuing its vision for consolidating the sector, the consortium acquired majority control of AIM-listed Gemfields plc (“Gemfields”) by selling Kagem to Gemfields in a reverse takeover.

Pioneering auction system

In 2009, Gemfields implemented an innovative grading and auction system for selling its rough gemstones. Gemfields’ auctions are held in secure locations, with all Kagem material placed on offer certified as natural, untreated and of Zambian origin. The emeralds and beryl are separated into different lots and selected market participants from the world’s top gemstone buyers submit sealed bids for individual lots. A sale occurs if the highest bid received exceeds a pre-determined, but undisclosed, reserve price. The auctions have brought a level of professionalism and transparency previously not seen in the industry.

As there was no industry standardisation for assessing rough emeralds, Gemfields established its own grading system to assess each emerald according to its individual characteristics (size, colour, shape and clarity). This has been instrumental in providing buyers with confidence regarding the consistent quality of the material offered. Gemfields used this grading system to develop two auction classes, one offering superior quality material and the other catering for the larger volume of lower quality material.



Strong auction results

Gemfields has experienced robust demand for its ethically sourced and transparently supplied emeralds, highlighting the success of its formalised and consistent method of marketing rough coloured gemstones by auction.

In April 2013, a lower quality emerald and beryl auction was held in Lusaka, Zambia. A total of 6.3 million carats were sold for US\$15.2 million, representing an average price of US\$2.42 per carat. Another lower quality auction was held in Lusaka in November 2013. Revenues achieved from the auction were US\$16.4 million, a record for lower quality emerald auctions and at an average price of US\$3.32 per carat (27% higher than the previous record).

A higher quality emerald and beryl auction was scheduled to take place in Singapore in June 2013 but was delayed because of the request by the Government of the Republic of Zambia to hold the auction in Zambia. The auction was eventually held in Lusaka during July 2013. A total of 0.58 million carats were sold for US\$31.5 million representing an average price of US\$54.00 per carat which was a new auction record (an increase of 26% over the previous record). In

addition, an exceptional 54 carat rough gem, offered as a single lot at the auction, set a new per carat record for Gemfields auctions.

In September 2013, Gemfields held its first ever stand-alone auction of traded rough emeralds. Traded emeralds are those obtained by Gemfields in the open market and are not mined, processed, graded and exported by Kagem. The auction was held in Jaipur, India and used Gemfields' successful emerald grading system. Revenues of US\$8.5 million were achieved at an average price of US\$58 per carat, the highest average per carat price ever achieved at that date. In October 2013, Gemfields also finalised a US\$3.5 million direct sale in respect of 11,286 kilograms of Kagem's lowest two grades of beryl, which had accumulated over the past few years.

Following the year end, Gemfields held a further higher quality emerald and beryl auction in Lusaka in February 2014. A total of 0.62 million carats were sold for US\$36.5 million, a record revenue figure for any Gemfields auction, accompanied by the highest average price achieved at any Gemfields auction of US\$59.31 per carat.

Gemfields has now held 15 auctions since July 2009 which have generated more than US\$260 million in aggregate revenues. Gemfields continues to achieve increases in per carat prices (on a quality-for-quality basis) underpinned by solid demand for its ethically sourced and transparently supplied emeralds.

Financial and operational performance

The delay in holding the June 2013 auction resulted in only two auctions being held in Gemfields' financial year to 30 June 2013, leading to a 46% decline in auction revenues to US\$42 million and a loss of US\$22.8 million. However, on 3 March 2014 Gemfields announced revenues of US\$65.7 million for the six months to 31 December 2013 and unaudited net profit after tax of US\$1.4 million.

In December 2013, Kagem declared a dividend of US\$8 million of which US\$2 million was paid to the Government of the Republic of Zambia in respect of its 25% ownership stake. This is believed to be the first ever dividend paid by Kagem in its 29 year history and also the first ever such payment to the Government of the Republic of Zambia from any gemstone operation in Zambia. The US\$8 million dividend is a similar level to Kagem's annual revenues prior to its acquisition by Pallinghurst, underlining the significant turnaround achieved in just six years of ownership.

Annual emerald and beryl production to 30 June 2013 increased by 42% to 30 million carats and saw a 38% increase in the grade to 283 carats per tonne. However, production for the six months to 31 December 2013 saw a decrease to 10.4 million carats at a grade of 267 carats per tonne. The reduced production reflects the grade



volatility characteristic of coloured gemstone mining and is expected to recover in due course. Further increases in production are expected as the high wall push back programme opens new areas for mining.

In order to facilitate dialogue between key stakeholders within the emerald industry, Gemfields sponsored the "2013 Zambian Emerald Summit" in Lusaka in May 2013. The summit considered how the Zambian emerald sector could be developed into a world leader whilst ensuring that the relevant revenues and profits continue to accrue within Zambia.

Security across the Kagem operation was enhanced by upgrading the existing CCTV infrastructure as well as extending the area of coverage of the cameras. The security initiatives implemented to date continue to yield positive results, as shown by the reduction in the volume of material reportedly available in the local, informal markets. However, the security of the sizeable mining licence area remains an ongoing challenge and Kagem is implementing additional initiatives to help improve security and reduce theft.

Kagem has been undertaking a pioneering underground trial mining project, using an incline shaft and tunnel system designed, developed and constructed by the in-house team. Underground mining has the potential to transform Zambian emerald mining by reducing rock handling requirements and allowing mining operations to follow the ore zone in a surgical fashion without the need to strip and move all of the surrounding barren rock. The trial has given Gemfields a greater understanding of the conditions and systems necessary for the safe

Coloured Gemstones (continued)

implementation of proposed future large-scale underground mining projects, which could extend the projected life of mine of Kagem by 20 years. Further analysis continues to determine the costs of implementing a large-scale underground operation.

Montepuez Ruby Mining Limitada, Mozambique

In 2012, Gemfields acquired 75% of a large ruby deposit in northern Mozambique for US\$2.5 million. The Montepuez mining licence covers an area of 340 square kilometres and is believed to represent the world's most significant ruby discovery in recent years. Gemfields has also entered into conditional agreements to acquire controlling interests in selected neighbouring properties for future consolidation.

Preliminary bulk sampling commenced in August 2012 and, following commissioning of a 50 tonne per hour washing plant in December 2012, the operation has scaled up progressively, with seven million carats of ruby and corundum extracted by 31 December 2013. Following encouraging results, the original sample pit has been expanded to include four adjacent areas and further sample pits have been established across the licence area. As the understanding of the ore characteristics has improved, adjustments have been made to the processing plant, improving its efficiency. The requisite core infrastructure is now in place, which will accommodate a smooth transition to commercial mining.

Given the size and nature of the Montepuez ruby licence, illegal mining activity and theft remain key challenges. New infrastructure and a significant security presence have brought much improvement in this area since Gemfields first began operations in early 2012.

Gemfields has developed a proprietary grading and sorting framework for rough rubies, based on similar principles to those successfully applied to emeralds. This system is the first of its kind for rubies and will be used in Gemfields' first ruby auction, anticipated to be held by 30 June 2014.

Kariba Amethyst Mine, Zambia

Gemfields owns a 50% interest in Kariba, the largest amethyst mine in the world, which is located in southern Zambia near Livingstone. The Government of the Republic of Zambia owns the remaining 50% and during 2013 agreed with Gemfields to recapitalise the Kariba operations. A total of US\$2.5 million was invested, the single largest cash injection Kariba has ever received. The funds have been used to rehabilitate key infrastructure at the mine and to acquire additional mining and processing equipment.

Fabergé

In January 2013, Gemfields completed its merger with Fabergé, the high-end luxury goods brand that was already part of the Group's



Investment Portfolio, in exchange for 214 million new Gemfields shares. As a result of the merger, the Group's interest in Gemfields increased from 33% to 48%. The transaction consolidates Gemfields' position as the world's leading coloured gemstone company, creating a platform to increase Gemfields' market share within the coloured gemstone sector, with Fabergé becoming the obvious consumer choice for high-end, ethically supplied coloured gemstone jewellery.

By utilising the iconic Fabergé name to boost the international presence and perception of coloured gemstones, Gemfields also gains entry to the global luxury goods market and further progresses its "mine and market" vision, operating at both ends of the value chain. The business combination creates an opportunity for Gemfields to exercise greater influence over product positioning and consumer awareness. The transaction is expected to broaden Gemfields' investor and institutional appeal over time, beyond the traditional mining investment community and potentially allow Gemfields to gain exposure to luxury sector multiples as Fabergé develops.

In October 2013, Robert Benvenuto joined Fabergé as "President and COO". His career includes 13 years with Harry Winston as CFO, COO and then Co-CEO. Following a period of integration and strategic review, the core positioning of Fabergé has been defined as the "Art of Colour", with Fabergé concentrating on integrating coloured gemstones into its designs and collections. Fabergé launched the "Art of Colour" international advertising campaign in October 2013 to support the new brand strategy. Its impact was evidenced by revenues increasing 26% in the three months to 31 December 2013 compared to the same period in the prior year and this revenue growth has continued into 2014.

Following the success of The Fabergé Big Egg Hunt in London in 2012, a similar initiative is due to take place in New York during the 2014 Easter period. Up to 300 giant egg sculptures designed by globally

renowned artists, designers, architects and brands will be placed throughout the five boroughs of New York City from 1 to 26 April 2014 and will subsequently be auctioned to raise funds for charity.

Harrods, one of the world's most famous department stores, and Fabergé will collaborate over the Easter period to host a "Fabergé Easter" involving considerable areas of the Harrods store. Fabergé will have an exclusive salon and exhibition space, in addition to its existing concession in Harrods' "Fine Jewellery Room". Harrods' famed Brompton Road windows and façade will host Fabergé displays and flags, telling the story of the iconic jewellery house.

Marketing

In February 2013, Gemfields unveiled Hollywood actress Mila Kunis as its global brand ambassador. The inaugural advertising campaign was designed to increase retail demand for Gemfields' ethically sourced gemstones by featuring Mila in publications across the world. The long-term partnership has also seen Mila wear Gemfields' emeralds at premieres and film festivals, increasing Gemfields' profile as the world's leading coloured gemstone company. Gemfields has also continued to collaborate with jewellers, luxury brands and retailers to boost consumer sales and promote jewellery featuring Gemfields' emeralds.

Environment, safety and corporate social responsibility

Kagem has implemented sector-leading environmental and safety standards and these have led to the Environmental Council of Zambia awarding Kagem the highest possible category of environmental compliance. In October 2013, the Zambian Mines Safety Department awarded Kagem a certificate in recognition of its achievement of 2.8 million reportable-injury-free shifts, believed to be a record in the Zambian mining industry.

Gemfields aims to be a leader in sustainable corporate social responsibility, ensuring that local communities benefit from the presence of Gemfields in a way that is meaningful and sustainable. These policies reinforce Gemfields' position as a reliable and trusted source of ethically produced gemstones. In the context of its sustainable corporate social responsibility programme, Gemfields maintains a focus on four key areas of its operations: health, education, farming and cultural awareness.

Kagem provides medical care to its employees and their families, promotes HIV/AIDS awareness, has invested in workers' accommodation and provides sports and recreational facilities. Kagem upgrades and maintains key parts of the local road network and has provided equipment for local medical clinics and schools. Kagem also provides education, advice and raw materials to local farmers and then buys their produce at market prices. In February 2014, Kagem announced



a new two year social investment scheme whereby US\$1 million will be invested to establish a new secondary school in the area and upgrade a local medical clinic to hospital status by constructing additional wards, providing improved healthcare facilities to the local community.

As part of its more recently established corporate social responsibility programme at Montepuez, Gemfields has constructed wells to provide clean drinking water, upgraded local roads and purchased tractors for use by local farmers.

Outlook

Gemfields continues to see increases in demand and prices for its ethically sourced emeralds and expects this trend will continue. The auctions of traded gemstones offer another opportunity to increase revenues while establishing Gemfields as a global marketing channel for gemstones generally. Gemfields is well-positioned to build on its strong position in emeralds and use this to its advantage in developing its new ruby and Fabergé businesses so to entrench itself as the world leader in coloured gemstones.

Directors

EXECUTIVE DIRECTORS

Brian Gilbertson (70)

BSc (Maths & Physics), BSc (Hons) in Physics, MBL and PMD

Chairman

Appointed 4 September 2007



Brian Gilbertson has extensive experience in the global natural resources industry. In his early career, he was managing director of Rustenburg Platinum Mines Limited, which gained recognition as the world's foremost producer of platinum in the 1980s. Later, as executive chairman of Gencor Limited, Mr Gilbertson led the restructuring of the South African mining industry into the post-Apartheid era, transforming Gencor Limited into a focussed minerals and mining group. During this period he held ultimate responsibility for Impala Platinum Holdings and for Samancor Limited, the world's largest producer of manganese and chrome ore and alloys. Important initiatives included the Hillside and Mozal aluminium projects and the purchase of the international mining assets (Billiton plc) of the Royal Dutch Shell Group.

In 1997, Gencor Limited restructured its non-precious metals interests as Billiton plc and, with Mr Gilbertson as executive chairman, Billiton plc raised US\$1.5 billion in an Initial Public Offering on the LSE, taking the company into the FTSE100. In 2001, Billiton plc merged with BHP Limited to create what is widely regarded as the world's premier resources company, BHP Billiton plc.

In late 2003, Mr Gilbertson led the mining group Vedanta Resources plc to the first primary listing of an Indian company on the LSE in the second largest Initial Public Offering of the year. He was chairman of Vedanta Resources plc until July 2004. In 2004 he initiated the foundation of Incwala Resources Proprietary Limited, a pioneering Black Economic Empowerment corporation in South Africa, and was its first chairman until March 2006.

In 2004, Mr Gilbertson joined Sibirsko-Uralskaya Aluminum Company (SUAL), an aluminium producer in Russia and led the company into the US\$30 billion merger with RUSAL and the alumina assets of Glencore International A.G., creating the largest aluminium company in the world. Mr Gilbertson established Pallinghurst Advisors LLP and the Investment Manager during 2006 and 2007 respectively, and is the chairman of and a partner in both entities. Mr Gilbertson is also the chairman of both Jupiter and Sedibelo Platinum Mines and is a director of Tshipi. Mr Gilbertson is a British and South African citizen.

Arne H. Frandsen (47)

BA, LLB, Master in Law from University of Copenhagen, Postgraduate Research and Studies in Japan and South Africa

Chief Executive

Appointed 4 September 2007



Following completion of his degrees, Arne H. Frandsen undertook extensive legal research in Europe, Japan and South Africa, leading to the publishing of a number of articles as well as a book. Once his research was successfully completed, Mr Frandsen moved to London to start a professional career as an investment banker. Mr Frandsen has over ten years of investment banking experience with Goldman Sachs and JPMorganChase, providing strategic advice and structuring mergers and acquisitions as well as corporate finance transactions for clients in 30 different countries, raising in excess of US\$20 billion of capital.

From 2004, Mr Frandsen acted as client executive for JPMorganChase in South Africa, followed by a year as chief executive officer of Incwala Resources Proprietary Limited, one of South Africa's leading Black Economic Empowerment mining companies.

Mr Frandsen joined Pallinghurst in 2006 and is a partner of both Pallinghurst Advisors LLP and the Investment Manager. In addition, Mr Frandsen is responsible for Pallinghurst's PGM interests and is a director of Sedibelo Platinum Mines. Mr Frandsen is a Danish citizen and is resident in Switzerland.

Andrew Willis (34)

MBA (INSEAD), ACCA Affiliate Accountant, ACIS, BA/BCom

Finance Director

Appointed 25 November 2008



Andrew Willis has over 15 years' experience in international finance, structuring and private equity. Mr Willis started his professional career as an accountant in New Zealand and after moving to Europe studied at INSEAD and was awarded an MBA. Before joining Pallinghurst Advisors LLP in 2006, he spent three years with pan-European private equity investment manager Candover Investments plc.

Mr Willis is a partner of Pallinghurst Advisors LLP and the Investment Manager. Mr Willis is a British and New Zealand citizen and is a resident of Guernsey.

NON-EXECUTIVE DIRECTOR

Dr Christo Wiese (72)

BA LLB D.Comm (h.c.)

Appointed 11 February 2013



Christo Wiese has been a prominent figure in the South African business community for more than 40 years. Dr Wiese practised at the Cape Bar in the 1970s before joining Pepkor Holdings of which he has been the chairperson and controlling shareholder since 1981. Dr Wiese is also the chairman and controlling shareholder of Shoprite Holdings which was unbundled from Pepkor in 2000 and today has a market capitalisation of more than US\$10 billion. The two companies are respectively Africa's largest clothing and food retailers with an extensive footprint across sub-Saharan Africa in particular. Between them they operate some 6,000 stores in 19 countries employing more than 140,000 people.

Dr Wiese is also the chairman and controlling shareholder of diverse companies listed on the JSE, including the investment holding company Brait SE, the international property group Tradehold and Invicta Holdings, which specialises in the supply of agricultural and industrial equipment. Dr Wiese is a former chairman of the Industrial Development Corporation of South Africa and has served on various boards, amongst others, the South African Reserve Bank, Sasol, Sanlam and PSG.

Dr Wiese has been the recipient of many honours and distinctions during his years in business. In 1997 his alma mater, the Stellenbosch University, bestowed on him an honorary doctorate in commerce. His interests extend to wine and conservation and he owns Lourensford, the largest wine estate in the Cape Winelands, as well as a private game reserve on the fringes of the Kalahari desert.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Stuart Platt-Ransom (45)

Chartered FCSI, CMgr FCMI, FInstLM, FloD

**Lead Independent Non-Executive Director
Chairman of the Remuneration
and Nomination Committees
Member of the Audit Committee**

Appointed 4 September 2007



Stuart Platt-Ransom is the managing director of the Legis Group, a role to which he was appointed in July 2007. Mr Platt-Ransom spent the previous twelve years with State Street Corp in its South Africa, Luxembourg, Dublin, London and Guernsey offices in various management, operational, business development and relationship management roles. Prior to that, Mr Platt-Ransom worked for GAM in the Isle of Man. Most recently, Mr Platt-Ransom was the managing director of State Street's business in Guernsey and was responsible for its business in Africa from 2002 to 2006.

Mr Platt-Ransom serves as a director on various Legis Group companies and in addition holds a number of external trusteeships as well as directorships on listed private equity and property company structures and a Guernsey-based investment management company.

Mr Platt-Ransom is a Chartered Fellow of the Chartered Institute for Securities & Investment, a Chartered Manager & Fellow of the Chartered Management Institute, a Fellow of the Institute of Leadership & Management, a Fellow of the Institute of Directors and an Ambassador for the Chartered Management Institute. Mr Platt-Ransom is a British and South African citizen and is a resident of Guernsey.

Martin Tolcher (50)

Chartered FCSI

**Chairman of the Audit Committee
Member of the Remuneration and
Nomination Committees**

Appointed 25 November 2008



Martin Tolcher has been involved within the fund administration industry in Guernsey for over 25 years. Mr Tolcher has worked at senior levels for three Guernsey subsidiaries of Bermudan and Canadian international banks, gaining considerable experience in a wide variety of offshore fund and private equity structures.

Directors (continued)

Mr Tolcher joined Legis Fund Services Limited in 2005 and was appointed managing director at the beginning of 2007, a position he held until the end of 2010. Mr Tolcher remained a director of that company until September 2011.

Since November 2011 Mr Tolcher has been self-employed as an independent non-executive director, and holds directorships within other fund structures domiciled in Guernsey, including a number listed on the London Stock Exchange and Channel Islands Securities Exchange. Mr Tolcher is a Chartered Fellow of the Chartered Institute for Securities & Investment. Mr Tolcher is a British citizen and is a resident of Guernsey.

Clive Harris (59)

BSc (Econ), ACA

Member of the Audit, Remuneration and Nomination Committees

Appointed 4 September 2007



Clive Harris serves as an independent non-executive director to a number of prominent onshore and offshore investment funds, managers and other regulated entities and has extensive experience in the fields of company management, investment services, and the governance and administration of hedge funds.

Mr Harris graduated in 1976 from The University of Wales with a BSc (Econ) with combined honours in Accountancy and Law. In 1979 Mr Harris qualified as a Chartered Accountant with the City of London office of Deloitte Haskins & Sells. Mr Harris has resided in the Cayman Islands since December 1979 where he was employed for some 20 years as a director and managing director of International Management Services Limited, and was a partner in its associated accounting firm.

In 2001, Mr Harris took up a consulting position with the Bank of Bermuda (Cayman) Limited (now part of HSBC) and was subsequently appointed managing director and head of Global Fund Services during a time of reorganisation, leaving the Bank on its completion in 2003.

Mr Harris is a Chartered Accountant (England and Wales), a member of the Institute of Directors (UK), and sits on the executive committee of the Cayman Islands Directors' Association. Mr Harris is a British and Cayman Islands citizen, and is resident in the Cayman Islands.

PERMANENT ALTERNATES

Chris Powell (36)

ACA



Chris Powell joined the finance team of Pallinghurst Advisors LLP in 2008. He has a broad remit including financial reporting, financial accounting, investor relations and human resources.

Mr Powell was employed in Deloitte's London audit practice from 2000, where he gained experience in the private equity industry, financial reporting and IFRS. In 2004, Mr Powell joined Anglo American plc in London where his remit included the group consolidation and technical accounting issues. He also worked on a wide range of finance projects and strategic initiatives across the Anglo American group, particularly in South Africa.

Mr Powell became a Permanent Alternate to Mr Willis during March 2013. Mr Powell is a British citizen.

Brian O'Mahoney (43)

FCA, MBA (Manchester Business School)



Brian O'Mahoney is the group finance director at Legis having joined in January 2011, bringing with him 16 years of experience in the finance industry. Having moved to Guernsey as a newly qualified accountant in 1994, Mr O'Mahoney has since worked in auditing, private banking and wealth management. During this time he has held a number of senior roles with responsibilities in both the Channel Islands and London including, most recently, that of chief financial officer for Kleinwort Benson's Channel Islands operations.

Mr O'Mahoney is a Fellow of the Institute of Chartered Accountants in Ireland and holds an MBA from Manchester Business School.

Mr O'Mahoney was appointed as a Permanent Alternate to Mr Platt-Ransom on 29 February 2012. Mr O'Mahoney also acted as Permanent Alternate to Ms White from 29 February 2012 until 15 March 2013.

Partners of the Investment Manager

Sean Gilbertson (41)

BSc (Mining Engineering)



Sean Gilbertson graduated as a mining engineer from Wits University in South Africa having spent time in the country's deep-level gold and platinum mines. Mr Gilbertson worked as project financier for Deutsche Bank in Frankfurt and London specialising in independent power projects and public/private partnerships.

In 1998, Mr Gilbertson co-founded globalCOAL, a company that played a central role in the commoditisation of the thermal coal industry, and was appointed chief executive officer in 2001 when the business was acquired by industry players including Anglo American plc, BHP Billiton plc, Glencore International AG and Rio Tinto plc. He was also co-founder of the pioneering Spectron eMetals trading platform for category I and II members of the London Metals Exchange.

Mr Gilbertson is a founding partner of both Pallinghurst Advisors LLP and the Investment Manager and is primarily responsible for Pallinghurst's Coloured Gemstones strategy. Mr Gilbertson is a director of Gemfields and Fabergé Limited, as well as assorted related companies. Mr Gilbertson is a British and South African citizen.

Priyank Thapliyal (42)

*Metallurgical Engineer, BTech, MEng, MBA
(Western Ontario, Canada)*



Priyank Thapliyal acted as deputy to Anil Agarwal (founder and chairman of Vedanta) and was responsible for spearheading the main strategic developments that resulted in the listing of Vedanta on the LSE in December 2003. The listing has been credited for transforming Vedanta from a US\$100 million Indian copper smelting company in 2000 to the current multi-billion dollar LSE-listed company. A significant part of this value uplift was attributable to the US\$50 million acquisition of a controlling stake in Konkola Copper Mines in Zambia in November 2004, which was initiated and led by Mr Thapliyal.

Mr Thapliyal is a founding partner of both Pallinghurst Advisors LLP and the Investment Manager. Mr Thapliyal is primarily responsible for Pallinghurst's Steel Making Materials strategy and is a director of Jupiter and Tshipi. Mr Thapliyal is a British and Indian citizen.



Recent meeting of the Directors in Guernsey

From left to right: Stuart Platt-Ransom, Martin Tolcher, Brian Gilbertson, Arne H. Frandsen, Andrew Willis

About the Group

Structure

Pallinghurst Resources Limited (“PRL”, the “Company” or the “Group”) is incorporated in Guernsey under company registration number 47656 and is regulated in Guernsey by the Guernsey Financial Services Commission (“GFSC”). PRL’s primary listing is on the Johannesburg Stock Exchange (“JSE”) and its secondary listing is on the Bermuda Stock Exchange (“BSX”). The Company’s main objective is to carry on the business of an investment holding company in investments falling within its Investment Scope (see below).

Report and Financial Statements

This annual report is for the year ended 31 December 2013 (the “Annual Report”), and covers the Group.

The “Group” is Pallinghurst Resources Limited, all entities controlled by the Company (its subsidiaries), and its associates and joint ventures. The annual financial statements contained within the Annual Report also cover the Group and are for the year ended 31 December 2013 (the “Financial Statements”).

Investment Objectives

The Group, either alone or with selected strategic equity partners, participates in investments falling within the Investment Scope, following advice from Pallinghurst (Cayman) GP L.P. (“Pallinghurst Cayman” or the “Investment Manager”). The principal objective is to provide investors with a high overall rate of return.

Investment Scope

The Group monitors opportunities across the commodities spectrum, with a primary focus on underperforming assets, businesses that lack direction, are poorly managed, stranded or distressed. The Investment Manager seeks to develop strategic platforms in pursuit of consolidation, vertical integration, turn-around opportunities and expansion projects. The Group targets investments in businesses that hold mines, smelters, refineries and processing plants. The preference is for brownfields opportunities, although investments in businesses with attractive development opportunities are also considered.

Investment Policy

The Group invests in accordance with the Investment Scope as detailed above. The Investment Policy has not changed since the Company’s inception.

Number of investments in the Investment Portfolio

At the reporting date, the Group had acquired eleven separate equity investments and exited from eight. The Group holds three separate equity investments, Sedibelo Platinum Mines, Gemfields and Jupiter.

PRL’s status as a Guernsey closed-end Company

PRL has an initial life-span of ten years. PRL is required to hold meetings in which shareholders can consider whether PRL should be liquidated (after returning its assets to its shareholders), or whether its life should be extended for another year, at certain future dates. The first and second of these shareholder meetings must occur on or before 14 September 2017 and 14 September 2018, the tenth and eleventh anniversaries of 14 September 2007, the date PRL was first capitalised, subsequent to its incorporation on 4 September 2007. PRL must then hold a third shareholder meeting, prior to 14 September 2019 (the twelfth anniversary of 14 September 2007) in which shareholders will be asked to vote (by special resolution) on whether PRL should be wound up, or whether its life should be extended indefinitely. If PRL’s life is extended indefinitely, the Directors are required to identify an exit mechanism for any shareholders who wish to dispose of their shares.

The Group’s relationship with the Pallinghurst Co-Investors

The Group has an affiliation with certain other investors, known collectively as the “Pallinghurst Co-Investors” or as strategic equity partners. Pallinghurst Cayman acts as the investment manager for both the Group and the other Pallinghurst Co-Investors. The Group usually makes investments alongside the other Pallinghurst Co-Investors, although it may also act alone. The Pallinghurst Co-Investors collectively will usually have the ability to control all of the investments in the Group’s Investment Portfolio and can cooperate to achieve the strategic objectives recommended by Pallinghurst Cayman. This enables the Group to take an active part in the management and strategic direction of each investment, which would not otherwise be possible. The Pallinghurst Co-Investors typically share the same commercial and strategic objectives and cooperate effectively although each Pallinghurst Co-Investor retains legal title and influence over their individual shareholdings, and is ultimately able to determine its own course of action. The Group benefits from these relationships in many ways, including the following:

- A broader scope of investments can be contemplated as the Investment Manager can consider the level of funding on offer from all of the Pallinghurst Co-Investors rather than PRL alone.
- This funding scope can make an approach by the Pallinghurst Co-Investors more attractive or credible to a potential target company or group than a stand-alone approach by the Group.
- The Pallinghurst Co-Investors are able to exercise a greater level of influence or control over each investment than if they were acting alone.
- The Group may be able to diversify by participating in a larger number of separate investments.

In addition, PRL is entitled to participate in a minimum of 20% of the combined Pallinghurst Co-Investor investment into an asset at the point of acquisition, subject to certain conditions. The other Pallinghurst Co-Investors do not benefit from any similar entitlements.

Private equity status

The Group is considered by the Directors to be a private equity or venture capital¹ organisation. The Directors have considered the following key factors in making this determination:

- The stakes taken in the Group's investments are usually significant, although not controlling.
- The Executive Directors and/or representatives of the Investment Manager usually participate in the executive leadership/management of each investment.
- The investments are usually innovative in nature.
- A defined exit strategy usually exists for each investment.

The Group is therefore able to make certain accounting policy choices under International Financial Reporting Standards ("IFRS"). The Group holds certain associates and joint ventures as part of the Investment Portfolio which are accounted for under IAS39 *Financial Instruments: Recognition and Measurement* ("IAS39") in line with the exemptions contained within IAS28 *Investments in Associates and Joint Ventures* ("IAS28"). In previous reporting periods, the Group utilised the similar exemptions that existed under IAS28 *Investments in Associates (2003)* and IAS31 *Investments in Joint Ventures (2003)* and accounted for associates and joint ventures within the Investment Portfolio at fair value under IAS39.

¹ The Directors use the terms "private equity" and "venture capital" interchangeably throughout this document. The Directors acknowledge that certain users of the Financial Statements may attribute slightly different meanings to the two terms, but these differences are not relevant to the Group.

Principal Risks and Uncertainties

The Group's main operating activity is to enter into and hold investments with a view to making returns for shareholders. The performance of the Group's Investment Portfolio is the single most relevant determinant of the Group's performance. Before investing in the Group, prospective investors should consider the following risks and uncertainties carefully. This list is intended to describe the major risks and uncertainties that could impact upon the Group, although it may not be comprehensive.

Key risks to the Investment Portfolio

Macroeconomic risks

The global macroeconomic outlook can have a major impact on the Group's investments, manifesting in various ways. The Group does not consolidate any mining assets or hold any physical commodities on its balance sheet, so commodity price changes have no direct impact on the Financial Statements. However, commodity prices can have a significant impact on the valuation of the Group's investments and can impact on the viability of assets the Group has invested or may invest in. The commodities of most relevance to the Group based on the current Investment Portfolio are PGMs, manganese and iron ore. The pricing profile for emeralds, rubies and amethysts will also impact on the long-term valuation of Gemfields. A poor macroeconomic outlook could create other difficulties for the Group's investments; suppliers or customers may come under pressure; governments may introduce changes to the tax or regulatory environments in which the Group's investments operate.

Country risks

The Group holds investments which operate in countries including South Africa, Australia, Zambia and Mozambique. Relevant risks associated with these countries and other countries in which the Group's investments might operate include regulatory risks, foreign exchange fluctuations, industrial relations problems, and other local economic conditions.

Resources sector and mining risks

The Group's investments are focussed in the resources sector and have associated operational performance, political, economic, legal and similar risks. These risks could affect all of the Group's investments simultaneously. Exploration activities are generally speculative in nature and there can be no assurance that any mineral deposits will be discovered, successfully extracted or processed. The exploration, 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.

As mining investments move into production, the associated risks may change significantly. Some existing risks could increase in importance. Costs may be difficult to predict and control. Energy security, safety and sustainable development are all likely to become more significant to the Group. Maintaining good relationships between management and employees and their unions can be critically important. Other specific mining risks include "resource nationalism", which could see the sequestration of mining assets by national governments.

Exploration, extraction and processing activities are usually subject to environmental and safety laws and labour and occupational health legislation. A breach of environmental or safety laws and regulations could result in the imposition of a fine, or closure of operations. 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, together with potential legal liability, could have a material adverse impact on the business, operations and financial performance of an investment.

The Company, or one of the investments, could be asked to participate in illegal activity such as bribery, or may be the victims of extortion or blackmail. Under the terms of the United Kingdom's Bribery Act 2010 (the "UK Bribery Act"), failure to prevent bribery is now a corporate offence. Mining and resources can be a relatively high risk industry for these problems. 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 Company or one of the investments.

Concentration risk

The failure of any of the Group's investments would be likely to have a material impact on the Group. The Group has consolidated various investments into its three current Investment Platforms through various corporate actions. Although the reduction in the number of separate investments has occurred in line with the Group's strategic objectives, the limited number of separate investments creates a significant risk, as the failure of or fall in value of any individual investment would be likely to have a material impact.

Risks associated with unlisted investments

Unlisted investments can present different risks compared to listed investments. Unlisted investments are likely to be relatively illiquid and it may not be possible for the Group to divest of unlisted investments without a discount. The performance and retention of a small number

of key personnel may be key to the future success of an unlisted investment. The risks faced by the Group through holding unlisted investments may change in the future as the number of unlisted investments may increase or decrease.

Direct risks to the Group

Liquidity risk

The Group does not have material current asset or liability balances other than cash, as its business is to hold investments rather than carry out other operating activities. The Directors monitor the Group's cash balances and expenditure on a regular basis and take appropriate steps as necessary to ensure that the Group has sufficient funding in place.

Counterparty risk

The Group holds materially all of its cash balances with two counterparties, 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. 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.

Exchange rate risk

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\$. 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 investment in a currency other than the US\$, 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.

External reporting – risk of failure to accurately report financial or other information

The valuation of the Investment Portfolio 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 Group's external financial reporting is reliant on the integrity of various information systems at Legis. Failure of information systems could lead to the loss of accounting records and other information. The integrity and quality of Legis staff is also important. The relative importance of certain risks compared to others changes over time, in particular as the Group has changed and the Investment Portfolio has developed. Users of the Financial Statements should also anticipate further changes in the future. Other than as described above, there have been no material changes to the Group's risk profile since the reporting date.

Statement of Directors' Responsibilities

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets of the Group, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report, which complies with the requirements of The Companies (Guernsey) Law, 2008. The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with The Companies (Guernsey) Law, 2008, the financial reporting guides issued by the Accounting Practices Committee of the South African Institute of Chartered Accountants, the JSE Listing Requirements and the BSX Listing Regulations.

The Directors have prepared Financial Statements for the Group in accordance with IFRS as required by the JSE Listing Requirements. IAS1 *Presentation of Financial Statements* ("IAS1") requires that financial statements present fairly, for each financial year, the company's

financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's ("IASB") Framework for the preparation and presentation of financial statements. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. A fair presentation also requires the Directors to:

- Consistently select and apply appropriate accounting policies.
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- Provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Directors' Report

The Directors present the Group's Annual Report and Financial Statements for the year ended 31 December 2013.

Principal activities and review of the business

The Group is an investment holding company with investments within the resources sector.

Results and dividends

The results for the year are shown in the Consolidated Statement of Comprehensive Income. The Directors do not recommend the payment of a dividend.

Directors	Director of PRL	Lead Independent Director	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors					
Mr Brian Gilbertson – Chairman	✓	–	–	–	–
Mr Arne H. Frandsen – Chief Executive	✓	–	–	–	–
Mr Andrew Willis – Finance Director	✓	–	–	–	–
Non-Executive Director					
Dr Christo Wiese	✓	–	–	–	–
Independent Non-Executive Directors					
Mr Stuart Platt-Ransom	✓	✓	✓	Chair	Chair
Mr Clive Harris	✓	–	✓	✓	✓
Mr Martin Tolcher	✓	–	Chair	✓	✓
Ms Patricia White ¹	–	–	–	–	–
Permanent Alternates					
Mr Chris Powell (permanent alternate to Andrew Willis)	✓	–	–	–	–
Mr Brian O'Mahoney (permanent alternate to Stuart Platt-Ransom)	✓	–	–	–	–

¹ Ms White resigned from the Board on 15 March 2013.

Further information on the Company's Directors is included in the *People* section.

Retirement and re-election of Directors

In accordance with the Company's articles of association, Martin Tolcher and Clive Harris will offer themselves for re-election at the Annual General Meeting ("AGM") to be held on 22 September 2014.

Shareholder meetings

The Group's last AGM was held on 16 August 2013. The following resolutions were considered and passed:

1. The adoption of the Company's annual report for the year ending 31 December 2012.
2. The reappointment of Saffery Champness as auditor and authorisation that the Board agree its remuneration.
3. The re-election of Dr Christo Wiese as a Director.
4. The re-election of Stuart Platt-Ransom as a Director.
5. The appointment of Martin Tolcher (Chair), Clive Harris and Stuart Platt-Ransom to the Audit Committee.

The Group's next AGM is scheduled for 22 September 2014. Full details are set out in the *Notice of Annual General Meeting* which is included in the Annual Report. The Directors consider that passing the resolutions to be proposed at the AGM will be in the best interests of the Company and shareholders as a whole and unanimously recommend that shareholders vote in favour of each of them, as they intend to do in respect of their own holdings.

Independent auditor

The Audit Committee has responsibility for making a recommendation to the Board on the appointment of the external auditor. After consideration of the services provided during the year and a review of their effectiveness, the Audit Committee recommended to the Board that Saffery Champness should be reappointed as auditor. Accordingly, an ordinary resolution will be proposed at the forthcoming AGM for the reappointment of Saffery Champness as independent auditor, and to authorise the Directors to agree their level of remuneration.

Directors' and officers' liability insurance

Directors' and officers' liability insurance cover is held by the Company for the Directors. The level of cover and cost of the insurance is reviewed on an annual basis.

Directors' Report (continued)

Going concern

The Directors have considered the likely cash flows and costs of the Company for twelve months subsequent to the signature of the Financial Statements and have concluded that the Company has adequate resources to continue in its activities for the foreseeable future. The Financial Statements have, therefore, been prepared on the going concern basis.

Omission of Company-only financial information from the Financial Statements

The Financial Statements are presented on a consolidated basis as required by IFRS. The Directors believe that the Group's results as presented provide all material, relevant information to users of the Financial Statements and are satisfied that the provision of Company-only financial information would not contain any significant additional information which would be of interest. Accordingly, Company-only financial information has been omitted from these Financial Statements, as permitted by The Companies (Guernsey) Law, 2008, Section 244, and sections 8.62(a) and 8.62(d) of the JSE Listing Requirements.

Auditor confirmation

Each of the Directors, at the date of approval of the Financial Statements, confirms that:

1. So far as the Director is aware, there is no relevant audit information of which the Group's auditor is unaware; and
2. Each Director has taken all steps he ought to have taken to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 249 of The Companies (Guernsey) Law, 2008.

On behalf of the Directors

Brian Gilbertson
25 March 2014

Arne H. Frandsen
25 March 2014

Corporate Governance Report

The Board is the focal point of the Group's corporate governance and is ultimately accountable and responsible for the affairs of the Group. The Directors confirm that the Company has applied the recommendations of the *King Code of Governance Principles 2009* ("King III") during 2013, other than as set out below.

Adherence to principles of King III

The JSE Listings Requirements include certain mandatory requirements relating to corporate governance. This Corporate Governance Report explains how the Group adheres to these requirements. In addition, the Group adheres to the principles of King III on a "comply or explain" basis. A register of how the Group complies with the principles of King III (the "King III Register") is maintained on the Company's website, www.pallinghurst.com. This details how compliance with each separate principle has been achieved.

King III recommends that the Board should be led by an independent non-executive chairman who should not be the CEO of the Company. The offices of Chairman and Chief Executive are separate. The Chairman of PRL, Mr Gilbertson, is an Executive Director, which does not comply with King III. The other members of the Board believe that the Chairman's wealth of knowledge and experience mean that he is best placed to provide overall leadership to the Board.

The Group does not have an internal audit function, whereas King III recommends that all companies implement this function. The Group utilises Legis Fund Services Limited, a subsidiary of Legis Group Limited (together "Legis") as its administrator. One of Legis' key duties is the provision of the Company's accounting function and the Board believe that it would not be appropriate for the Group to appoint its own internal audit function.

King III recommends that the Board should seek independent assurance on the Group's sustainability reporting. Key responsibilities for sustainability reporting are largely retained by the Group's investments, Sedibelo Platinum Mines, Gemfields and Jupiter. Where possible, the Board uses its influence on the Group's investments to ensure that independent assurance is provided on their sustainability reporting.

Board responsibilities

The Board's responsibilities include providing strategic direction and overseeing the performance of the Group's investment portfolio. This includes reviewing the performance of current investments and evaluating potential acquisitions and divestments. The Board is also responsible for determining policies and processes which seek to ensure the integrity of the Group's risk management and internal controls, implementing and maintaining the Group's communication strategy and for ensuring the integrity and effectiveness of the Group's governance processes.

Board composition

King III recommends that a Board should comprise a balance of Executive and Non-Executive Directors, with a majority of Non-Executive Directors. The Board currently consists of three Executive Directors and four Non-Executive Directors. Three of the four Non-Executive Directors are considered to be independent in the context of King III. Dr Christo Wiese has an indirect beneficial interest in over 5% of the Company's share capital and is therefore not considered independent in the context of King III.

The roles of the Chairman and Chief Executive are formalised, separate and clearly defined. This creates a balance of power and authority and means that no individual is able to exercise unrestricted power.

Mr Platt-Ransom is the Company's Lead Independent Non-Executive Director ("LID"). The LID's main responsibilities are to chair any meeting in which the Chairman has a conflict of interest, and to give stakeholders a point of contact separate from the Executive Directors.

Rotation of Directors

The Company's articles of association specify that one-third of the Non-Executive Directors shall retire from office at each AGM, by rotation. In addition to these retiring Directors, any Director appointed since the previous AGM also retires from their office. However, a retiring Director can be re-elected at the same AGM and if re-elected is deemed to have not vacated their office.

Board meetings

Board meetings are scheduled on a quarterly basis each year, to consider the Group's strategy, performance and investment valuations. Additional Board meetings may be convened on an *ad hoc* basis. Directors use their best endeavours to be present at Board meetings and participate fully, frankly and constructively. Matters are decided at Board meetings by a majority of votes. In case of an equality of votes the chair of the meeting shall have a second, casting vote which ensures that no single individual has unfettered powers of decision making. Four Board meetings were held during 2013 at which all resolutions were agreed unanimously.

Role of the Independent Valuer

The Directors estimate the fair value of each investment each reporting period. In addition, the Group engages an independent valuer (the "Independent Valuer") to provide an opinion that the valuation of each investment as determined by the Directors has been prepared using a methodology and approach which is reasonable, is consistent with the concept of fair value under IFRS, and is in accordance with the International Private Equity and Venture Capital ("IPEVC") Valuation Guidelines (the "IPEVC Valuation Guidelines").

Corporate Governance Report (continued)

Audit Committee

The Board has established an Audit Committee to assist in discharging certain responsibilities. The Audit Committee Report is included within this Annual Report.

Remuneration Committee

The Board has established a Remuneration Committee to assist in discharging certain responsibilities. The Remuneration Committee Report is included within this Annual Report.

Nomination Committee

The Board has established a Nomination Committee to assist in discharging certain responsibilities. The Nomination Committee Report is included within this Annual Report.

Company Secretary

Legis acts as the Group's Company Secretary, rather than a specific individual. Legis employs a number of individuals with expertise in different areas who are able to assist the Board as necessary in areas including corporate governance, directors' fiduciary responsibilities, compliance and private equity fund structures.

Legis informs the Board of any relevant issues on a timely basis. The Company Secretary also presents the Board with a governance update at each scheduled meeting; the update usually includes operational issues, the UK Bribery Act, the Guernsey Code of Corporate Governance and the Alternative Investment Fund Managers' Directive. Legis also considers other non-binding codes, rules and standards, assesses the impact and recommends a suitable course of action to the Board. The Board takes responsibility for deciding whether to follow the recommendations of the Company Secretary and for ensuring compliance with applicable laws.

The Board is required to consider and satisfy itself on an annual basis on the competence, qualifications and experience of the company secretary (as this is a JSE listing requirement). The Board believe that they are better-served by having access to a broader range of advice via Legis than employing an individual as company secretary. The Board also engage external legal counsel and other advisors as necessary. The Board are satisfied the Company Secretary has the requisite competence, qualifications and experience to carry out the required responsibilities and that the relationship between the Company Secretary and the Board is at arm's length.

Risk management

The Directors are responsible for the Group's system of internal controls, which is designed to provide reasonable assurance against material misstatement and loss. The Group's system of internal controls is designed to provide assurance on the maintenance of proper accounting records and the completeness and accuracy of

financial information used by management for decision making and for publication. The internal control system includes the following elements:

- A Risk Register which is monitored on an ongoing basis.
- An organisational structure and division of responsibilities.
- Policies and procedures governing financial reporting, accounting and payments.

The Directors are each able to visit the Group's investments as and when they consider it appropriate. Mr Platt-Ransom and Mr Tolcher visited PPM and Tshipi during 2013.

Sustainability reporting

The Directors recognise the importance of sustainable development. As an investment holding company, the Company does not have a significant direct impact on the natural environment in which it operates. Responsibility for sustainable development is largely retained by the investments within the Group's Investment Portfolio. Detailed sustainability information for the Group's Investment Portfolio can usually be obtained from publicly available information relating to the relevant investments.

Communication with stakeholders

The Directors regularly report to shareholders on the Group's financial performance and strategy. The Directors maintain regular contact with analysts, institutional investors and the South African media. The Group ensures communication with stakeholders who do not have access to electronic media by publishing various announcements, including its interim and final results, in South African newspapers (usually *Business Day*). The Company also maintains a website which contains information on the Group, www.pallinghurst.com.

Share dealing by Directors

The Directors may not trade in PRL shares during certain "closed" periods, which are as follows:

- Between 1 January and the date on which the annual results are announced on the JSE and BSX.
- Between 1 July and the date on which the interim results are announced on the JSE and BSX.
- If the Company is in the process of price sensitive negotiations, acquisitions or disposals, or pending the release of any other price sensitive information.

Directors are able to trade PRL shares outside of these periods, after first obtaining approval in writing from the Chairman and the Finance Director. Details of any such transactions are advised to the JSE and BSX and are published on SENS and on the Company's website. Details of the Directors' holdings in PRL shares are detailed in Note 22 *Related party transactions*.

Audit Committee Report

Role of the Audit Committee

The Audit Committee has an independent role and is accountable both to the Board and to shareholders.

Composition and meetings

Three independent non-executive directors, Mr Tolcher, Mr Platt-Ransom and Mr Harris served on the Audit Committee through-out 2013. The Audit Committee members have suitable levels of skills and experience. The Audit Committee met four times during 2013. Minutes of Audit Committee meetings are circulated to the Board.

The Audit Committee may meet without any of the Executive Directors being present. The Audit Committee may meet with the auditor, Saffery Champness ("Saffery"), either formally or informally, throughout the year; the audit partner has access to the Audit Committee through the Chair. As the Chair, Mr Tolcher decides whether to convene any unscheduled meetings and who should be invited to such meetings.

Audit Committee activity during 2013

The following sections set out the Audit Committee's responsibilities (as included within the Audit Committee's Terms of Reference), and then comment on how the Audit Committee has discharged its responsibilities during the year (in italics).

Listing, Compliance and Legal Regulations

Responsibilities

- The Audit Committee ensures the Group's adherence to the recommendations of King III and its disclosures as included in the Group's financial statements and/or website, www.pallinghurst.com, as appropriate.
- The Audit Committee monitors the Group's compliance with the JSE Listings Requirements, BSX Listing Regulations, Guernsey Company Law and any other relevant legal requirements or regulations.

Comments for 2013

The Group has complied with all relevant legal requirements and regulations during the year. The Group's King III Register, which explains the Group's compliance with the principles of King III, is included on the Group's website and is not included in the Annual Report. The Audit Committee regularly reviews the King III Register and approves any changes.

Internal Controls and Risk Management

Responsibilities

- The Audit Committee assesses the effectiveness, quality, integrity and reliability of Legis' risk management processes and internal controls.
- The Audit Committee assesses areas which are highly dependent on Information Technology controls.

Comments for 2013

The Group utilises a third party administrator, Legis. The provision of the Company's accounting function is one of Legis' key duties. The Audit Committee has recommended to the Board that the Group should not appoint its own internal audit function.

Legis is regulated by the GFSC and maintains a robust environment for systems and controls, with separate Risk and Compliance functions. This environment is reviewed by Legis' auditor, PricewaterhouseCoopers ("PwC"), as part of Legis' annual audit process. In addition, Legis has engaged PwC 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 31 January 2014 and reports on the internal controls in place at 31 October 2013. The report concluded that Legis had designed and put in place suitable control procedures in order to meet its control objectives. The Audit Committee is satisfied that Legis' internal controls are adequate and fit for purpose.

King III suggests that a company should appoint a specific Chief Information Officer, with responsibility for Information Technology governance. The Board are collectively responsible for Information Technology governance. As the Company is an investment holding company, the Company does not directly own any Information Technology assets. Legis has a formal programme of Information Technology risk management and a Head of Information Technology. The Audit Committee do not believe that it would be appropriate for the Group to appoint a Chief Information Officer. The Board have concurred with this recommendation.

Financial Reporting

Responsibilities

- The Audit Committee monitors the integrity and accuracy of the Group's financial reporting and ensures compliance with IFRS.
- The Audit Committee considers the performance of Legis' accounting function.
- The Audit Committee approves the valuation of the Group's Investment Portfolio.
- The Audit Committee ensures that the Group's accounting policies are suitable and considers the adoption of new and amended accounting standards.
- The Audit Committee considers any significant adjustments resulting from the audit.
- The Audit Committee reviews the Group's cash position.
- The Audit Committee reviews the calculation of the Investment Manager's Benefit.
- The Audit Committee reviews the calculation of the Performance Incentive accrual.

Audit Committee Report (continued)

- The Audit Committee considers the role and performance of the Finance Director.
- The Audit Committee reviews the quality of the Group's external reporting and communication with stakeholders.
- The Audit Committee considers any other significant areas of judgement.

Comments for 2013

The Audit Committee is satisfied as to the expertise and adequacy of resources of Legis' accounting function.

The Audit Committee has considered the adoption of various new accounting standards by the Group, as disclosed in the Financial Statements. The Audit Committee has reviewed the impact of the adoption of these standards on the Group and is comfortable that the disclosure included in the Financial Statements is accurate and reasonable.

No significant adjustments were made during the audit of the results to 31 December 2012 or the review of the results to 30 June 2013.

The Audit Committee is satisfied that the calculation of the Investment Manager's Benefit during 2013 has been accurate and in line with the agreements in place and that the Group should not make a provision for the Performance Incentive provision at 31 December 2013.

It is the view of the Audit Committee that Mr Willis continues to possess the appropriate expertise and experience to carry out his responsibilities as Finance Director.

Auditor

Responsibilities

- The Audit Committee considers the qualifications, independence and objectivity of the auditor.
- The Audit Committee considers the scope, results and cost effectiveness of the audit and interim review.
- The Audit Committee recommends the appointment/reappointment of the external auditor to the Board.
- The Audit Committee considers the auditor's terms of engagement.
- The Audit Committee considers the auditor's management letter and any response from the Directors.
- The Audit Committee considers whether to engage the auditor for any non-audit services.
- The Audit Committee ensures that a process exists by which its members are informed of any issues identified by the external auditor.

Comments for 2013

The Audit Committee has considered Saffery's qualifications, independence and objectivity and approved their terms of engagement. Saffery are responsible for ensuring that they adhere to various guidelines under auditing practices relating to the length of tenure of the audit partner and that the independence of key individuals is maintained. Saffery have confirmed to the Audit Committee that all requirements in terms of independence and rotation have been complied with. The Audit Committee have also concluded that Saffery are independent from PRL in the context of King III. After consideration of the services provided during the year and a review of their effectiveness, the Audit Committee has recommended to the Board that Saffery Champness should be reappointed as auditor.

The Audit Committee have approved the fees paid to Saffery during the year, which were solely for audit services.

The Group's policy is that all material services undertaken are approved in advance by the Audit Committee. This includes the provision of any non-audit services by Saffery. Saffery did not provide any non-audit services to the Group during either 2013 or 2012.

Independent Valuer and other services rendered

Responsibilities

- The Audit Committee considers the qualifications, independence and objectivity of the Independent Valuer.
- The Audit Committee considers the scope, results and cost effectiveness of the Independent Valuer.
- The Audit Committee considers the scope, results and cost effectiveness of any other services rendered to PRL with a material cost, such as advice from external legal counsel or corporate finance services.
- The Audit Committee may review any other topic deemed relevant.

Comments for 2013

The Audit Committee considers that the qualifications, independence and objectivity of the Independent Valuer continue to be suitable. The Audit Committee also considers that the scope of work completed by the Independent Valuer during 2013 was appropriate and that the services provided were cost effective.

Approval of Audit Committee Report

The Audit Committee confirms that it has carried out the duties noted in its terms of reference during 2013 and that this report to shareholders has been approved by the Board.

Martin Tolcher

Chair of the Audit Committee

Remuneration Committee Report

Role of the Remuneration Committee

The Remuneration Committee has an independent role and is accountable to both the Board and to shareholders.

Composition and meetings

Three independent non-executive directors, Mr Platt-Ransom (Chair), Mr Tolcher and Mr Harris serve on the Remuneration Committee. The Remuneration Committee meets as often as required and not less than once per year. Two meetings of the Remuneration Committee were held during 2013.

Remuneration Policy

Each Director should be remunerated fairly and responsibly. The remuneration paid to each Director should take into account the individual's level of skills and experience. The level of responsibility and endeavour associated with additional roles (such as participation on board committees) should be rewarded appropriately. The fee payable to Non-Executive Directors is limited to a maximum of US\$40,000 per annum. The Executive Directors are not remunerated for their role as Directors. The Company does not currently employ any members of management or staff.

Remuneration Committee activity during 2013

The following sections set out the Remuneration Committee's responsibilities

and then comments on how the Remuneration Committee has discharged those responsibilities during the year (in italics).

- The Remuneration Committee monitors amounts paid to the Company's Investment Manager and negotiates the terms of and/or renewal of any agreements entered into with the Company's Investment Manager.
- The Remuneration Committee determines levels of remuneration for each member of the Company's Board.
- The Remuneration Committee determines levels of remuneration for any members of management or staff.

Comments for 2013

The terms of the relationship between the Company and Pallinghurst (Cayman) GP L.P. (the Investment Manager) have not changed during the year.

Non-Executive Directors are each entitled to receive fees for their services as determined by the Remuneration Committee. Members of the Remuneration Committee do not participate when the level of their personal remuneration is considered. Shareholders have previously approved a limit of US\$40,000 per annum per director for Non-Executive Directors. The table below sets out the amounts paid by the Group to the Non-Executive Directors for services during 2013, as determined by the Remuneration Committee.

	Directorship of the Company US\$	Directorship of other Group companies US\$	Audit Committee US\$	Lead Independent Director US\$	Total US\$
31 December 2013					
Stuart Platt-Ransom	25,000	–	3,000	2,000	30,000
Clive Harris	25,000	5,000	3,000	–	33,000
Martin Tolcher	25,000	–	5,000	–	30,000
Dr Christo Wiese ¹	22,192	–	–	–	22,192
Patricia White ²	5,139	–	–	–	5,139
Total	102,331	5,000	11,000	2,000	120,331

¹ This relates to the period 11 February 2013 – 31 December 2013.

² This relates to the period 1 January 2013 – 15 March 2013.

	Directorship of the Company US\$	Directorship of other Group companies US\$	Audit Committee US\$	Lead Independent Director US\$	Total US\$
31 December 2012					
Stuart Platt-Ransom	25,000	–	–	–	25,000
Clive Harris	25,000	5,000	–	–	30,000
Martin Tolcher	25,000	–	–	–	25,000
Dr Christo Wiese	–	–	–	–	–
Patricia White ¹	20,948	–	–	–	20,948
Total	95,948	5,000	–	–	100,948

¹ This relates to the period 29 February 2012 – 31 December 2012.

The Executive Directors are not remunerated for their role as Directors. The Company does not currently employ any members of management or staff.

Stuart Platt-Ransom
Chair of the Remuneration Committee

Nomination Committee Report

Role of the Nomination Committee

The Nomination Committee has an independent role and is accountable to both the Board and to shareholders.

Composition and meetings

Three independent non-executive directors, Mr Platt-Ransom (Chair), Mr Tolcher and Mr Harris serve on the Nomination Committee. The Nomination Committee was created on 6 December 2013 and held its first meeting on 17 March 2014. The Nomination Committee will meet as often as required and not less than once per year.

Nomination Committee activity during 2013

The following sections set out the Nomination Committee's responsibilities and then comments on how the Nomination Committee has discharged those responsibilities during the year (in italics).

- The Nomination Committee reviews the structure, size and composition of the Board on an ongoing basis, with the recommendation of any changes to the Board as necessary.
- The Nomination Committee is responsible for the identification of suitable candidates for appointment to the Board.
- The Nomination Committee has oversight of the reappointment process for all Directors at the point of their retirement by rotation in accordance with provisions in the Company's articles of association.

Comments for 2013

The Nomination Committee did not meet during 2013; it was created on 6 December 2013 and held its first meeting on 17 March 2014.

The Nomination Committee believe that the structure, size and composition of the Board remain appropriate and have not recommended any specific changes to the Board.

The Nomination Committee is comfortable that the reappointment process being undertaken for the Company's AGM is in line with the provisions in the Company's articles of association.

Stuart Platt-Ransom

Chair of the Nomination Committee

FINANCIAL STATEMENTS
and other information

Contents

06

FINANCIAL STATEMENTS

Independent Auditor's Report	39
Consolidated Statement of Comprehensive Income	40
Consolidated Balance Sheet	41
Consolidated Statement of Cash Flows	42
Consolidated Statement of Changes in Equity	43
Notes to the Consolidated Financial Statements	44

07

OTHER INFORMATION

Shareholder Information	75
Company Information	76
Notice of Annual General Meeting	77
Form of Proxy	Perforated

Independent Auditor's Report

to the shareholders of Pallinghurst Resources Limited

We have audited the financial statements of Pallinghurst Resources Limited for the year ended 31 December 2013, which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity and related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards.

This report is made solely to the Company's members, as a body, in accordance with section 262 of The Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the United Kingdom Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view;
- are in accordance with International Financial Reporting Standards; and
- comply with The Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the company;
- the financial statements are not in agreement with the accounting records; or
- we have failed to obtain all the information and explanations, which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

Saffery Champness
Chartered Accountants
Guernsey
25 March 2014

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2013

	Notes	2013 US\$	2012 US\$
INCOME			
Investment Portfolio			
Realised fair value loss on disposal of Fabergé equity shares	5,9	(7,952,380)	–
Realised loss on conversion of Fabergé loan to Gemfields shares	5,9	(12,027,277)	–
Impairment of Fabergé loan	5,9	–	(1,638,471)
Realised gain on Sedibelo Platinum Mines transaction	6	–	50,932,811
Realised fair value gain on Jupiter shares	7	–	3,250,521
Realised loss on Jupiter foreign exchange contract	7	–	(318,880)
Unrealised fair value gains	9	51,458,344	31,844,963
Unrealised fair value losses	9	(10,502,814)	(119,429,986)
		20,975,873	(35,359,042)
Investment Portfolio revenue			
Loan interest income	9	–	1,681,340
Structuring fee and other income	10	–	375,000
		–	2,056,340
Net gain/(losses) on investments and income from operations		20,975,873	(33,302,702)
EXPENSES			
Investment Manager's Benefit	11	(5,220,013)	(5,102,237)
Operating expenses	12	(894,663)	(806,588)
Foreign exchange gains		24,029	–
Foreign exchange losses		–	(1,237,920)
		(6,090,647)	(7,146,745)
Net gain/(loss) from operations		14,885,226	(40,449,447)
Finance income		31,895	281,198
Net finance income		31,895	281,198
Profit/(loss) before share in (loss)/profit of associates		14,917,121	(40,168,249)
Share in (loss)/profit of associates	14	(223,685)	1,119,941
Profit/(loss) before tax		14,693,436	(39,048,308)
Tax		(4,461)	–
NET PROFIT/(LOSS) AFTER TAX		14,688,975	(39,048,308)
Other comprehensive income		–	–
TOTAL COMPREHENSIVE INCOME/(EXPENSE)		14,688,975	(39,048,308)
Basic and diluted earnings/(loss) per ordinary share	23	0.02	(0.06)

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

Consolidated Balance Sheet

as at 31 December 2013

	Notes	2013 US\$	2012 US\$
ASSETS			
Non-current assets			
Investments in associates	14	1,253,200	1,936,241
Investment Portfolio			
Listed equity investments	9	174,618,072	97,675,366
Unlisted equity investments	9	215,237,159	217,951,326
Loans and receivables	9	–	50,599,070
		389,855,231	366,225,762
Total non-current assets		391,108,431	368,162,003
Current assets			
Trade and other receivables	16	1,151,742	1,379,301
Cash and cash equivalents		23,907,419	31,975,952
Other investments		57,540	–
Total current assets		25,116,701	33,355,253
Total assets		416,225,132	401,517,256
LIABILITIES			
Current liabilities			
Trade and other payables	17	178,245	159,344
Total current liabilities		178,245	159,344
Total liabilities		178,245	159,344
Net assets		416,046,887	401,357,912
Capital and reserves attributable to equity holders			
Share capital	18	7,606	7,606
Share premium	19	375,227,145	375,227,145
Retained earnings		40,812,136	26,123,161
EQUITY		416,046,887	401,357,912

The Financial Statements were approved and authorised for issue by the Directors on 25 March 2014 and were signed on its behalf by:

Brian Gilbertson

Arne H. Frandsen

The accompanying notes form part of these Financial Statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2013

	Notes	2013 US\$	2012 US\$
Cash outflows from operations	20	(5,842,494)	(5,777,691)
Additions to investments		(2,653,596)	(33,699,110)
Loans extended to investments		–	(28,120,111)
Finance income received		31,895	281,198
Net cash outflows from operating activities		(8,464,195)	(67,315,714)
Cash flows from investing activities			
Amounts invested in associates	14	(62,899)	(141,729)
Decrease in investments in associates	14	–	20,393,255
Amounts returned from associates	14	434,532	–
Net cash generated from investing activities		371,633	20,251,526
Cash flows from financing activities			
Rights Offer – proceeds	8	–	77,241,092
Rights Offer – costs	8	–	(2,187,704)
Rights Offer – foreign exchange losses	8	–	(49,655)
Net cash generated from financing activities		–	75,003,733
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(8,092,562)	27,939,545
Cash and cash equivalents at the beginning of the year		31,975,952	5,274,327
Foreign exchange gain on cash		24,029	–
Foreign exchange loss on cash		–	(1,237,920)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		23,907,419	31,975,952

The accompanying notes form part of these Financial Statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2013

	Share capital US\$	Share premium US\$	Retained earnings US\$	Total equity US\$
Balance at 1 January 2012	4,760	300,226,258	65,171,469	365,402,487
Rights Offer – proceeds	2,846	77,238,246	–	77,241,092
Rights Offer – costs	–	(2,187,704)	–	(2,187,704)
Rights Offer – foreign exchange losses	–	(49,655)	–	(49,655)
Total comprehensive loss for the year	–	–	(39,048,308)	(39,048,308)
Balance at 31 December 2012	7,606	375,227,145	26,123,161	401,357,912
Total comprehensive income for the year	–	–	14,688,975	14,688,975
Balance at 31 December 2013	7,606	375,227,145	40,812,136	416,046,887

The accompanying notes form part of these Financial Statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2013

1. General information

The Company is incorporated in Guernsey under The Companies (Guernsey) Law, 2008. The address of the registered office is stated on the final page of the Annual Report entitled *Company Information*. The Company's key function is to hold investments.

The Financial Statements are presented in United States dollars ("US\$") which is the Group's presentation currency. Using the US\$ as the Group's presentation currency means that the Financial Statements can be compared with other similar companies. Foreign operations are included in the Group's results in accordance with the policies set out in Note 3 *Accounting policies*.

2. Adoption of new and revised Standards

Standards affecting the Financial Statements

The Group has adopted IFRS10 *Consolidated Financial Statements* ("IFRS10"), IFRS11 *Joint Arrangements* ("IFRS11"), and IFRS12 *Disclosure of Interests in Other Entities* ("IFRS12") effective 1 January 2013. IFRS10 has replaced the elements of IAS27 *Consolidated and Separate Financial Statements* ("IAS27") that relate to consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS10 creates a single basis for consolidation for all entities based on control, and provides a revised definition of control. The Group is deemed to control an investee if it has all of the following:

- Power over the investee.
- Exposure, or rights, to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect the Group's returns.

The Group has also adopted IAS28 *Investments in Associates and Joint Ventures* ("IAS28") and the revised IAS27 *Separate Financial Statements*. These five new and revised standards are known together as the "package of five".

The adoption of the package of five has not had a material impact on the Group in the current year and no adjustments to the Group's comparative information have been required. The Group holds certain associates and joint ventures as part of the Investment Portfolio. The value of these assets to the Group is through their marketable value as part of the Investment Portfolio rather than as a medium through which a business is undertaken. The Group therefore measures these investments at fair value under IAS39 *Financial Instruments: Recognition and Measurement* ("IAS39") in line with the exemptions contained within IAS28. In previous reporting periods, the Group utilised the similar exemptions that existed under IAS28 *Investments in Associates (2003)* and IAS31 *Investments in Joint Ventures (2003)* and accounted for associates and joint ventures within the Investment Portfolio at fair value under IAS39.

The guidance within IAS27 relating to separate financial statements has not been replaced but has been amended for the issuance of IFRS10 and retained within IAS27 *Separate Financial Statements*, which was issued in May 2011 ("IAS27 2011"). The Company does not produce separate financial statements, see *Directors' Report* for further explanation.

No other standards with any impact on the Group's reporting or Financial Statements were introduced during 2013.

Standards and amendments not affecting the Group

The following revised accounting standards have been adopted during 2013. The adoption of these revisions has not had any significant impact on the amounts reported in these Financial Statements, but may impact the accounting for the Group's future transactions or arrangements.

Standard or interpretation	Details
IAS19 <i>Employee Benefits (2011)</i>	Changes to accounting for defined benefit pension plans and termination benefits.
Amendments to IFRS1 <i>Government Loans</i>	Changes to how first-time adopters of IFRS can account for government loans.
Amendments to IAS32 <i>Financial Instruments: Presentation</i> ("IAS32") and IFRS7 <i>Disclosures – Offsetting Financial Assets and Financial Liabilities</i> (Amendments to IFRS7)	The amendments to IAS32 clarify certain issues relating to the requirements regarding the offsetting of financial assets and financial liabilities. The amendments to IFRS7 require certain disclosures relating to the offsetting of financial instruments.
Amendments to IAS1 <i>Presentation of Items of Other Comprehensive Income</i>	Requires changes to other comprehensive income, such that items that will not subsequently be reclassified to profit or loss, and items that may subsequently be reclassified to profit or loss, are grouped separately.
IFRIC20 <i>Stripping Costs in the Production Phase of a Surface Mine</i>	Specifies the accounting for waste removal costs incurred in surface mining activity during the production phase of a mine.

2. Adoption of new and revised Standards (continued)

The Annual Improvements to IFRS 2009-2011 Cycle includes various amendments to IFRS which are now mandatory and have been adopted in the current year. The adoption of these amendments has not had any significant impact on the amounts reported in these Financial Statements, but may impact the accounting for the Group's future transactions or arrangements. These changes are as follows:

Standard or interpretation	Subject of amendment	Details
IFRS1 <i>First-time Adoption of International Financial Reporting Standards</i> ("IFRS1")	Repeated application of IFRS1	The amendments clarify that an entity may apply IFRS1 if its most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with IFRS, even if the entity applied IFRS1 in the past.
	Borrowing costs	The amendments clarify that borrowing costs capitalised under a previous GAAP may be carried forward without adjustment to the amount capitalised at the date of transition to IFRS.
IAS1 <i>Presentation of Financial Statements</i>	Disclosure requirements for comparative information	The amendments clarify that a balance sheet at the beginning of the prior period is only required when the retrospective application of an accounting policy, restatement or reclassification has a material effect on that balance sheet. The amendments also clarify that the only notes required to accompany a balance sheet at the beginning of the prior period are those specifically required by IAS8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> .
IAS16 <i>Property, Plant and Equipment</i> ("IAS16")	Classification of servicing equipment	The amendments clarify that servicing equipment and spare parts should be accounted for under IAS16 where they meet the definition of property, plant and equipment per that standard, and accounted for as inventory if they do not meet that definition.
IAS32 <i>Financial Instruments: Presentation</i>	Tax effect of distribution to equity holders	The amendments clarify that income tax on distributions to equity holders and transaction costs of an equity transaction should be accounted for under IAS12 <i>Income Taxes</i> rather than IAS32.
IAS34 <i>Interim Financial Reporting</i>	Interim reporting and segmental information	The amendments clarify that total assets and total liabilities do not require disclosure in interim reporting unless the amounts are regularly provided to the Chief Operating Decision Maker and the reportable amounts have changed materially since the last annual financial statements.

Investment entities

In October 2012, the IASB issued Investment Entities (Amendments to IFRS10, IFRS12 and IAS27) (the "Investment Entities Amendments"). These amendments include the following:

- The creation of a definition of an "investment entity".
- The requirement that such entities measure investments in subsidiaries at fair value through profit or loss rather than consolidating such interests.
- New disclosure requirements for investment entities.
- Requirements for an investment entity's separate financial statements.

To qualify as an investment entity, the following requirements must be met:

- The investment entity must obtain funds from one or more investors for the purpose of providing them with professional investment management services.
- The investment entity must commit to its investors that its business purpose is to invest funds solely for capital appreciation, investment income or both.
- The investment entity must evaluate the performance of substantially all its investments on a fair value basis.

It is likely that the Company will be considered to be an "investment entity" under the Investment Entities Amendments. The requirement that an investment entity measure an investment in a subsidiary at fair value rather than consolidating such an investment could be particularly relevant, as the Group's Investment Portfolio may include such investments in the future. The Group will also make various required disclosures subsequent to the adoption of the Investment Entities Amendments.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2013

2. Adoption of new and revised Standards (continued)

The Investment Entities Amendments are effective from 1 January 2014 with early adoption permitted. The Group did not choose to adopt the Investment Entities Amendments during 2013. The Directors believe that the early adoption of the Investment Entities Amendments would not have had a material impact on the Group's balance sheet during the year. However, the adoption of the Investment Entities Amendments may affect the Group's accounting in the future.

Update on implementation of IFRS9 *Financial Instruments*

The IASB originally embarked on its project to replace IAS39 during 2009, in response to the global financial crisis. The scale of the project meant that the replacement standard, IFRS9 *Financial Instruments* ("IFRS9") was split into a number of separate phases, some of which are already available for early adoption and some of which are not yet available. The current status of the various elements of IFRS9 is as follows:

Phase	Current status	Principal differences between IFRS9 and IAS39
Classification and measurement	Issued November 2009, amended October 2010, limited further amendments anticipated during 2014.	All financial assets measured at either fair value or amortised cost. Entities must choose at initial recognition whether to present movements in fair value through other comprehensive income or through profit or loss. Debt instruments are usually measured at amortised cost, with the use of fair value optional in some limited circumstances.
General hedge accounting	Issued November 2013.	The number of hedging instruments that are eligible for hedge accounting is significantly increased. IFRS9's approach to the qualifying criteria for hedge accounting is principles-based, rather than based on specific testing such as the 80–125% effectiveness testing contained within IAS39. Increased disclosures on hedge accounting are required.
Impairment of financial assets	Due during 2014.	Requirements to be finalised.
Macro hedging project (now a separate project, not part of IFRS9)	Due during 2014.	Requirements to be finalised.

During November 2013, the IASB decided that the mandatory effective date of IFRS9 will be no earlier than annual periods beginning on or after 1 January 2017. Certain aspects of IFRS9 have not yet been completed. Whilst it is possible to early adopt the IFRS9 *Classification and measurement*, the Directors have not chosen to do so in the current reporting period. Once IFRS9 is adopted, all financial assets and liabilities within the scope of IFRS9 will be accounted for in accordance with the standard and the impact on the Group's Consolidated Balance Sheet may be significant.

Other new standards and interpretations not yet adopted

The following new standards and interpretations have been issued and are effective for periods commencing 1 January 2014. These standards have not yet been adopted by the Group and the Directors have not yet fully determined what the impact of adoption will be.

Standard or interpretation	Details
IFRIC21 <i>Levies</i> ("IFRIC21")	IFRIC21 defines a levy as a payment to a government for which no specific good or service is received in return. A liability is recognised when the obligating event occurs. The obligating event is the activity that triggers payment of the levy; this would typically be specified in the legislation that imposes the levy.
IAS36 <i>Recoverable Amount Disclosures for Non-Financial Assets</i>	The amendments remove the requirement to disclose the recoverable amount of a cash generating unit to which a significant amount of goodwill (or intangible assets with indefinite useful lives) has been allocated in periods where no impairment (or reversal of impairment) has occurred. Certain additional disclosure requirements have also been introduced.
Amendments to IAS39 on novation of derivatives	The amendment allows the continuation of hedge accounting (under IAS39) if a derivative is novated to another counterparty, under certain conditions.

3. Accounting policies

Basis of accounting

The Financial Statements have been prepared in accordance with IFRS and interpretations as issued by the IASB. The Financial Statements also comply with the JSE Listing Requirements, the BSX Listing Regulations and The Companies (Guernsey) Law, 2008 and show a true and fair view.

The Financial Statements have been prepared on the historic cost basis, except for the valuation of certain equity investments held within the Investment Portfolio. These equity investments are measured at fair value not historic cost. Historic cost is generally based on the fair value of the consideration given in exchange for the assets. Other than information contained within the Consolidated Statement of Cash Flows, the Financial Statements have been prepared on the accruals basis. The principal accounting policies adopted by the Group are set out below.

Basis of consolidation

The Financial Statements incorporate the financial statements of the Company and entities under its control (its subsidiaries) made up to 31 December each year. Under IFRS10, the Company is deemed to control an investee if it has all of the following:

- Power over the investee.
- Exposure or rights to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect its returns.

The Group undertook an analysis of each of its subsidiaries during the year and ensured that the adoption of IFRS10 did not impact on the Group's accounting for its investees. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The existence and effect of potential voting rights that are presently exercisable are considered when assessing whether the Group controls another entity. Intercompany transactions and balances between the Group and its subsidiaries are eliminated upon consolidation.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to shareholders.

As described in Note 2 *Adoption of new and revised Standards*, the Group did not adopt the Investment Entities Amendments during 2013. The adoption of these changes, which are mandatory for periods commencing after 1 January 2014, would mean that in future, the Group would probably account for subsidiaries held within the Investment Portfolio at fair value rather than using the principles of consolidation.

Going concern

The Directors have considered the likely cash flows and costs of the Company for twelve months subsequent to the signature of the Financial Statements and have concluded that the Company has adequate resources to continue in its activities for the foreseeable future. The Financial Statements have, therefore, been prepared on the going concern basis.

Accounting for the Investment Portfolio

(i) Classification

An investment is considered to be part of the Group's Investment Portfolio if its value to the Group is through its marketable value rather than as a medium through which a business is undertaken. The Group accounts for all such equity investments at fair value. If an equity interest held by the Group is under 20%, it is accounted for at fair value under IFRS13 *Fair Value Measurement* ("IFRS13"). The Group also holds equity interests that are over 20% and which meet the definition of either an associate or a joint venture under IAS28. Interests in associates and joint ventures that are held as part of the Group's Investment Portfolio are also measured at fair value under IFRS13. All equity investments within the Investment Portfolio are therefore accounted for on a similar, comparable basis. This is normal practice in the private equity industry and makes the Financial Statements comparable with those of similar organisations.

The Investment Portfolio includes listed and unlisted equity investments. The Investment Portfolio may also include loans and receivables, other equity instruments such as convertible notes or debentures, or other financial instruments. These assets are valued as appropriate under relevant IFRS.

(ii) Recognition and derecognition

Recognition and derecognition occurs on the date where the acquisition or sale of an investment is under a contract whose terms require the unconditional delivery or settlement of the investment.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2013

3. Accounting policies (continued)

A new investment is recognised initially at the fair value of the asset acquired. The fair value of the consideration paid includes the fair value of assets given and any liabilities incurred or assumed. The fair value of the investment acquired and the fair value of the consideration are usually, but not always, equivalent. Any difference between the fair value of the asset acquired and the fair value of the consideration paid is recognised immediately in profit or loss. Any subsequent changes in the fair value of the investment acquired are recognised in profit or loss as unrealised gains or losses. Transaction costs incurred in connection with the acquisition of investments are expensed.

(iii) Initial measurement

Listed and unlisted equity investments are designated at "fair value through profit or loss" ("FVTPL") at inception. The initial measurement of fair value equates to the fair value of consideration paid in most circumstances.

(iv) Subsequent measurement of fair value

The Directors determine the measurement of each investment within the Investment Portfolio at fair value, using the most appropriate basis. Fair value under IFRS13 is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. If such a transaction does not exist, an estimate of fair value is made by the Directors.

Listed equity investments in an active market are usually valued at the mid-price on the valuation date.

The valuation of unlisted equity investments involves judgements and estimates by the Directors. A number of different valuation methods can be used for unlisted investments. These include the cost of investment, which is normally used for recent investments, or valuing the investment in line with the price of a recent investment by a third party in an arm's length transaction. Discounts for illiquidity may be applied to investment valuations where appropriate and if allowed by IFRS.

The Group complies with all material aspects of the IPEVC Valuation Guidelines when determining what method to use to determine fair value. The IPEVC Valuation Guidelines specify the valuation methodology which is the most appropriate to use for each individual investment at each point in the investment's lifecycle. The methodologies used to determine fair value recommended by the IPEVC Valuation Guidelines include using an earnings or turnover multiple, share of net assets, the discounted cash flows ("DCF") or earnings of the underlying business, the DCFs of the investment, or a relevant industry valuation benchmark. The Directors consider all of these other valuation methodologies where appropriate.

The Directors also consider whether there are any factors that could indicate that a diminution of value in an investment has occurred, including the following:

- The performance of the investment compared to original expectations.
- Any unexpected deterioration in the cash position of the underlying business.
- Any adverse or unexpected results from drilling or exploration activities.
- External factors such as deterioration in the global economy or the relevant industry.

(v) Loans and receivables

The Investment Portfolio may include loans made to portfolio companies. These loans and receivables are recognised initially at fair value and are subsequently measured at amortised cost. Loans and receivables are assessed for impairment regularly and where there are significant indicators of impairment, are written down as necessary.

Loans may be repayable within twelve months, after twelve months, or may not have a fixed repayment date. Such loans are usually disclosed as non-current assets in the Consolidated Balance Sheet. When a loan has been made to a portfolio company, it is often the case that the loan will be extended or converted into an equity interest at the end of its official term. Therefore, despite the legal terms of any loan agreement, loans to portfolio companies are usually disclosed as non-current assets. If clear evidence exists that a specific loan will be repaid within twelve months, the balance is classified as a current asset. This is normal practice in the venture capital industry and presents more useful information to shareholders.

(vi) Fair value measurement hierarchy

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

- Listed prices (unadjusted) in active markets for identical assets or liabilities (level one).
- 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 two).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level three).

3. Accounting policies (continued)

The level in the fair value hierarchy within which the asset or liability is categorised is determined on the basis of the lowest input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into one of the three levels.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group and the Company in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the relevant conditions for recognition are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the fair value of the consideration paid over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities acquired. If the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the Consolidated Statement of Comprehensive Income. Transaction costs incurred in connection with business combinations are expensed.

Investments in associates that hold the Group's underlying investments

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The Group may hold interests in associates that do not form part of the Investment Portfolio but are instead used by the Group to carry on its business, usually as investment holding companies. These associates are accounted for using equity accounting.

Equity accounting means that investments in associates are carried in the Consolidated Balance Sheet at cost and adjusted for changes in the Group's share of associate's net assets subsequent to acquisition. The Group's share of its associates' earnings for the year is recognised in the Consolidated Statement of Comprehensive Income. The results of associate entities acquired and disposed of during the year are included from the effective dates of acquisition to the effective dates of disposal.

The Group's interest in associates is carried at an amount that reflects its share of the net assets of the associate and any goodwill identified on acquisition of the associate, net of accumulated impairment loss. The total carrying amount of associates is evaluated annually for impairment.

The most recent financial information of associates is used. Adjustments are made to the associates' financial results for material transactions and events in the intervening period. Losses of associates in excess of the Group's interest are not recognised unless there is a binding obligation to contribute to the losses.

When a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Trade and other receivables

The trade and other receivables balance may relate to balances receivable upon the exit from an investment. Trade and other receivables also includes prepayments. Trade and other receivables are recognised initially at fair value and are subsequently measured at amortised cost. A provision for impairment of trade and other receivables is made if there is sufficient evidence that the Group will not be able to collect amounts due according to the original terms.

Cash and cash equivalents

Cash and cash equivalents represent cash balances held at bank and in on demand deposits.

Trade and other payables

Trade and other payables are not interest bearing and are initially recognised at fair value and subsequently measured at amortised cost. Trade and other payables denominated in foreign currencies are translated into US\$ at the balance sheet date.

Share capital

Ordinary Shares

Ordinary Shares are classified as equity. Issued share capital is stated at the amount of the proceeds received less directly attributable share issue costs. Ordinary Shares give the holder the right to receive dividends and to vote in shareholder meetings.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2013

3. Accounting policies (continued)

Management Shares

Management Shares are classified as equity. In the event of the Company's windup, Management Shares carry the right to receive notice of, attend and vote at any general meeting of the Company, provided that no Ordinary Shares are in issue at such date. Holders of the Management Shares will only receive their nominal value once the holders of the Ordinary Shares have received the fair value of their shares. Accordingly, the holders of Management Shares do not have the right to receive nor participate in any distributions of the Company, including dividends.

Gains/losses on investments

Gains/losses realised on disposal of investments are calculated as the net proceeds of the disposal less the carrying value of the asset in the balance sheet at the date of disposal. The term "realised" is used in these Financial Statements to describe gains or losses on transactions where assets are either realised in return for cash or cash equivalents, or for other assets such as new equity interests or similar.

Unrealised movements in the fair value of investments relate to changes in the fair value of investments between the opening and closing balance sheet date. Unrealised foreign exchange gains and losses occur when investments are denominated in currencies other than US\$ and relate to the movement in exchange rates between the opening and closing balance sheet date.

Investment Portfolio revenue

Portfolio revenue is directly related to the return from investments within the Investment Portfolio. The balance includes fee income earned directly from portfolio companies, interest on loans made to portfolio companies and dividends received from portfolio companies. Investment Portfolio revenue is recognised in profit or loss when the Group's right to receive payment is established and the amount of revenue can be measured reliably.

Other income

Other income includes dividends received from entities not within the Investment Portfolio and other income not related to the Investment Portfolio. Other income is recognised in profit or loss when the Group's right to receive payment is established and the amount of income can be measured reliably.

Taxation

Taxation for the year comprises current and deferred tax. Current and deferred tax is charged or credited to the Consolidated Statement of Comprehensive Income, except to the extent that it relates to items recognised directly in equity, in which case the taxation effect is recognised in equity. There are no items recognised directly in equity in the current period, hence there are no related tax charges or credits.

Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in countries where the Company operates and generates taxable income. The Company is incorporated in Guernsey and is an 'Exempt Collective Investment Scheme' under the Income Tax (Zero-10) (Guernsey) (No 2) Law, 2007.

Deferred tax is provided for in accordance with IAS12 *Income Taxes*, providing for the tax effect of temporary differences between the carrying amount of assets and liabilities for accounting purposes and the amounts used for tax assessment. Deferred tax assets and liabilities are measured using tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill on an asset or liability in a transaction (other than in a business combination) that affects neither taxable profit nor accounting profit.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets on a net basis.

Unrecognised deferred tax assets may be recognised in the future if sufficient taxable profits become available in the relevant jurisdictions.

Earnings Per Share ("EPS")

EPS is a key performance measure for the Group. EPS is based on profit for the year divided by the weighted average number of ordinary shares in issue during the year. Diluted Earnings Per Share ("DEPS") is presented when the inclusion of potential ordinary shares has a dilutive effect on earnings per share. There are no dilutive indicators or dilutive ordinary shares in issue and as such DEPS is equal to EPS in the current year.

3. Accounting policies (continued)

Headline Earnings Per Share (“HEPS”)

HEPS is similar to EPS, except that attributable profit specifically excludes certain items, as set out in Circular 2/2013 “*Headline earnings*” (“Circular 2/2013”) issued by the South African Institute of Chartered Accountants (“SAICA”).

The gain or loss on disposal of an associate would normally be excluded from headline earnings (and HEPS). However, per Circular 2/2013, private equity companies should include gains or losses on disposal of associates in HEPS because any profit realised on the disposal of these investments is considered to be part of the trading results of private equity operations and the profit does not relate to the capital platform of the business as would normally be the case. Circular 2/2013 further explains that in this context, the choice to recognise an investment in an associate at fair value through profit or loss, instead of applying equity accounting, does not imply that the investment is part of the capital or platform of the business and should not have any impact on the decision to include the gain or loss on disposal of associates within headline earnings. Therefore where a gain or loss is made on the disposal of an associate that is part of the Investment Portfolio the item is included within headline earnings. If an associate that is part of the capital structure of the Group were to be disposed of, the arising gain or loss would be excluded from headline earnings, in line with the guidance from SAICA.

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purposes of the Group’s Financial Statements, the results and financial position of each Group company are expressed in US\$, which is the functional currency of the Company and the presentation currency for the Financial Statements.

Transactions entered into by Group companies are recorded in their functional currencies at the exchange rate on the day of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised in the income statement.

Derivatives

Derivatives are occasionally used by the Group to manage risks, usually but not exclusively, associated with foreign currency risk. The derivatives entered into usually relate to the Investment Portfolio, particularly the entering into or exiting from an investment not denominated in US\$. This risk management is normally implemented by the use of foreign currency forward contracts. The Directors also consider the use of currency swaps in certain circumstances, either to facilitate the making of new investments, or whilst raising new capital. The Group may also acquire derivatives as part of the Investment Portfolio in certain circumstances, such as convertible notes, convertible bonds or other equity derivatives.

Derivatives are recognised initially at fair value on the contract date and subsequently remeasured to the fair value at each reporting date, with changes in fair value recognised in profit or loss.

Critical accounting judgements and estimates

In the application of the Group’s accounting policies, the Directors are required to make judgements, estimates and assumptions that materially affect the reported amounts of assets, liabilities, income and expenses. The most critical accounting estimates and assumptions relate to the valuation of the Group’s portfolio of investments. Determining the fair value of the Group’s unlisted investments is both difficult and subjective. Details of the fair valuation methodologies used for each investment are set out in Note 9 *Investments*. Estimates and assumptions used are reviewed periodically and the Directors’ believe that their estimates of fair value are materially accurate.

Segmental reporting

Gemfields completed its merger with Fabergé on 28 January 2013, as described in Note 5 *Realised loss on Gemfields/Fabergé Merger*. The Group no longer holds a direct interest in Fabergé and presents segmental information for its enlarged interest in Gemfields as a single Coloured Gemstones segment. The Group’s comparative information has been reclassified to align with the current year presentation. A restated balance sheet for the prior year has not been presented as the restatement would not impact on the prior year balance sheet. No other information in the Financial Statements has been restated.

4. 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.

The Group’s segmental reporting has been revised and is now based around three Investment Platforms, PGMs, Steel Making Materials, and Coloured Gemstones, each of which is categorised as an operating segment. The Group previously reported four separate segments. Gemfields

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2013

4. Segmental reporting (continued)

completed its merger with Fabergé on 28 January 2013, as described in Note 5 *Realised loss on Gemfields/Fabergé Merger*. The Group no longer holds a direct interest in Fabergé and presents segmental information for its enlarged interest in Gemfields as a single Coloured Gemstones segment. The Group's comparative information has been amended for consistency with the revised current year presentation. A restated balance sheet for the prior year has not been presented as the restatement would not impact on the prior year balance sheet.

The Consolidated Statement of Comprehensive Income segmental information provided to the CODM for the year ended 31 December 2013 is as follows:

31 December 2013	PGMs US\$	Steel Making Materials US\$	Coloured Gemstones US\$	Unallocated US\$	Total US\$
Income					
Realised fair value loss on disposal of Fabergé equity shares	-	-	(7,952,380)	-	(7,952,380)
Realised loss on conversion of Fabergé loan to Gemfields shares	-	-	(12,027,277)	-	(12,027,277)
Unrealised fair value gains ¹	30,741,707	-	20,716,637	-	51,458,344
Unrealised fair value losses ²	-	(10,502,814)	-	-	(10,502,814)
Net segmental income/(expense)	30,741,707	(10,502,814)	736,980	-	20,975,873
Other income				-	-
Net losses on investments and income from operations					20,975,873
Expenses, net finance income, share of loss of associates and taxation				(6,286,898)	(6,286,898)
Net segmental profit/(loss)	30,741,707	(10,502,814)	736,980	(6,286,898)	14,688,975

¹ The unrealised fair value gain on the Coloured Gemstones segment of US\$20,716,637 includes an unrealised foreign exchange gain of US\$4,411,908.

² The unrealised fair value loss on the Steel Making Materials segment of US\$10,502,814 includes an unrealised foreign exchange loss of US\$5,433,310.

The Consolidated Statement of Comprehensive Income segmental information provided to the CODM for the year ended 31 December 2012 is as follows:

31 December 2012	PGMs US\$	Steel Making Materials US\$	Coloured Gemstones (restated) US\$	Unallocated US\$	Total US\$
Income					
Unrealised fair value gains ¹	8,293,290	-	-	-	8,293,290
Unrealised fair value losses ^{2,3}	-	(63,902,168)	(33,416,992)	-	(97,319,160)
Realised foreign exchange gains	1,440,847	-	-	-	1,440,847
Realised gain on Sedibelo Platinum Mines transaction	50,932,811	-	-	-	50,932,811
Realised gain on subscription for Jupiter shares	-	2,931,641	-	-	2,931,641
Impairment of Fabergé loan	-	-	(1,638,471)	-	(1,638,471)
Loan interest income	-	-	1,681,340	-	1,681,340
Net segmental income/(expense)	60,666,948	(60,970,527)	(33,374,123)	-	(33,677,702)
Other income				375,000	375,000
Net losses on investments and income from operations					(33,302,702)
Expenses, net finance income, share of loss of associates and taxation				(5,745,606)	(5,745,606)
Net segmental profit/(loss)	60,666,948	(60,970,527)	(33,374,123)	(5,370,606)	(39,048,308)

¹ The unrealised fair value gain on the PGMs segment of US\$8,293,290 consists entirely of foreign exchange.

² The unrealised fair value loss on the Steel Making Materials segment of US\$63,902,168 includes an unrealised foreign exchange gain of US\$1,977,488.

³ Two operating segments from 2012, Gemfields and Luxury Brands, have been combined as a single operating segment due to the completion of the Gemfields/Fabergé Merger. The unrealised fair value loss of US\$33,416,992 for 2012 includes a fair value gain of US\$18,255,119 on Gemfields, an unrealised foreign exchange gain of US\$1,878,219 on Gemfields and a fair value loss of US\$53,550,330 on Fabergé. See Note 5 *Realised loss on Gemfields/Fabergé Merger* for more detail.

4. Segmental reporting (continued)

The segmental information provided to the CODM for the reportable segments for the year ended 31 December 2013 is as follows:

31 December 2013	PGMs US\$	Steel Making Materials US\$	Coloured Gemstones US\$	Total US\$
<i>Investment Portfolio</i>				
Listed investments	–	30,256,997	144,361,075	174,618,072
Unlisted investments	215,237,159	–	–	215,237,159
Total segmental assets	215,237,159	30,256,997	144,361,075	389,855,231
Investments in associates, current assets and liabilities				26,191,656
Net assets				416,046,887

The comparative segmental information provided for the year ended 31 December 2012 is as follows:

31 December 2012	PGMs US\$	Steel Making Materials US\$	Coloured Gemstones (restated) US\$	Total US\$
<i>Investment Portfolio</i>				
Listed investments	–	38,106,215	59,569,151	97,675,366
Unlisted investments	184,495,452	–	33,455,874	217,951,326
Loans and receivables	–	–	50,599,070	50,599,070
Total segmental assets	184,495,452	38,106,215	143,624,095	366,225,762
Investments in associates, current assets and liabilities				35,132,150
Net assets				401,357,912

5. Realised loss on Gemfields/Fabergé Merger

Gemfields completed its merger with Fabergé on 28 January 2013. The shareholders of Fabergé (including the Group) vended their equity interests in Fabergé in return for 213,999,999 new shares in Gemfields representing approximately 40% of Gemfields' fully diluted enlarged share capital. The Group previously owned equity interests of 33% in Gemfields and 49% in Fabergé. The Group vended its shares in Fabergé into Gemfields in return for new Gemfields shares. The Group had also made certain loans to Fabergé totalling US\$50 million (excluding interest, including structuring fees). The US\$50 million loan was convertible into Fabergé shares at US\$35 per share either if the loan was not repaid by 31 August 2013, or if a transaction or corporate event occurred which affected more than 30% of Fabergé's shares in issue. The Gemfields/Fabergé Merger met the latter criterion and the Group exercised its right to convert its loan interests in Fabergé to equity (conditional upon completion of the transaction). The Group converted its loan into new Fabergé shares which were immediately vended into Gemfields in return for new Gemfields shares, also effective 28 January 2013.

The Group realised a loss for accounting purposes on completion of the Gemfields/Fabergé Merger, as follows:

	US\$
Realised fair value loss on disposal of Fabergé equity shares	
Fair value of 60,290,905 Gemfields shares receivable	25,503,494
Fair value of Fabergé equity interest	(33,455,874)
	(7,952,380)
Realised loss on conversion of Fabergé loan to Gemfields shares	
Fair value of 91,184,694 Gemfields shares receivable	38,571,793
Previous carrying value of Fabergé loan	(50,599,070)
	(12,027,277)

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2013

5. Realised loss on Gemfields/Fabergé Merger (continued)

Post completion of the transaction, the Group owns 48% of the enlarged Gemfields. The fair value of the Gemfields shares acquired at 28 January 2013 was US\$64,075,287.

There were no equivalent amounts in the comparative year ended 31 December 2012 for either the realised fair value loss on disposal of Fabergé equity shares or the realised loss on conversion of Fabergé loan to Gemfields shares.

At 31 December 2012, the terms of the Gemfields/Fabergé Merger had been agreed but the transaction had not yet completed. The valuation of the Group's interest in Fabergé at 31 December 2012 was based on the number of Gemfields shares receivable, multiplied by the prevailing Gemfields share price and exchange rate. The unrealised fair value losses included in the Consolidated Statement of Comprehensive Income for the year to 31 December 2012 were based on the difference between these valuations and the previous carrying values of these assets. This resulted in an unrealised fair value loss of US\$53,550,330 which is included within the total unrealised fair value loss of US\$119,429,968 in the year to 31 December 2012, see Note 9 *Investments* for more detail.

The Fabergé loan was assessed for impairment at 31 December 2012. The fair value of the loan (based on the number of Gemfields shares into which it would subsequently be converted), was lower than the previous carrying value of the loan, which resulted in an impairment of US\$1,638,471 in the year to 31 December 2012.

6. Realised gain on Sedibelo Platinum Mines transaction

The consolidation of the three contiguous properties of PPM, Sedibelo and Magazynskraal, in the North West Province of South Africa (the "Consolidation") was completed in the prior year. The assets were vended into Sedibelo Platinum Mines in return for new equity shares. The completion of the Consolidation enabled the IDC to complete its investment into Sedibelo Platinum Mines on 3 December 2012. The completion of the Consolidation was one of the conditions precedent for the IDC's investment. The completion of the Consolidation gave an implied fair value for the Group's 6.73% interest in Sedibelo Platinum Mines of US\$176,202,162. The Group's gain on completion was as follows:

	US\$
Fair value of net assets acquired	
Acquisition of 202,364,933 shares in Sedibelo Platinum Mines	176,202,162
Fair value of assets disposed	
Fair value of interest in Platmin	(54,896,546)
Fair value of interest in the Moepi Group	(13,373,315)
Fair value of interest in Magazynskraal	(38,477,293)
Fair value of interest in Sedibelo	(18,522,197)
	(125,269,351)
Realised gain on Sedibelo Platinum Mines transaction	50,932,811

There are no equivalent amounts in the year to 31 December 2013.

7. Realised gain on subscription for Jupiter shares

Jupiter completed a capital raising during 2012 to support the development of its assets. The Group subscribed for its full entitlement under the terms of the Jupiter Rights Offer, which was for 79,216,009 shares at a cost of AUD12,674,561. The Group received the shares on 3 September 2012. The Group's revised Jupiter shareholding was 380,236,843 shares (of 2,281,835,383 shares in issue), which maintained the Group's percentage interest in Jupiter pre and post the Jupiter Rights Offer at 16.66%.

The Group realised the following gain on the acquisition:

	Number of shares	Price per share in AUD	AUD	US\$
<i>Realised fair value gain on acquisition of Jupiter shares</i>				
Subscription price for new Jupiter shares (21 August 2012)	79,216,009	0.16	(12,674,561)	(13,002,084)
Fair value of Jupiter shares at date of receipt (3 September 2012)	79,216,009	0.20	15,843,202	16,252,605
Realised fair value gain on Jupiter acquisition			3,168,641	3,250,521

In addition, the Group entered into an economic hedge in relation to the the foreign exchange risk relating to the potential movement in the US\$/AUD foreign exchange rate between the date of commitment to acquire new shares and the date of completion. The loss on this contract was as follows:

	AUD	US\$
<i>Realised foreign exchange loss on forward contract to acquire Jupiter shares</i>		
Fair value of foreign exchange contract at date of commitment (21 August 2012)	(12,674,561)	(13,320,964)
Fair value of foreign exchange contract at completion (3 September 2012)	12,674,561	13,002,084
Realised loss on Jupiter foreign exchange contract	–	(318,880)

The Group did not enter into any other similar contracts in either the current or prior year.

8. Completion of Rights Offer

The Company completed a rights offer (the "Rights Offer") to shareholders on 25 July 2012. Shareholders had the right to subscribe for new shares, proportionate to their existing shareholdings, at ZAR2.24 per share. The Company issued 284,648,771 new shares, raising ZAR637,613,247 before foreign exchange and transaction costs. New shares were issued, increasing both share capital and share premium.

The Rights Offer did not have a financial impact on the Group in the current year.

Impact of Rights Offer in 2012

The Rights Offer raised proceeds of US\$77,241,092 in the year to 31 December 2012.

The costs associated with the Rights Offer in the year to 31 December 2012 were as follows:

	US\$
Pre-placement fee	1,519,158
Investment bank fee	500,000
Legal fees	49,009
Stock exchange costs	39,834
Bank costs	35,640
Independent reporting accountant's fee	6,055
Printing, publication, distribution and advertising expenses	38,008
	2,187,704

The Group incurred foreign exchange losses related to the Rights Offer of US\$49,655 in the year to 31 December 2012.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2013

9. Investments

The reconciliation of the Investment Portfolio from 1 January 2013 to 31 December 2013 is as follows:

Investment	Opening at 1 January 2013 US\$	Unrealised fair value gains ¹ US\$	Unrealised fair value losses ² US\$	Realised loss on Gemfields/ Fabergé Merger US\$	Additions and disposals US\$	Closing at 31 December 2013 US\$
Listed equity investments						
Gemfields	59,569,151	20,716,637	–	–	64,075,287	144,361,075
Jupiter	38,106,215	–	(10,502,814)	–	2,653,596	30,256,997
	97,675,366	20,716,637	(10,502,814)	–	66,728,883	174,618,072
Unlisted equity investments						
Fabergé	33,455,874	–	–	(7,952,380)	(25,503,494)	–
Sedibelo Platinum Mines	184,495,452	30,741,707	–	–	–	215,237,159
	217,951,326	30,741,707	–	(7,952,380)	(25,503,494)	215,237,159
Loans and receivables						
Fabergé – US\$50 million loan	50,599,070	–	–	(12,027,277)	(38,571,793)	–
	50,599,070	–	–	(12,027,277)	(38,571,793)	–
Total	366,225,762	51,458,344	(10,502,814)	(19,979,657)	2,653,596	389,855,231

¹ The unrealised fair value gain on the Gemfields investment of US\$20,716,637 includes an unrealised foreign exchange gain of US\$4,411,908.

² The unrealised fair value loss on the Jupiter investment of US\$10,502,814 includes an unrealised foreign exchange loss of US\$5,433,310.

The net gain on financial assets carried at fair value through profit or loss (i.e. listed and unlisted equity investments) during 2013 is US\$33,003,150. The net loss on loans and receivables during 2013 is US\$12,027,277. The fair value of loans and receivables equate to their carrying value at 31 December 2013.

9. Investments (continued)

The reconciliation of the Investment Portfolio from 1 January 2012 to 31 December 2012 is as follows:

Investment	Opening at 1 January 2012 US\$	Unrealised fair value gains US\$	Unrealised fair value losses US\$	Realised foreign exchange gain US\$	Additions and disposals US\$	Impairment of Fabergé loan US\$	Accrued interest & structuring fee US\$	Closing at 31 December 2012 US\$
Listed equity investments								
Gemfields ¹	39,435,813	20,133,338	–	–	–	–	–	59,569,151
Jupiter ²	85,755,778	–	(63,902,168)	–	16,252,605	–	–	38,106,215
	125,191,591	20,133,338	(63,902,168)	–	16,252,605	–	–	97,675,366
Unlisted equity investments								
Fabergé	87,006,204	–	(53,550,330)	–	–	–	–	33,455,874
Moepi Group ³	13,373,315	–	–	–	(13,373,315)	–	–	–
Richtrau ³	36,621,344	–	–	–	(36,621,344)	–	–	–
Platmin ³	53,455,699	–	–	1,440,847	(54,896,546)	–	–	–
Sedibelo Platinum Mines ^{3,4}	–	8,293,290	–	–	176,202,162	–	–	184,495,452
	190,456,562	8,293,290	(53,550,330)	1,440,847	71,310,957	–	–	217,951,326
Loans and receivables								
Fabergé – US\$25 million loan	22,436,091	–	–	–	(22,942,061)	–	505,970	–
Fabergé – US\$50 million loan	–	–	–	–	51,062,172	(1,638,471)	1,175,369	50,599,070
	22,436,091	–	–	–	28,120,111	(1,638,471)	1,681,339	50,599,070
Total	338,084,244	28,426,628	(117,452,498)	1,440,847	115,683,673	(1,638,471)	1,681,339	366,225,762

¹ The unrealised fair value gain on the Gemfields investment of US\$20,133,338 includes an unrealised foreign exchange gain of US\$1,878,219.

² The unrealised fair value loss on the Jupiter investment of US\$63,902,168 includes an unrealised foreign exchange gain of US\$1,977,488.

³ The Group vended its interests in Moepi Group, Richtrau (Magazynskraal) and Sedibelo into Sedibelo Platinum Mines for new shares during 2012, see Note 6 Realised gain on Sedibelo Platinum Mines transaction for more details.

⁴ The unrealised fair value gain on the Sedibelo Platinum Mines investment of US\$8,293,290 consists entirely of foreign exchange.

The net loss on financial assets carried at fair value through profit or loss (i.e. listed and unlisted equity investments) during 2012 is US\$87,585,023. The net loss on loans and receivables during 2012 is US\$1,638,471. The fair value of loans and receivables equate to their carrying value at 31 December 2012.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2013

9. Investments (continued)

The valuation methodologies and other details for the Group's investments at 31 December 2013 are detailed below. The JSE requires certain further information to be disclosed on the Group's ten largest investments. Fewer than ten separate investments were held at current and prior balance sheet dates; accordingly the following details are included for each investment in the Investment Portfolio.

Sedibelo Platinum Mines Limited – equity

Nature of investment The Group holds an equity interest in Sedibelo Platinum Mines, a producer of PGMs with interests in the Bushveld Complex in South Africa.

Fair value methodology Directors' estimate.

Other considerations The Directors have estimated that the value of Sedibelo Platinum Mines is US\$3.2 billion; the Group's indirect 6.73% interest has therefore been valued at US\$215 million.

The Directors have considered a range of sources in determining the valuation of Sedibelo Platinum Mines. The primary source was a competent person's report prepared by an independent third party. The competent person's report includes discounted cash flow ("DCF") analysis to value Sedibelo Platinum Mines' key assets and includes a range of valuations. The Directors then utilised more recent forecasts for PGM prices over the life of the asset resulting in a discount to the competent person's valuation. The DCF analysis is based on a large number of predictions and uncertainties including forecast PGM prices, costs, exchange rates and the consolidated mine plan. Changing any of these assumptions may materially affect the implied valuation. The Directors have also considered the recent financial results from Sedibelo Platinum Mines as well as a number of macroeconomic questions, including global growth prospects and the likely levels of global demand for raw materials and PGMs in particular. Each of these factors will have an impact on the likely valuation of Sedibelo Platinum Mines in its IPO, which is expected to occur once market conditions are favourable. These considerations enabled the Directors to determine that a valuation of US\$3.2 billion is reasonable. The valuation methodology complies with IFRS and the IPEVC Valuation Guidelines but should be treated with caution.

The Consolidation of the three contiguous properties of PPM, Sedibelo and Magazynskraal was completed on 3 December 2012 and is described in Note 6 *Realised gain on Sedibelo Platinum Mines transaction*. The completion of the Consolidation and the investment by the IDC gave an implied fair value for the Group's indirect interest of US\$176 million, which was used to value the Group's interest in previous reporting periods. The Directors note that the Group's previous valuation was in the same quantum as the current valuation and consider a valuation of US\$215 million to reasonably represent fair value.

The Group's cash cost of investment for Sedibelo Platinum Mines is approximately US\$123 million. The Group's first PGM investment was the acquisition of an interest in the Moepe Group made in August 2008.

Gemfields plc – equity

Nature of investment The Group holds an equity interest in Gemfields, a leading international coloured gemstone producer, primarily focussed on emeralds and rubies. Gemfields completed the acquisition of 100% of Fabergé on 28 January 2013. Gemfields is listed on AIM.

The Group owns a see-through interest of approximately 48% in Gemfields at 31 December 2013.

Fair value methodology Listed share price (Gemfields).

The Group's interest in Gemfields is valued at the 31 December 2013 mid-price of GBP0.3375 per share, translated at the closing rate of US\$1/GBP0.6053.

Other considerations The Group's cost of investment is approximately US\$119 million and the Group's initial investment was made in October 2007.

9. Investments (continued)

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. Jupiter was listed on the ASX at 31 December 2013.
Fair value methodology	Listed share price (Jupiter). The Group's interest in Jupiter is valued at the 31 December 2013 mid-price of AUD0.0805 per share, translated at the closing rate of US\$1/AUD1.1202, resulting in a valuation of US\$30,256,997. The Group owned an effective 18.45% interest in Jupiter at 31 December 2013.
Other considerations	Jupiter delisted from the ASX effective 10 January 2014. The closing mid-price per Jupiter share on delisting was AUD0.0810 which, converted at the closing rate of US\$1/AUD1.1207, would result in a valuation of US\$30,431,346, which is materially similar to the valuation that has been used (US\$30,256,997). The directors of Jupiter have stated that they believe that Jupiter's previous share price did not adequately reflect the intrinsic value of Jupiter and that this was one of their key considerations when agreeing to delist Jupiter. The Directors agree that the intrinsic value of Jupiter may be higher than US\$30,256,997 and believe that it may be possible to use a higher valuation in the future, subject to sufficient and appropriate evidence. The valuation methodology complies with IFRS and the IPEVC Valuation Guidelines but should be treated with caution. The Group's cash cost of investment is approximately US\$29 million. The Group's initial investment into Jupiter was made in May 2008.

10. Structuring fee and other income

	2013 US\$	2012 US\$
Fabergé loan structuring fee	–	375,000
	–	375,000

11. Investment Manager's benefits

Investment Manager

Pallinghurst (Cayman) GP L.P. (the "Investment Manager") was appointed on 4 September 2007. The Investment Manager provides investment advisory and management services to the Group and to certain other Pallinghurst Co-Investors as detailed in the *Overview* section.

The Partners of the Investment Manager are the following individuals:

- Brian Gilbertson
- Arne H. Frandsen
- Andrew Willis
- Sean Gilbertson
- Priyank Thapliyal

The Partners of the Investment Manager have over 100 years of collective experience in the resources sector. They have an in-depth knowledge of assets, companies, people and trends. They are recognised for their strategic insight and vision, are highly regarded by international investors, and are renowned for pioneering innovative transactions.

The Investment Manager is entitled to an Investment Manager's Benefit ("IMB") each accounting period. The basis for calculation of the IMB changed subsequent to 14 September 2012, the end of the Investment Period¹. Prior to the end of the Investment Period, the IMB was calculated as 1.5% per annum of the amount subscribed for in the Company. Since the end of the Investment Period, the basis for calculation is 1.5% per annum of the lower of either the aggregate acquisition cost, or the fair value, of the Group's unrealised investments (based on the Group's most recent published financial statements).

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2013

11. Investment Manager's benefits (continued)

The total charge to the Consolidated Statement of Comprehensive Income for the IMB during 2013 was US\$5,220,013 (2012: US\$5,102,237). It is not possible to accurately predict the future annualised IMB as the calculation is affected by the valuation of the Group's investments and by any investment acquisitions or disposals. The IMB prepaid for the first quarter of 2014 is US\$1,106,930 (the IMB prepaid for the first quarter of 2013 was US\$1,351,843).

Performance Incentive

Subject to certain conditions, the Investment Manager is entitled to a Performance Incentive related to the performance of the Group's investments. The excess of the total funds available for return to shareholders, over the total amount subscribed for in the Company, will be split between the shareholders (80%) and the Investment Manager² (20%). This is subject to a Hurdle³ of 8% per annum; until the Hurdle is reached, the Investment Manager is not entitled to any Performance Incentive. The Investment Manager would only receive the Performance Incentive if aggregate returns to shareholders are in excess of 8% per year.

The Directors assess whether a provision for the Performance Incentive should be made at the end of each reporting period. The Directors also assess whether the provision should be accounted for as a current or non-current liability, based on their best assessment of the likely timing of any outflow. No provision for the Performance Incentive has been made at either 31 December 2013 or 31 December 2012.

The provision for the Performance Incentive is calculated as follows:

- (a) The Group's Aggregate Proceeds⁴ are allocated entirely to shareholders until such time as shareholders have received an aggregate amount of the Company's Funds⁵ plus the Hurdle.
- (b) Thereafter, the Investment Manager is allocated all further Aggregate Proceeds until it has been allocated an amount equal to 25% of the Hurdle.
- (c) Aggregate Proceeds are then allocated 80% to Investors and 20% to the Investment Manager.

¹ The Investment Period commenced on 14 September 2007 and ended on 14 September 2012.

² Any Performance Incentive payment may be made to the Investment Manager or an affiliate, at the election of the Investment Manager.

³ The Hurdle is calculated as 8% of the Company's Funds, compounded annually and calculated daily.

⁴ Aggregate Proceeds are equal to the Group's NAV after adding back any provision for the Performance Incentive. For this calculation, it is assumed that investments will be disposed of at their current fair value, with no associated transaction costs, and that all proceeds will be distributed immediately. The Group's NAV, after adding back any provision for the Performance Incentive, is therefore the best estimate of the total amount available for distribution.

⁵ The Company's Funds are equal to the sum of the Company's share capital and share premium.

12. Operating expenses

	2013 US\$	2012 US\$
Amounts paid to Auditor	124,597	132,571
Independent Valuer's fees	32,771	72,136
Other legal and professional fees	77,533	–
Directors' fees	120,331	100,948
Administration costs	489,691	418,028
Listing, sponsor and regulatory filing fees	49,740	82,905
	894,663	806,588

13. Finance income

	2013 US\$	2012 US\$
Interest received on bank deposits	31,895	281,198
	31,895	281,198

14. Investments in associates

A reconciliation of the net assets of the Group's principal associates is as follows:

Entity	Rox Conduit Limited	Rox Limited	Pallinghurst Kalahari (Mauritius) Limited	Pallinghurst Ivy Lane Capital Limited	Pallinghurst Investor Consortium (Pty) Ltd	Other	Total
<i>Country of incorporation</i>	Cayman Islands US\$	Cayman Islands US\$	Mauritius US\$	Mauritius US\$	South Africa US\$	US\$	US\$
At 1 January 2013	59,815	819,537	–	950,144	–	106,745	1,936,241
(Loss)/profit for the year	(59,815)	(297,282)	–	226,501	–	(93,089)	(223,685)
Amounts invested in associates	–	–	–	–	–	62,899	62,899
Distribution of Richland Resources shares	–	(87,723)	–	–	–	–	(87,723)
Amounts returned from associates	–	(434,532)	–	–	–	–	(434,532)
At 31 December 2013	–	–	–	1,176,645	–	76,555	1,253,200

A reconciliation of the net assets of the Group's principal associates at 31 December 2012 is as follows:

Entity	Rox Conduit Limited	Rox Limited	Pallinghurst Kalahari (Mauritius) Limited	Pallinghurst Ivy Lane Capital Limited	Pallinghurst Investor Consortium (Pty) Ltd	Other	Total
<i>Country of incorporation</i>	Cayman Islands US\$	Cayman Islands US\$	Mauritius US\$	Mauritius US\$	South Africa US\$	US\$	US\$
At 1 January 2012	124,941	768,715	(109,248)	21,257,603	(1,020,374)	46,189	21,067,826
(Loss)/profit for the year	(65,126)	50,822	4,357	(1,785,262)	2,876,323	38,827	1,119,941
Transfers	–	–	–	(18,522,197)	18,522,197	–	–
Amounts invested in associates	–	–	120,000	–	–	21,729	141,729
Decrease in investments in associates	–	–	(15,109)	–	(20,378,146)	–	(20,393,255)
At 31 December 2012	59,815	819,537	–	950,144	–	106,745	1,936,241

The Group's share of the aggregated assets and liabilities and the net (loss)/profit of the Group's principal investments in associates were as follows:

	Rox Conduit Limited US\$	Rox Limited US\$	Pallinghurst Kalahari (Mauritius) Limited US\$	Pallinghurst Ivy Lane Capital Limited US\$	Pallinghurst Investor Consortium (Pty) Ltd US\$	Other US\$	Total US\$
2013							
(Loss)/profit for the year	(59,815)	(297,282)	–	226,501	–	(93,089)	(223,685)
Balance sheet:							
Assets	–	–	–	1,176,645	–	98,321	1,274,966
Liabilities	–	–	–	–	–	(21,766)	(21,766)
Net assets	–	–	–	1,176,645	–	76,555	1,253,200

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2013

14. Investments in associates (continued)

	Rox Conduit Limited US\$	Rox Limited US\$	Pallinghurst Kalahari (Mauritius) Limited US\$	Pallinghurst Ivy Lane Capital Limited US\$	Pallinghurst Investor Consortium (Pty) Ltd US\$	Other US\$	Total US\$
2012							
(Loss)/profit for the year	(65,126)	50,822	4,357	(1,785,262)	2,876,323	38,827	1,119,941
<i>Balance sheet:</i>							
Assets	88,052	819,537	–	950,144	–	114,451	1,972,184
Liabilities	(28,237)	–	–	–	–	(7,706)	(35,943)
Net assets	59,815	819,537	–	950,144	–	106,745	1,936,241

The Group previously held an interest of 18.56% in Pallinghurst Investor Consortium (Pty) Ltd. This interest was below 20%, however the Group was able to exert significant influence over Pallinghurst Investor Consortium and therefore equity accounted for its interest. The other shareholders in Pallinghurst Investor Consortium were other Pallinghurst Co-Investors; each shareholder, including the Group, was able to exert significant influence over their shareholding, as the Pallinghurst Co-Investors collectively owned interests in all of the share capital of Pallinghurst Investor Consortium, see *About the Group* for more detail. The Group divested of its interest in Pallinghurst Investor Consortium in return for shares in Sedibelo Platinum Mines during 2012. The Group's holdings in other associates are all above 20%.

The Group's associates are all investment holding companies, and accordingly do not earn any revenue or other income, other than, in some instances, finance income. All associates' financial year ends are 31 December. The fair value of each associate is considered to be equal to the consolidated net asset value. None of the associates are listed on a stock exchange. There are no significant restrictions or regulatory requirements which could impact on the ability of any of the Group's associates to transfer funds, such as dividends or repayment of loans, back to the Company. No commitments have been made to the Group's equity accounted associates.

15. Tax

	2013 US\$	2012 US\$
Current tax	4,461	–
Deferred tax	–	–
Tax expense	4,461	–

The Company is exempt from Guernsey income tax under the Income Tax (Zero-10) (Guernsey) (No 2) Law, 2007 and pays an annual exemption fee of £600 which is included in operating costs. Where applicable, taxation for other jurisdictions is calculated at the relevant prevailing tax rates.

The tax charge for the year reconciles to the profit per the Consolidated Statement of Comprehensive Income as follows:

	2013 US\$	2012 US\$
Profit/(loss) before tax	14,693,975	(39,048,308)
Tax at the Guernsey tax rate of 0% (2012: 0%)	–	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	4,461	–
Tax expense for the year	4,461	–

The Group's effective tax rate is 0.03% (2012: 0%).

No amounts relating to tax have been recognised either in other comprehensive income, or directly in equity. The Group has not recognised any deferred tax assets in either the current or prior year. Deferred tax assets and liabilities may be offset where the Group has a legally enforceable right to do so. No such offsetting has occurred in the current or prior years.

15. Tax (continued)

At the balance sheet date, the Group had incurred fair value losses on its investments of US\$79,859,745 (2012: US\$100,297,096). No deferred tax asset has been recognised in relation to these temporary differences as it is not considered probable that there will be future taxable profits available, in the relevant jurisdictions, for the Group to utilise these temporary differences. The temporary differences may be carried forward indefinitely. Temporary differences relating to the unremitted earnings of overseas subsidiaries and associates are not significant. The Group had no other tax losses or credits at the year end.

16. Trade and other receivables

	2013 US\$	2012 US\$
Prepaid Investment Manager's Benefit	1,106,930	1,351,843
Other prepayments	35,887	27,444
Other amounts receivable	8,925	14
	1,151,742	1,379,301

17. Trade and other payables

	2013 US\$	2012 US\$
Audit fee accrual	101,440	100,715
Administration costs payable	44,344	32,638
Accrual for Independent Valuer's fee	17,997	25,991
Accrual for Directors' fees	12,500	–
Other payables	1,964	–
	178,245	159,344

18. Share capital

Authorised share capital

	2013 US\$	2012 US\$
Ten Management Shares of US\$1 each	10	10
999,000,000 Ordinary Shares of US\$0.00001 each	9,990	9,990
	10,000	10,000

Issued share capital

	2013 US\$	2012 US\$
Two Management Shares of US\$1 each	2	2
760,452,631 Ordinary Shares of US\$0.00001 each	7,604	7,604
	7,606	7,606

Ordinary Shares

The rights attaching to the Group's Ordinary Shares are articulated in Note 3 *Accounting policies*. The Group completed a Rights Offer during the prior year, see Note 8 *Completion of Rights Offer* for detail.

Management Shares

The rights attaching to the Group's Management Shares are articulated in Note 3 *Accounting policies*. The Management Shares are not listed on the JSE or BSX. No Management Shares have been issued or redeemed in the current or prior year.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2013

19. Share Premium

	2013 US\$	2012 US\$
Opening	375,227,145	300,226,258
Rights offer completed in 2012 – issue of shares	–	77,238,246
Rights offer completed in 2012 – costs	–	(2,187,704)
Rights offer completed in 2012 – foreign exchange losses	–	(49,655)
Closing	375,227,145	375,227,145

20. Cash outflows from operations

	Notes	2013 US\$	2012 US\$
Net profit/(loss) after tax		14,688,975	(39,048,308)
Realised fair value loss on disposal of Fabergé equity	5	7,952,380	–
Realised loss on conversion of Fabergé loan to Gemfields shares	5	12,027,277	–
Impairment of Fabergé loan	5	–	1,638,471
Realised gain on Sedibelo Platinum Mines transaction	6	–	(50,932,811)
Realised loss on Jupiter foreign exchange contract	7	–	318,880
Realised fair value gain on Jupiter shares	7	–	(3,250,521)
Unrealised fair value gains	9	(51,458,344)	(31,844,963)
Unrealised fair value losses	9	10,502,814	119,429,986
Unrealised fair value loss on Other Investments ¹		30,183	–
Tax expense	15	4,461	–
Accrued interest		–	(1,681,340)
Foreign exchange gain on cash balances		(24,029)	–
Foreign exchange loss on cash balances		–	1,237,920
Finance income		(31,895)	(281,198)
Share in loss/(profit) of associates		223,685	(1,119,941)
Operating cash flows before movements in working capital		(6,084,493)	(5,533,825)
Decrease/(increase) in trade and other receivables		227,559	(199,569)
Increase/(decrease) in trade and other payables		18,901	(44,297)
Cash generated by/(used in) operations		246,460	(243,866)
Tax paid	15	(4,461)	–
Net cash outflows from operations		(5,842,494)	(5,777,691)

¹ The unrealised fair value loss on Other Investments includes a foreign exchange gain of US\$3,915.

21. Financial instruments and financial risk management

The Group's capital structure

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern while taking advantage of strategic opportunities in order to provide sustainable returns for shareholders.

The Group's capital mostly consists of equity shares. There are also two Management Shares. The Company's articles of association restrict borrowing to 30% of total assets. The Group currently has no borrowing or borrowing facilities and the Directors therefore do not formally monitor the Group's gearing ratio. The Group is not subject to any external capital requirements. No dividends have been paid out to shareholders since incorporation. No changes have been made to the Group's capital management objectives, policies or procedures during either 2013 or 2012.

Significant accounting policies

Note 3 *Accounting policies* states the Group's accounting policy for initial recognition and subsequent remeasurement for each class financial asset, financial liability and equity instrument.

21. Financial instruments and financial risk management (continued)

Analysis of financial assets and liabilities

	2013 US\$	2012 US\$
Financial assets		
Cash and cash equivalents	23,907,419	31,975,952
Fair Value Through Profit or Loss		
<i>Investment Portfolio</i>		
Listed investments	174,618,072	97,675,366
Unlisted investments	215,237,159	217,951,327
Loans and receivables		
<i>Investment Portfolio</i>		
Loans and receivables	-	50,599,070
Other loans and receivables	-	14
Financial liabilities		
Other financial liabilities – amortised cost	(178,245)	(159,344)

The methodologies used to determine the fair value of the Group's investments are based on the IPEVC Valuation Guidelines and comply with IFRS. The specific methodologies for each investment are disclosed more fully in Note 9 *Investments*.

On occasion, the Group makes loans to investments within the Investment Portfolio. These investments may be unlisted and may not be assessed regularly by external credit rating agencies, meaning that no formal credit rating exists. Loans to investments are usually measured at amortised cost, less any provision for impairment. Other loans and receivables reflect interest receivable balances within the Group; where no credit losses are anticipated, the carrying value equates to fair value.

The carrying value of other financial liabilities held at amortised cost equated to fair value, due to the short-term maturities of these instruments. The Group did not hold any financial liabilities carried at FVTPL during the year.

There have been no reclassifications between categories of financial assets during 2013 (2012: no reclassifications).

Financial instruments and risk profile

The Group is exposed in varying degrees to a variety of financial instrument related risks. The Directors monitor each of these risks, and an approved risk management policy is in place. The types of risk exposure and quantification of the level of exposure in the Group's Consolidated Balance Sheet is provided as follows:

- Market risk (including currency risk, interest rate risk, price risk and commodity risk).
- Credit risk.
- Liquidity risk.

The Group does not trade in derivatives, nor does it enter into derivative financial instruments for speculative purposes. There are currently no open derivative positions within the Group.

MARKET RISK

The significant market risks affecting the Group are currency risk, interest rate risk, price risk and commodity risk. These risks mostly relate to the investments within the Investment Portfolio, which are carried at fair value and are often denominated in foreign currencies.

The sensitivity analyses disclosed below show the potential impact of possible changes in relevant foreign exchange rates, interest rates and listed/unlisted equity prices on the Group's financial position at the year end. The analyses have been carried out by applying reasonable possible movements in the relevant metrics to the year end balance for the relevant financial instrument, presuming that the balance stayed the same throughout 2013. No changes have been made to the methodologies used to carry out the sensitivity analyses since the prior year. The only relevant assumption that has been made is that all sensitivities impacting the Consolidated Statement of Comprehensive Income also impact equity.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2013

21. Financial instruments and financial risk management (continued)

There has been no change to the Group's exposure to market risks or the manner in which these risks are managed or measured during the year other than as described below.

Currency risk

The Group undertakes transactions and holds assets and liabilities in currencies other than the US\$ and is therefore exposed to currency risk. The Group has entered into various equity and loan investments in currencies other than the US\$. These balances are translated at the end of each reporting period, and the related foreign exchange gain or loss is included in the Consolidated Statement of Comprehensive Income. The Directors consider the denomination of each investment as part of the initial decision as to whether to invest in an asset.

The Group's policy is to hold all cash balances in US\$ at all times, other than when allocated for a specific investment or for specific, material expenses. Cash balances are translated into a currency other than US\$ only when an outflow of cash is imminent, or if required for legal or similar reasons. The Group may occasionally hold balances in currencies other than the US\$ for a material investment which is considered likely but is not yet certain, giving rise to potential foreign exchange risk if the investment does not occur and the balance is translated back into US\$ at a different exchange rate. Alternatively, for specific material cash outflows (which would usually be for either an investment or expenses), the Group may choose to enter into an appropriate hedging strategy, such as a forward contract or option, to minimise the Group's foreign exchange exposure. The Group does not usually designate these derivatives as hedges, or apply hedge accounting; gains and losses on both the derivative and the hedged item will usually offset naturally within the Consolidated Statement of Comprehensive Income.

Exposure of financial assets and liabilities to currency risk

Financial assets and liabilities at 31 December 2013:

Currency ¹	Investments at FVTPL US\$	Loans and receivables US\$	Cash and cash equivalents US\$	Total financial asset exposure to currency risk US\$	Financial liabilities at amortised cost US\$	Total financial liability exposure to currency risk US\$
US\$	–	–	23,873,025	23,873,025	(178,245)	(178,245)
GBP	144,361,075	–	25,713	144,384,788	–	–
ZAR	215,237,159	–	1	215,237,160	–	–
EUR	–	–	8,341	8,341	–	–
AUD	30,256,997	–	339	30,257,336	–	–
	389,855,231	–	23,907,419	413,760,650	(178,245)	(178,245)

¹ Currency is the functional currency in which each class of financial asset is denominated. The quantitative values disclosed above are in US\$.

Financial assets and liabilities at 31 December 2012:

Currency ¹	Investments at FVTPL US\$	Loans and receivables US\$	Cash and cash equivalents US\$	Total financial asset exposure to currency risk US\$	Financial liabilities at amortised cost US\$	Total financial liability exposure to currency risk US\$
US\$	33,455,874	50,599,070	31,820,458	115,875,402	(159,344)	(159,344)
GBP	59,569,151	–	4,077	59,573,228	–	–
ZAR	184,495,453	–	109,882	184,605,335	–	–
EUR	–	–	41,188	41,188	–	–
AUD	38,106,214	–	347	38,106,561	–	–
	315,626,692	50,599,070	31,975,952	398,201,714	(159,344)	(159,344)

¹ Currency is the functional currency in which each class of financial asset is denominated. The quantitative values disclosed above are in US\$.

21. Financial instruments and financial risk management (continued)

Currency risk sensitivity analysis

The Group's investments are denominated in various currencies. The value of those currencies fluctuates against the US\$ causing the group to incur unrealised foreign exchange gains and losses on its investments each reporting period. These foreign exchange gains and losses are included within fair value gains and losses on investments in the Consolidated Statement of Comprehensive Income. In addition, the Group may hold certain cash balances in currencies other than the US\$.

The principal non-functional currencies to which the Group is exposed are the British pound sterling, South African rand and the Australian dollar. Based on the Group's net financial assets and liabilities at 31 December 2013, a weakening of the US\$ against the currencies illustrated in the following table, with all other variables held constant, would have affected result profit after tax, and equity as follows:

31 December 2013 Currency movement	Profit after tax US\$	Equity US\$
Movement of 2.25% in US\$/GBP	3,248,703	3,248,703
Movement of 11.50% in US\$/ZAR	24,752,273	24,752,273
Movement of 0.50% in US\$/EUR	42	42
Movement of 7.20% in US\$/AUD	2,178,528	2,178,528

At 31 December 2012, a weakening of the US\$ against the following currencies, with all other variables held constant, would have affected profit after tax, and equity as follows:

31 December 2012 Currency movement	Profit after tax US\$	Equity US\$
Movement of 4.50% in US\$/GBP	2,680,795	2,680,795
Movement of 5.00% in US\$/ZAR	9,230,267	9,230,267
Movement of 1.80% in US\$/EUR	741	741
Movement of 1.20% in US\$/AUD	457,279	457,279

The Group's financial asset and liability profile does not remain constant and these sensitivities should be used with care.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to interest rate risk on its cash balances. In addition, the Group may make interest bearing loans to its investments; no such loans were outstanding at 31 December 2013.

The Group's current treasury policy is to invest cash at floating rates of interest and to maintain cash reserves in short-term investments which are for a maximum of one year and are usually for shorter time periods than that. All the Group's cash balances are either accessible on demand, or with a notice period of up to 32 days. This maintains the Group's liquidity levels whilst also ensuring a return for shareholders on uninvested cash. During the current and prior year, all uninvested cash was accessible either on demand, or shortly afterwards.

The Group may make loans to its investments, in either US\$ or relevant local currencies. These loans are usually based on the relevant national inter-bank rates and accordingly any changes in these interest rates would have an impact on the Consolidated Statement of Comprehensive Income. The Group may make non-interest bearing loans to companies within the Investment Portfolio in certain circumstances.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2013

21. Financial instruments and financial risk management (continued)

An analysis of the expected maturity of the Group's financial assets at the balance sheet date is shown below. Expected maturities are usually based on contractual maturities.

	Repayable within one month US\$	Repayable within one to six months US\$	Repayment not anticipated ¹ US\$	Total US\$
31 December 2013				
Cash and cash equivalents	23,907,419	–	–	23,907,419
Loans and receivables	–	–	–	–
	23,907,419	–	–	23,907,419
31 December 2012				
Cash and cash equivalents	31,971,929	4,023	–	31,975,952
Loans and receivables	–	–	50,599,070	50,599,070
	31,971,929	4,023	50,599,070	82,575,022

¹ The Group had entered into a transaction to vend its interest in Fabergé for new Gemfields equity share at 31 December 2012 and the Group's loan to Fabergé was converted to equity during 2013. See Note 5 Realised loss on Gemfields/Fabergé Merger for more details.

Interest rate risk – sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for the Group's financial instruments at the balance sheet date. When the Directors consider the impact of changes in interest rates on the Group, a 0.5% increase or decrease is used for analysis. The Directors consider this to be a reasonably possible change in interest rates in the current interest rate environment.

If interest rates had been 0.5% higher/lower, the Group's closing cash balance had been unchanged throughout the year and all other variables were held constant, the Group's net profit for the year ended 31 December 2013 would have increased/decreased by US\$119,537 (net loss for the year ended 31 December 2012 would have increased/decreased by US\$159,878 (restated) (prior year analysis excludes the loan to Fabergé outstanding at 31 December 2012)).

None of the Group's financial liabilities were interest bearing at the balance sheet date.

Price risk

Price risk is the risk that the price for listed investments fluctuates with a corresponding impact on the Consolidated Statement of Comprehensive Income. The Directors' valuations for unlisted investments are also likely to increase or decrease over time. These changes will be linked to the performance of the underlying investments. The performance of the Group's investments could be affected by a number of factors, as articulated in *Principal Risks and Uncertainties*. The Group's investments, including those subject to price risk, are set out in Note 9 *Investments*, along with the valuation methodologies for each investment.

Price risk – sensitivity analysis

The fair value of each of the Group's listed and unlisted investments could vary significantly from period to period for many different reasons. The sensitivity analyses below have been determined based on the Group's exposure to equity price risk at the reporting date:

- If the valuations of the Group's unlisted investments had been 25% lower or higher, the impact on the Consolidated Statement of Comprehensive Income would have been US\$53,809,290 (2012: US\$54,487,832).
- If the valuations of the Group's listed investments had been 25% lower or higher, the impact on the Consolidated Statement of Comprehensive Income would have been US\$43,654,518 (2012: US\$24,418,841).

All movements in the fair values of financial assets and liabilities affect profit or loss; no movements are accounted for directly in equity. The Directors believe that disclosure of a 25% decrease/increase in the fair values of the Group's investments is reasonably possible and presents relevant information to shareholders.

21. Financial instruments and financial risk management (continued)

Other price risk disclosures

The price risk sensitivity analysis above may not be fully representative of the risks the Group is subject to, for reasons including those set out below:

- The Group's unlisted investments are illiquid and there are no regular transactions in these shares. Whilst the Group's valuations do attempt to take into account the possible illiquidity in unlisted investments, it may be the case that it is difficult to exit the Group's investments at the valuations as stated in the Consolidated Balance Sheet due to a shortage of willing buyers.
- The Group owns significant interests in some of its listed equity investments, plus other Pallinghurst Co-Investors hold further significant interests. This may affect the liquidity of these equities. As such, if the Group wished to fully divest of its interest in any specific investment, it may not be possible to realise the current fair values as recognised in the Consolidated Balance Sheet. Conversely, the amounts realised on disposal may be higher than the current balance sheet valuation. The Directors do not attempt to formally hedge the risk that a forced exit from an investment may result in a lower realised valuation than the carrying amount. However, the Directors believe that investment valuations included in the Consolidated Balance Sheet give a reasonable representation of fair value.

Commodity risk

The Group has significant investments in mining assets and changes in commodity prices are a key risk to the business. However, the Group does not consolidate any mining assets or hold any physical commodities on its balance sheet, so commodity price changes have no direct impact on the Financial Statements. The impact of commodity prices is therefore omitted from this analysis (as it is not possible to quantify the impact). Nonetheless, users of the Financial Statements should be aware that commodity price movements, particularly of PGMs, manganese and iron ore, and coloured gemstone prices, are likely to impact on the valuation of each of the Group's investments.

CREDIT RISK

Credit risk is the risk of loss due to a debtor's non-payment or the failure of counterparties (usually banks) where cash balances are held. The Group may make loans to investments within the Investment Portfolio, for example, to fund short-term working capital requirements. These loans are often material and the non-payment of amounts due from these investees could have a material impact on the Group. The Group had not made any loans to its investments at 31 December 2013 and its credit risk is related primarily to the Group's cash balance, and trade and other receivables. At 31 December 2012, the Group had made a loan to Fabergé of US\$50 million (excluding arrangement fees and interest). Per the terms of the Gemfields/Fabergé Merger, this loan was converted into Fabergé shares which were vended into Gemfields for new Gemfields equity shares, effective 28 January 2013. See Note 5 *Realised loss on Gemfields/Fabergé Merger* for more details.

The Group holds materially all of its cash balances with two counterparties. A substantial element of the Group's cash is held with Deutsche Bank International Limited (Guernsey branch), which is an indirect subsidiary of Deutsche Bank Group ("Deutsche"). A further substantial element of the Group's cash is held with HSBC Bank Plc ("HSBC"). The Group also holds certain cash balances with Investec Bank (Channel Islands) Limited, a subsidiary of Investec Bank plc ("Investec") and various other counterparties.

The trade and other receivables balance usually relates to balances receivable upon the exit from an investment and as such is concentrated into a small number of counterparties. The Directors monitor these counterparties closely and believe that the danger of default in these situations is low. If an exit from an investment occurs, the counterparty's creditworthiness is assessed before any commitment to sell is made. The Group does not carry out trading activities other than entering into and exiting from investments and there are no other material trade and other receivables. As such, the Group's exposure to credit risk from this balance is not considered to be significant. The Group currently holds no provisions against bad or doubtful debtors.

The Group's exposure to counterparty risk at 31 December 2013 is set out below:

Counterparty	Location	Credit rating (Fitch)	2013 US\$	2012 US\$
Deutsche	Guernsey	A plus	12,209,405	15,999,984
HSBC	United Kingdom	AA minus	11,640,292	15,477,925
Investec	Guernsey	BBB minus	24,113	349,209
Other counterparties	Various	n/a	33,609	148,834
			23,907,419	31,975,952

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2013

21. Financial instruments and financial risk management (continued)

Bankruptcy or insolvency of any of these counterparties could have a significant adverse impact on the Group. The Group's subsidiaries and associates also hold immaterial cash balances with various other counterparties, the failure of one of these counterparties would be unlikely to have a significant impact. The Directors may further extend the Group's range of counterparties in the future to reduce the Group's credit/counterparty risk.

Maximum exposure to credit risk

Financial assets	2013 US\$	2012 US\$
Investment Portfolio		
Loans and receivables ¹	–	50,599,070
Current assets		
Cash and cash equivalents	23,907,419	31,975,952
Trade and other receivables	1,151,742	1,379,301
Less prepayments	(1,142,817)	(1,379,287)
Less other amounts receivable	(8,925)	–
	23,907,419	82,575,036

¹ The Group's loan to Fabergé was converted into new Fabergé equity shares effective 28 January 2013, see Note 5 Realised loss on Gemfields/Fabergé Merger for more details. There are also other risks associated with the Investment Portfolio, see the Market risk – Price risk section above for more detail.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities. The Group does not hold any financial liabilities at discounted values. As such, the expected cash outflows relating to the Group's financial liabilities are equivalent to the Group's liabilities of US\$178,245 at the balance sheet date (2012: US\$159,344).

The Group did not hold any derivative liabilities at 31 December 2013 (31 December 2012: nil). The Group has not utilised any overdrafts since incorporation. The Directors ensure that the Group has sufficient levels of cash for any investment commitments and expenses as they fall due.

Sensitivity analyses representative for the position throughout the year

The sensitivity analyses presented above are based on the financial instruments held at the year end. The sensitivity analyses presented for 31 December 2013 are considered likely to be representative of the financial instruments held and risks to the balance sheet in the immediate future.

The mix of financial instruments is broadly similar at 31 December 2013 compared to 31 December 2012. Nonetheless, users of the Financial Statements should be aware that the Group's risk profile can change over time; for example, if the Group divested of an investment, its exposure to market risks would change. As there is uncertainty as to how the Group's risk profile will change in the future, no further more representative sensitivity disclosure has been disclosed as the Directors do not believe that it would be useful.

Fair value analysis

The Group's only financial instruments that are measured at fair value subsequent to initial recognition are the equity investments within the Investment Portfolio. The following table provides an analysis of these financial instruments, grouped into Levels 1 to 3 based on the degree to which fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

21. Financial instruments and financial risk management (continued)

31 December 2013	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
Financial assets at FVTPL				
Equity investments	174,618,072	–	215,237,159	389,855,231
	174,618,072	–	215,237,159	389,855,231

31 December 2012	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
Financial assets at FVTPL				
Equity investments	97,675,366	–	217,951,326	315,626,692
	97,675,366	–	217,951,326	315,626,692

A reconciliation of the Group's equity investments carried at FVTPL, from 1 January 2013 to 31 December 2013 is provided below:

	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
Balance at 1 January 2013	97,675,366	–	217,951,326	315,626,692
Unrealised fair value gains	20,716,637	–	30,741,707	51,458,344
Unrealised fair value losses	(10,502,814)	–	–	(10,502,814)
Additions	68,165,658	–	–	68,165,658
Disposals	(1,436,775)	–	(25,503,494)	(26,940,269)
Realised loss on Gemfields/Fabergé Merger	–	–	(7,952,380)	(7,952,380)
Balance at 31 December 2013	174,618,072	–	215,237,159	389,855,231

A reconciliation of the Group's equity investments carried at FVTPL, for the comparative year from 1 January 2012 to 31 December 2012 is provided below:

	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
Balance at 1 January 2012	125,191,591	–	190,456,562	315,648,153
Unrealised fair value gains	18,255,119	–	–	18,255,119
Unrealised fair value losses	(65,879,656)	–	(53,550,330)	(119,429,986)
Unrealised foreign exchange gains	3,855,707	–	8,293,290	12,148,997
Realised foreign exchange gains	–	–	1,440,847	1,440,847
Sedibelo Platinum Mines – additions	–	–	176,202,162	176,202,162
Sedibelo Platinum Mines – disposals	–	–	(125,269,351)	(125,269,351)
Additions	13,320,964	–	20,378,146	33,699,110
Realised loss on Jupiter foreign exchange contract	(318,880)	–	–	(318,880)
Realised fair value gain on Jupiter shares	3,250,521	–	–	3,250,521
Balance at 31 December 2012	97,675,366	–	217,951,326	315,626,692

The significant assumptions used to determine the fair value of the Group's equity investments are disclosed in Note 9 *Investments*.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2013

22. Related party transactions

The Group's subsidiaries, joint ventures and associates are related parties. Investments within the Group's Investment Portfolio are also usually related parties; the Investment Portfolio consists of investments held at fair value and loans to portfolio companies. Related party transactions include entering into equity investments, exiting from equity investments and loan transactions. The relevant related party transactions in the current and comparative periods are detailed in Note 9 *Investments*.

Certain individuals act as both Directors of the Company and also as directors of the Group's investments. Mr Gilbertson is the Chairman of Sedibelo Platinum Mines and Jupiter, and Mr Frandsen is a director of Sedibelo Platinum Mines.

The Investment Manager acts through its general partner, Pallinghurst (Cayman) GP Limited. The directors of Pallinghurst (Cayman) GP Limited are Mr Gilbertson, Mr Frandsen, Mr Willis, Mr Harris and Mr Tolcher. The Investment Manager is a related party to the Group. Certain amounts are payable by the Group to the Investment Manager as disclosed in Note 11 *Investment Manager's benefits*.

Non-Executive Directors are each entitled to receive fees for their services as determined by the Remuneration Committee. Shareholders have previously approved a limit of US\$40,000 per annum per director for Non-Executive Directors. The table below sets out the amounts paid by the Company to the Non-Executive Directors for services during 2013, as determined by the Remuneration Committee.

31 December 2013	Directorship of the Company US\$	Directorship of other Group companies US\$	Audit Committee US\$	Lead Independent Director US\$	Total US\$
Stuart Platt-Ransom	25,000	–	3,000	2,000	30,000
Clive Harris	25,000	5,000	3,000	–	33,000
Martin Tolcher	25,000	–	5,000	–	30,000
Dr Christo Wiese ¹	22,192	–	–	–	22,192
Patricia White ²	5,139	–	–	–	5,139
Total	102,331	5,000	11,000	2,000	120,331

¹ This relates to the period 11 February 2013 – 31 December 2013.

² This relates to the period 1 January 2013 – 15 March 2013.

31 December 2012	Directorship of the Company US\$	Directorship of other Group companies US\$	Audit Committee US\$	Lead Independent Director US\$	Total US\$
Stuart Platt-Ransom	25,000	–	–	–	25,000
Clive Harris	25,000	5,000	–	–	30,000
Martin Tolcher	25,000	–	–	–	25,000
Dr Christo Wiese	–	–	–	–	–
Patricia White ¹	20,948	–	–	–	20,948
Total	95,948	5,000	–	–	100,948

¹ This relates to the period 29 February 2012 – 31 December 2012.

Legis acts as the Group's administrator, company secretary and registrar. Mr Platt-Ransom, Mr O'Mahoney and Ms White are directors of Legis and/or certain entities within the Legis group. The Group's expense for services rendered by Legis during 2013 was US\$110,000 (2012: US\$85,000). Ms White resigned from the Board on 15 March 2013. The Group's relationship with Legis is at arm's length.

Transactions entered into with related parties were under terms no more favourable than those with third parties.

22. Related party transactions (continued)

The interests of the Directors in PRL equity shares are set out below:

	31 December 2013		31 December 2012	
	Number of shares	% interest	Number of shares	% interest
Dr Christo Wiese ¹	146,783,799	19.30%	141,886,673	18.66%
The Brian Gilbertson Discretionary Settlement ²	24,261,669	3.19%	24,261,669	3.19%
Arne H. Frandsen	3,727,460	0.49%	3,727,460	0.49%
Andrew Willis	2,446,054	0.32%	2,446,054	0.32%
Clive Harris	437,652	0.06%	437,652	0.06%
	177,656,634	23.36%	172,759,508	22.72%

¹ At 31 December 2013, Dr Wiese held indirect interests in 146,783,799 PRL shares. Dr Wiese also held 22,047 Single Stock Futures ("SSFs") which can be converted into PRL shares at the discretion of the holder. If the SSFs were converted, Dr Wiese's interest would increase to 148,988,499 PRL shares, or 19.59%. Dr Wiese did not own any SSFs at 31 December 2012.

² A discretionary trust of which Brian Gilbertson is a beneficiary.

The interests in PRL equity shares held by the other Partners of the Investment Manager are set out below:

	31 December 2013		31 December 2012	
	Number of shares	% interest	Number of shares	% interest
Sean Gilbertson	4,175,536	0.55%	4,175,536	0.55%
Priyank Thapliyal	4,175,536	0.55%	4,175,536	0.55%
	8,351,072	1.10%	8,351,072	1.10%

23. NAV and Headline Earnings Per Share

NAV per share

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

	31 December 2013 US\$	31 December 2012 US\$
Net assets	416,046,887	401,357,918
Number of shares in issue	760,452,631	760,452,631
NAV per share	0.55	0.53

HEPS/HLPS per share

There are no reconciling items between Headline Earnings/(Loss) Per Share ("HEPS" or "HLPS") and Earnings/(Loss) Per Share ("EPS" or "LPS"). There are no dilutive items to EPS/(LPS), which is equivalent to Diluted Earnings/(Loss) Per Share.

PRL completed a Rights Offer during 2012 and issued new shares, increasing the weighted average number of shares in issue. For more detail on the Rights Offer, see Note 8 *Completion of Rights Offer*.

The Group's HEPS/HLPS is as follows:

	31 December 2013 US\$	31 December 2012 US\$
Profit/(loss) for the year	14,688,975	(39,048,308)
Weighted average number of shares in issue	760,452,631	625,490,450
Headline earnings/(loss) per share	0.02	(0.06)

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2013

24. Subsidiaries

The Group's subsidiaries are set out below. All interests are held directly or indirectly by the Company and are consolidated within these Financial Statements. The note includes all of the Group's subsidiaries, none have been omitted.

Company	Country of incorporation	Group interest (%) at 31 December 2013	Group interest (%) at 31 December 2012
Pallinghurst Resources (Guernsey) GP Ltd	Guernsey	100	100
The Pallinghurst Resources Fund L.P.	Cayman Islands	99.99	99.99
Pallinghurst Consolidated (Cayman) Ltd	Cayman Islands	100	100
Pallinghurst Consolidated (Lux) S.à r.l.	Luxembourg	100	100
Pallinghurst Consolidated (Dutch) B.V.	The Netherlands	100	100
Pallinghurst Steel Feed (Dutch) B.V.	The Netherlands	100	100

There are no restrictions on any assets or liabilities of any of these subsidiaries.

25. 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. The circumstances relating to the guarantee have not changed since that time. One of the conditions of the Gemfields/Fabergé Merger was that Gemfields either take over as guarantor from PRL, or that Gemfields indemnify the Group against any potential liability to the landlord. Gemfields have now provided an indemnification to the Group against any loss from this guarantee. The Directors' assessment is that the maximum amount of the Group's contingent liability continues to be US\$219,000, although any such loss should be recoverable from Gemfields under the terms of the indemnification.

The Group had no other significant contingent liabilities or contingent assets at 31 December 2013 or 31 December 2012.

26. Commitments

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

27. Events occurring after the end of the year

Approval of Annual Report

The Annual Report was approved by the Directors and authorised for issue on 25 March 2014.

Shareholder Information

for the year ended 31 December 2013

Shareholder spread	Number of shareholders	%	Number of shares	%
1 – 1,000 shares	354	10.31	189,764	0.02
1,001 – 10,000 shares	1,560	45.45	7,926,481	1.04
10,001 – 100,000 shares	1,197	34.88	39,462,727	5.19
100,001 – 1,000,000 shares	255	7.43	79,758,318	10.49
1,000,001 shares and over	66	1.92	633,115,341	83.26
	3,432	100	760,452,631	100
Distribution of shareholders				
Banks	32	0.93	42,312,957	5.56
Brokers	14	0.41	15,217,777	2.00
Close Corporations	60	1.75	3,714,339	0.49
Endowment Funds	6	0.17	1,829,721	0.24
Individuals	2,755	80.27	86,113,065	11.32
Insurance Companies	6	0.17	104,645,064	13.76
Investment Companies	1	0.03	4,166,375	0.55
Mutual Funds	31	0.90	114,539,748	15.06
Nominees and Trusts	361	10.52	88,663,976	11.66
Other Corporations	43	1.25	1,036,916	0.14
Pension Funds	24	0.70	42,945,082	5.65
Private Companies	96	2.80	254,142,428	33.42
Public Companies	3	0.09	1,125,183	0.15
	3,432	100	760,452,631	100
Public/non-public shareholders				
Public shareholders	3,420	99.65	484,851,330	63.76
Non-public shareholders	12	0.35	275,601,301	36.24
Holdings of Directors and Partners of the Investment Manager ¹	11	0.32	186,007,706	24.46
Shareholder holding 10% or more	1	0.03	89,593,595	11.78
	3,432	100	760,452,631	100
Shareholders holding 5% or more			Number of shares	%
Dr Christo Wiese ²			146,783,799	19.30
Solway Finance Limited			89,593,595	11.78
Oasis Asset Management			72,335,613	9.51
Old Mutual Investment Group (South Africa) (Pty) Limited			68,100,487	8.96
Momentum Asset Management			65,523,779	8.62
Oasis Crescent Equity Fund			50,362,537	6.62

¹ At 31 December 2013, Dr Wiese held indirect interests in 146,783,799 PRL shares via various entities. Dr Wiese's interest has been included within "Holdings of Directors and Partners of the Investment Manager" rather than as a "Shareholder holding 10% or more". Five PRL Directors and two Partners of the Investment Manager own shares in PRL, as detailed in the Financial Statements. For the split of public/non-public shareholders disclosed above, each of Dr Wiese's interests has been classified as a separate shareholder; this has increased the number of separate shareholdings to eleven.

² At 31 December 2013, Dr Wiese held indirect interests in 146,783,799 PRL shares. Dr Wiese also held 22,047 Single Stock Futures ("SSFs") which can be converted into PRL shares at the discretion of the holder. If the SSFs were converted, Dr Wiese's interest would increase to 148,988,499 PRL shares, or 19.59%.

Company Information

Directors

Brian Gilbertson
Arne H. Frandsen
Andrew Willis¹
Dr Christo Wiese²
Stuart Platt-Ransom³
Martin Tolcher
Clive Harris
Chris Powell¹
Brian O'Mahoney³
Patricia White⁴

1 Mr Powell has acted as Permanent Alternate to Mr Willis since 22 March 2013.

2 Dr Wiese was appointed to the Board effective 11 February 2013.

3 Mr O'Mahoney acts as Permanent Alternate to Mr Platt-Ransom.

4 Ms White resigned from the Board on 15 March 2013.

Investment Manager

Pallinghurst (Cayman) GP L.P.
190 Elgin Avenue
George Town
Grand Cayman
KY1-9005
Cayman Islands

Investment Advisor (London)

Pallinghurst Advisors LLP
54 Jermyn Street
London
SW1Y 6LX
United Kingdom

Legal Advisor (Guernsey)

Mourant Ozannes
1 Le Marchant Street
St Peter Port
Guernsey
GY1 4HP
Channel Islands

Legal Advisor (Bermuda)

Appleby Global
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Investment Bank and JSE Sponsor

Investec Bank Limited
100 Grayston Drive
Sandton, 2196
South Africa

South African Transfer Secretary

Computershare Investor Services (Pty) Limited
Ground Floor
70 Marshall Street
Johannesburg, 2001
South Africa

Administrator, Company Secretary and Registrar

Legis Fund Services Limited
11 New Street
St Peter Port
Guernsey
GY1 2PF
Channel Islands

Registered Office

11 New Street
St Peter Port
Guernsey
GY1 2PF
Channel Islands

Investment Advisor (South Africa)

Pallinghurst Advisors (Pty) Limited
PO Box 12160
Die Boord
Western Cape, 7613
South Africa

Legal Advisor (South Africa)

Edward Nathan Sonnenbergs Inc
150 West Street
Sandton, 2196
South Africa

BSX Sponsor

Capital G BSX Services Limited
25 Reid Street, 4th Floor
Hamilton HM11
Bermuda

Auditor

Saffery Champness Chartered Accountants
PO Box 141
St Sampson
Guernsey
GY1 3HS
Channel Islands

Notice of Annual General Meeting

for Pallinghurst Resources Limited (the “Company”)

NOTICE IS HEREBY GIVEN that the sixth Annual General Meeting (“AGM”) of shareholders of the Company will be held at Legis House, 11 New Street, St Peter Port, Guernsey on Monday, 22 September 2014 at 11 a.m. BST to consider and, if thought fit, pass the following RESOLUTIONS:

Ordinary resolutions:

1. To receive and adopt the Company’s Annual Report and Consolidated Financial Statements for the year ended 31 December 2013 (the “Annual Report”).
2. To reappoint Saffery Champness as Auditor to the Company for the ensuing period and to authorise the Directors to fix its remuneration.
3. To re-elect Martin Tolcher as a Director of the Company.^a
4. To re-elect Clive Harris as a Director of the Company.^a
5. To re-elect Martin Tolcher (Chair), Stuart Platt-Ransom and Clive Harris to the Audit Committee.^a

a Abridged curriculum vitae for each of Martin Tolcher, Stuart Platt-Ransom and Clive Harris can be found within the Annual Report.

Non-binding ordinary resolution:

The Board asks the shareholders to cast a non-binding advisory vote on the Company’s Remuneration Policy as set out within the Remuneration Committee Report within the Governance section of the Annual Report. The Remuneration Committee will consider the outcome of this vote in the future, although the vote is not binding on the Company or the Board.

6. To approve the Company’s Remuneration Policy as set out within the Remuneration Committee Report.

By order of the Board

Legis Fund Services Limited

11 New Street
St Peter Port
Guernsey
GY1 2PF
Channel Islands

25 March 2014

Notes

1. A shareholder entitled to attend and vote is entitled to appoint a proxy (or proxies) to attend and to speak and, on a poll, vote instead of him/her. A proxy need not be a shareholder. A shareholder may appoint more than one proxy provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him/her.
2. A Form of Proxy is enclosed. The appointment of a proxy will not prevent a shareholder from subsequently attending the AGM and voting in person.
3. To be effective, a Form of Proxy, and any power of attorney or other authority under which it is signed (or a certified or notarised copy of any such authority) must be completed, signed and either lodged at Computershare Investor Services (Pty) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001, South Africa (PO Box 61051, Marshalltown, 2107, South Africa) not less than three business days before the time for holding the meeting or adjourned meeting, OR lodged at PO Box 91, Legis House, 11 New Street, St Peter Port, Guernsey, GY1 3EG, Channel Islands, faxed to +44 1481 712167 or emailed to fund.enquiries@legisgroup.com, not less than two business days before the time for holding the meeting.
4. Forms of Proxy submitted for the original meeting will remain valid for any adjourned meeting.
5. Only those members registered in the Register of Shareholders as at 11 a.m. BST on Wednesday, 17 September 2014 (or in the event that the AGM is adjourned, on the Register of Shareholders three business days before the time of any adjourned meeting) shall be entitled to attend or vote at the AGM or adjourned meeting in respect of the shares registered in their name at that time. Changes to entries on the Register of Shareholders after 11 a.m. BST on Wednesday, 17 September 2014 (or, in the event that the AGM is adjourned, on the Register of Shareholders three business days before the time of any adjourned meeting) shall be disregarded in determining the rights of any person to attend or vote at the AGM.

If you do not intend to attend the AGM please complete and return the Form of Proxy as soon as possible.



PALLINGHURST

FORM OF PROXY

PALLINGHURST RESOURCES LIMITED (the "Company")

FOR USE AT THE ANNUAL GENERAL MEETING TO BE HELD ON 22 SEPTEMBER 2014.

I/We (FULL NAMES IN BLOCK CAPITALS PLEASE) _____

Of (ADDRESS) _____

being (a) member(s) of the Company appoint the Chairman of the meeting or (see note 1) _____

as my/our proxy and, on a poll, to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at Legis House, 11 New Street, St Peter Port, Guernsey, GY1 2PF, Channel Islands on Monday, 22 September 2014 and any adjournment thereof.

Please indicate with an 'X' in the spaces provided how you wish your votes to be cast on the resolutions specified.

Ordinary Resolutions:	For	Against	Abstain
1. To receive and adopt the Company's Annual Report and Consolidated Financial Statements for the year ended 31 December 2013 (the "Annual Report").			
2. To reappoint Saffery Champness as Auditor to the Company for the ensuing period and to authorise the Directors to fix its remuneration.			
3. To re-elect Martin Tolcher as a Director of the Company ^a .			
4. To re-elect Clive Harris as a Director of the Company ^a .			
5. To re-elect Martin Tolcher (Chair), Stuart Platt-Ransom and Clive Harris to the Audit Committee ^a .			

a. Abridged curriculum vitae for each of Martin Tolcher, Stuart Platt-Ransom and Clive Harris can be found within the Annual Report.

Non-binding Ordinary Resolution:	For	Against	Abstain
6. To approve the Company's Remuneration Policy as set out within the Remuneration Committee Report.			

Subject to any voting instructions so given the proxy will vote, or may abstain from voting, on any resolution as he/she may think fit.

Signature _____

Dated this _____ day of _____ 2014

Notes

1. If you so desire you may delete the words "Chairman of the meeting" and insert the name of your own choice of proxy, who need not be a member of the Company. Please initial such alteration.
2. In order to be valid, the proxy form must be lodged at Computershare Investor Services (Pty) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001, South Africa (PO Box 61051, Marshalltown, 2107, South Africa) not less than three business days before the time for holding the meeting or adjourned meeting, OR lodged at the Company's registered office PO Box 91, Legis House, 11 New Street, St Peter Port, Guernsey, GY1 3EG, Channel Islands, faxed to +44 1481 712167 or emailed to fund.enquiries@legisgroup.com, not less than two business days before the time for holding the meeting or adjourned meeting.
3. A corporation must execute the proxy under its common seal or under the hand of an officer or attorney duly authorised.
4. In the case of joint holders, the vote of the senior holder shall be accepted to the exclusion of other joint holders, seniority being determined by the order in which the names stand in the Register of Shareholders in respect of the joint holding.



