PALLINGHURST

Pallinghurst Resources Limited

# INTERIM REPORT 2013

***Cover photos from left to right***

Mining activities at Tshipi Borwa.
Plant operators at the Pilanesberg Platinum Mine.
Uncut rubies from Gemfields' Montepuez ruby mine in Mozambique.

# Investment Manager's Report

for the six months ended 30 June 2013

I am happy to report great progress within each of our three Investment Platforms. During the first half of 2013, Pallinghurst achieved a number of its key milestones, which will support the continued unlocking of value as we enter the harvesting stage of our investments. These include:

- PGM production at record level in H1 2013 – 66,000 oz dispatched
- IPO process has commenced for PGM platform – IPO set for 2014
- Successful ramp-up of manganese production – 230,000 tonnes in H1 2013
- Transnet has increased the train allocation for Tshipi – at least two trains per week
- New emerald auction record – $31.5m or $54/carat for delayed June auction
- Rubies inventory build-up – around 2m carats

Notwithstanding this progress and incremental value addition to the real underlying businesses, our accounts show a loss for the period. This was caused by unrealised marked-to-market valuations rather than by operational losses and arises primarily as a result of the falls in the share prices of Jupiter and Gemfields in the currently depressed and volatile mining sector. We believe those share prices significantly undervalue each of the businesses and that both will swing back into the black as shareholder value is recognised and as we continue to deliver on our strategic objectives.

**Arne H. Frandsen**
*Chief Executive*

**Platinum Group Metals ("PGM")**
The consolidation into Sedibelo Platinum Mines (formerly Platmin) of all of the Group's PGM investments on the Western Limb of the Bushveld Complex during the last quarter of 2012 has realised the objectives to which we have been working over the past five years. The consolidation was a key step to unlocking the significant investment value inherent in this Investment Platform and the large and shallow resources base promises safe and low cost operations for many years to come. The subsequent equity investment by the Industrial Development Corporation ("IDC"), its largest to date into the mining industry, has provided funding for the next phase of development of the consolidated operations and will act as a catalyst for wealth and job creation which will benefit all stakeholders.

The focus at Sedibelo Platinum Mines during the first half of 2013 has been the build-up of operations at its Pilanesberg Platinum Mine ("PPM") and the integration of the other properties forming the consolidation. Following the restructuring of the mining contracts and after taking direct control of the pit and plant, Sedibelo Platinum Mines has seen significant improvements in its key operating parameters, including record production of 66,000 ounces of 4E PGMs for the first six months of 2013.

The Department of Minerals and Resources ("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 significantly lower costs than full rehabilitation of the pit. Applications have therefore been made to the DMR to approve the release of a portion of Sedibelo Platinum Mines' statutorily mandated rehabilitation escrow funds.

In January 2013, Sedibelo Platinum Mines formed a team led by Pallinghurst representatives to prepare for an IPO. Global mining industry experts, SRK Consulting, 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. As a debt-free company with one of the industry's strongest balance sheets, Sedibelo Platinum Mines also remains alert to potential opportunities triggered by the recent falls in PGM prices. If the recent improvement in equity markets and sentiment continues, Sedibelo Platinum Mines is well set for a successful IPO in 2014.

**Steel Making Materials**
Manganese production has continued to ramp up at Tshipi Borwa through the use of temporary mining facilities with 230,000 metric tonnes of medium grade lump ore dispatched and railed to Port Elizabeth during the first six months of 2013. The rapid load-out station is expected to be commissioned in October 2013 and completion of all of the remaining permanent infrastructure to support a 2.4 million tonne per annum operation is expected by mid-2014. Since 30 June 2013, production volumes have increased in line with Tshipi's ramp-up plan and its rail allocation from Transnet, the South African state rail operator.

Transnet has committed to make available to Tshipi Borwa two bulk trains per week, while an additional train may be provided at Transnet's discretion. Alternative road/rail solutions are being adopted to increase capacity, including containers and skiptainers. The first such consignment of containers to Port Elizabeth occurred in June 2013.

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. Jupiter's 49.9% share of the increase will

# Investment Manager's Report (cont.)
for the six months ended 30 June 2013

be met out of its cash reserves, which were AUD63.5 million (US$58 million) at 30 June 2013.

In the Central Yilgarn region of Western Australia, work continued on optimising the capital and operating expenditure at Mount Mason as part of the hematite project's Feasibility Study. All baseline environmental surveys and studies were completed and Jupiter is expected to receive all project approvals by the end of the year. However, port access remains the key infrastructure obstacle to the development of Mount Mason.

The port of Esperance is a deep water port capable of taking Capesize vessels, with proven ability to handle bulk commodities, in particular iron ore. It is located approximately 650 kilometres from Mount Mason and is serviced by a rail line running approximately 110 kilometres from Mount Mason. Currently, there is no spare capacity at Esperance, but in June 2013 the port authorities announced two preferred proponents to expand the iron ore handling capacity. The final decision of who will undertake the multi-user facility expansion is expected to be announced by the end of the year. If Jupiter can secure access, Mount Mason has the potential to rapidly generate significant free cash flows and to establish Jupiter as a producer in the Central Yilgarn region.

Following completion of site rehabilitation, Jupiter's Mount Ida magnetite project remains suspended pending clarity regarding access to the port of Esperance. Accordingly, a number of Jupiter staff have been made redundant leaving a team sufficient to ensure that the necessary permits are obtained at Mount Mason. Priyank Thapliyal, a partner of the Investment Manager, has been appointed as Acting Chief Executive Officer following the departure of the former 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 September 2013, Tshipi entered a Joint Venture Agreement whereby a new entity, OM Tshipi ("OMT"), jointly owned by Jupiter, Ntsimbintle and OM Holdings 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 will combine the network and management expertise of all of its shareholders and is poised to become a major marketer of manganese.

**Gemfields**

Only one auction was held by Gemfields during the first six calendar months of 2013, being a lower quality emerald and beryl auction in Lusaka during April 2013. A total of 6.3 million carats were sold for US$15.2 million, representing an average price of US$2.42 per carat. The high quality emerald auction scheduled to take place in Singapore in June 2013 was delayed because of the Zambian Government's request to hold this auction in Zambia. As a result, Gemfields will report revenues in the year to 30 June 2013 from only the two auctions of US$42 million, a 46% decline on the US$77.9 million achieved in the four auctions of the prior year.

Gemfields eventually held the higher quality emerald and beryl auction in Lusaka, Zambia 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 is a new auction record (an increase of 26% over the previous high of US$42.71 per carat achieved in the July 2011 Singapore auction). In addition, an exceptional 54 carat rough gem, offered as a single lot at the auction, set a new per carat record for prices achieved at a Gemfields auction.

Gemfields' auctions have achieved more than US$207 million in revenue across thirteen auctions held since July 2009. 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.

In order to facilitate dialogue between key stakeholders within the emerald industry, Gemfields hosted the '2013 Zambian Emerald Summit' in Lusaka, Zambia in May 2013. The summit considered how the Zambian emerald sector might best be developed into a world leader whilst ensuring that the relevant revenues and profits continue to accrue within Zambia. Gemfields continues to interact with its partner, the Government of Zambia, on the choice of locations for its auctions in order to sustain the current levels of growth in demand and maximise revenues for all stakeholders.

Annual emerald gemstone 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. Gemfields also reduced its per carat production costs by 26% to US$0.55 per carat. The high wall push back programme saw ten million tonnes of waste mined as part of the initiative to open new areas of ore for future production and to increase the level of ore mined.

The Gemfields initiative to increase consumer awareness saw Hollywood actress Mila Kunis appointed as its brand ambassador in February 2013. The long-term partnership will feature Mila wearing Gemfields' coloured gemstones at high profile events and endorsing Gemfields as the world's leading coloured gemstone company.

Gemfields completed construction of the core infrastructure required for bulk-sampling operations at its Montepuez ruby operation in Mozambique. Preliminary bulk sampling commenced in August 2012 and production has improved progressively through process optimisation, with 1.8 million carats produced in the year to 30 June 2013. A bespoke ruby grading and sorting framework has been developed, similar to that undertaken by Gemfields for its emerald operations. This pioneering system categorises the rubies into multiple classifications and is to be used in Gemfields' first ruby auction in 2014.

Gemfields completed its merger with Fabergé in January 2013, with the high-end luxury goods brand that was previously part of the Company's Investment Portfolio being acquired 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 will also gain entry to the global luxury goods market and further progress its "mine and market" vision, operating at both ends of the value chain. The transaction should result in marketing, communication, management and supply synergies, improving the operational efficiency of the enlarged entity. The business combination creates a platform to further increase Gemfields' market share within the coloured gemstone sector and to provide greater influence over product positioning and consumer awareness.

Fabergé has continued to expand its global retail presence. Agreements with retail partners led to a standalone Fabergé store opening in Kiev, Ukraine in December 2012 and to Fabergé products now being sold in Sydney, Australia and in Dubai within the Burj Al Arab hotel, the Dubai Mall and the Mall of the Emirates.

Future growth for Gemfields is likely to be seen as the benefits of the merger with Fabergé are realised, the high wall push back programme opens up additional areas of emerald production at Kagem, production ramps up at the Montepuez ruby operation and new coloured gemstone assets are added to the portfolio.

**Pallinghurst (Cayman) GP L.P.**
*September 2013*

# Condensed Consolidated Income Statement

for the six months ended 30 June 2013

| | Notes | 1 January 2013 to 30 June 2013 US$ (reviewed) | 1 January 2012 to 30 June 2012 US$ (reviewed) | 1 January 2012 to 31 December 2012 US$ (audited) |
|---|---|---|---|---|
| **INCOME** | | | | |
| **Investment Portfolio** | | | | |
| Realised fair value loss on disposal of Fabergé equity shares | 4 | **(7,952,380)** | – | – |
| Realised loss on conversion of Fabergé loan to Gemfields shares | 4 | **(12,027,277)** | – | – |
| Impairment of Fabergé loan | 4 | **–** | – | (1,638,471) |
| Realised gain on Sedibelo Platinum Mines transaction | 5 | **–** | – | 50,932,811 |
| Realised fair value gain on Jupiter shares | 6 | **–** | – | 3,250,521 |
| Realised loss on Jupiter foreign exchange contract | 6 | **–** | – | (318,880) |
| Unrealised fair value gains | 8 | **17,787,178** | 23,478,958 | 18,255,119 |
| Unrealised fair value losses | 8 | **(34,155,899)** | (38,990,401) | (119,429,986) |
| Unrealised foreign exchange gains | 8 | **–** | 412,653 | 12,148,997 |
| Unrealised foreign exchange losses | 8 | **(36,339,667)** | (398,049) | – |
| Realised foreign exchange gains | | **–** | – | 1,440,847 |
| | | **(72,688,045)** | (15,496,839) | (35,359,042) |
| **Investment Portfolio revenue** | | | | |
| Loan interest income | | **–** | – | 1,681,340 |
| Accrued interest and structuring fee | | **–** | 576,608 | 375,000 |
| | | **–** | 576,608 | 2,056,340 |
| **Net losses on investments and income from operations** | | **(72,688,045)** | (14,920,231) | (33,302,702) |
| **EXPENSES** | | | | |
| Investment Manager's Benefit | | **(2,732,450)** | (2,313,887) | (5,102,237) |
| Operating expenses | | **(448,317)** | (388,168) | (806,588) |
| Foreign exchange gains | | **–** | 4,211 | – |
| Foreign exchange losses | | **(26,170)** | (354,508) | (1,237,920) |
| | | **(3,206,937)** | (3,052,352) | (7,146,745) |
| **Loss from operations** | | **(75,894,982)** | (17,972,583) | (40,449,447) |
| Finance income | | **17,573** | 253,781 | 281,198 |
| Finance costs | | **–** | – | – |
| **Net finance income** | | **17,573** | 253,781 | 281,198 |
| **Loss before share in (loss)/profit of associates** | | **(75,877,409)** | (17,718,802) | (40,168,249) |
| Share in (loss)/profit of associates | | **(473,989)** | 3,134,545 | 1,119,941 |
| **Loss before tax** | | **(76,351,398)** | (14,584,257) | (39,048,308) |
| Tax | | **–** | – | – |
| **NET LOSS AFTER TAX** | | **(76,351,398)** | (14,584,257) | (39,048,308) |
| **Basic and diluted loss per ordinary share** | 11 | **(0.10)** | (0.03) | (0.06) |

# Condensed Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2013

| | **1 January 2013 to 30 June 2013 US$ (reviewed)** | 1 January 2012 to 30 June 2012 US$ (reviewed) | 1 January 2012 to 31 December 2012 US$ (audited) |
|---|---|---|---|
| NET LOSS AFTER TAX | **(76,351,398)** | (14,584,257) | (39,048,308) |
| Items of other comprehensive income | **–** | – | – |
| TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD/YEAR | **(76,351,398)** | (14,584,257) | (39,048,308) |

# Condensed Consolidated Balance Sheet

as at 30 June 2013

| | Notes | 30 June 2013 US$ (reviewed) | 30 June 2012 US$ (reviewed) | 31 December 2012 US$ (audited) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Investments in associates | | **1,011,353** | 3,824,226 | 1,936,241 |
| **Investment Portfolio** | | | | |
| Quoted investments | 8 | **117,967,762** | 109,963,001 | 97,675,366 |
| Unquoted investments | 8 | **176,202,162** | 210,566,459 | 217,951,326 |
| Loans and receivables | 8 | **–** | 36,137,699 | 50,599,070 |
| | | **294,169,924** | 356,667,159 | 366,225,762 |
| **Total non-current assets** | | **295,181,277** | 360,491,385 | 368,162,003 |
| **Current assets** | | | | |
| Trade and other receivables | | **1,514,819** | 1,426,402 | 1,379,301 |
| Cash and cash equivalents | | **28,313,565** | 38,034,988 | 31,975,952 |
| Other investments | | **58,851** | – | – |
| **Total current assets** | | **29,887,235** | 39,461,390 | 33,355,253 |
| **Total assets** | | **325,068,512** | 399,952,775 | 401,517,256 |
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Trade and other payables | | **61,998** | 729,587 | 159,344 |
| **Total current liabilities** | | **61,998** | 729,587 | 159,344 |
| **Total liabilities** | | **61,998** | 729,587 | 159,344 |
| **Net assets** | | **325,006,514** | 399,223,188 | 401,357,912 |
| **Capital and reserves attributable to equity holders** | | | | |
| Share capital | | **7,606** | 6,637 | 7,606 |
| Share premium | | **375,227,145** | 348,629,339 | 375,227,145 |
| Retained (losses)/earnings | | **(50,228,237)** | 50,587,212 | 26,123,161 |
| **EQUITY** | | **325,006,514** | 399,223,188 | 401,357,912 |
| **NAV and tangible NAV per share** | 11 | **0.43** | 0.60 | 0.53 |

# Condensed Consolidated Statement of Cash Flows

for the six months ended 30 June 2013

| | Notes | 1 January 2013 to 30 June 2013 US$ (reviewed) | 1 January 2012 to 30 June 2012 US$ (reviewed) | 1 January 2012 to 31 December 2012 US$ (audited) |
|---|---|---|---|---|
| **Cash outflows from operations** | 9 | **(3,384,759)** | (2,422,780) | (5,777,691) |
| Additions to investments | | **(632,207)** | (20,378,146) | (33,699,110) |
| Loans extended to investments | | **–** | (13,125,000) | (28,120,111) |
| Finance income received | | **17,573** | 253,781 | 281,198 |
| **Net cash outflows from operating activities** | | **(3,999,393)** | (35,672,145) | (67,315,714) |
| | | | | |
| **Cash flows from investing activities** | | | | |
| Amounts invested in associates | | **(71,356)** | – | (141,729) |
| Decrease in investments in associates | | **–** | 20,378,146 | 20,393,255 |
| Amounts returned from associates | | **434,532** | – | – |
| **Net cash from investing activities** | | **363,176** | 20,378,146 | 20,251,526 |
| | | | | |
| **Cash flows from financing activities** | | | | |
| Rights Offer- proceeds | 7 | **–** | 50,638,596 | 77,241,092 |
| Rights Offer- costs | 7 | **–** | (2,184,255) | (2,187,704) |
| Rights Offer- foreign exchange losses | 7 | **–** | (49,384) | (49,655) |
| **Net cash generated from financing activities** | | **–** | 48,404,957 | 75,003,733 |
| | | | | |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | | **(3,636,217)** | 33,110,958 | 27,939,545 |
| | | | | |
| Cash and cash equivalents at the beginning of the period/year | | **31,975,952** | 5,274,327 | 5,274,327 |
| Foreign exchange gain on cash | | **–** | 4,211 | – |
| Foreign exchange loss on cash | | **(26,170)** | (354,508) | (1,237,920) |
| | | | | |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD/YEAR | | **28,313,565** | 38,034,988 | 31,975,952 |

# Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 June 2013

| | Share capital US$ | Share premium US$ | Retained earnings/(losses) US$ | Total equity US$ |
|---|---|---|---|---|
| **Balance at 1 January 2012** | 4,760 | 300,226,258 | 65,171,469 | 365,402,487 |
| Rights Offer- proceeds | 1,877 | 50,636,720 | – | 50,638,597 |
| Rights Offer- costs | – | (2,184,255) | – | (2,184,255) |
| Rights Offer- foreign exchange losses | – | (49,384) | – | (49,384) |
| Total comprehensive loss for the period | – | – | (14,584,257) | (14,584,257) |
| **Balance at 30 June 2012 (reviewed)** | 6,637 | 348,629,339 | 50,587,212 | 399,223,188 |
| Rights Offer- proceeds | 969 | 26,601,526 | – | 26,602,495 |
| Rights Offer- costs | – | (3,449) | – | (3,449) |
| Rights Offer- foreign exchange losses | – | (271) | – | (271) |
| Total comprehensive loss for the period | – | – | (24,464,051) | (24,464,051) |
| **Balance at 31 December 2012 (audited)** | **7,606** | **375,227,145** | **26,123,161** | **401,357,912** |
| Total comprehensive loss for the period | **–** | **–** | **(76,351,398)** | **(76,351,398)** |
| **Balance at 30 June 2013 (reviewed)** | **7,606** | **375,227,145** | **(50,228,237)** | **325,006,514** |

# Notes to the Interim Financial Statements

for the six months ended 30 June 2013

## 1. General information

These financial statements within the Interim Report are for the interim period from 1 January 2013 to 30 June 2013 (the "Interim Financial Statements"). The financial information for the year ended 31 December 2012 included in these Interim Financial Statements does not constitute statutory Financial Statements as defined in The Companies (Guernsey) Law, 2008.

The information included in this document for the comparative year was derived from the Annual Report and Financial Statements for the year ended 31 December 2012 (the "Annual Financial Statements"), a copy of which has been delivered to the Guernsey Financial Services Commission, the Johannesburg Stock Exchange ("JSE") and the Bermuda Stock Exchange. The auditor's report on the Annual Financial Statements was unqualified, did not draw attention to any matters by way of emphasis, and stated that the Annual Financial Statements had been properly prepared in accordance with The Companies (Guernsey) Law, 2008.

## 2. Accounting policies

**Basis of accounting**

These Interim Financial Statements have been prepared in accordance with IAS34 *Interim Financial Reporting* ("IAS34") and applicable legal and regulatory requirements of The Companies (Guernsey) Law, 2008. They do not include all of the information required for full financial statements and are to be read in conjunction with the Group's most recent Annual Financial Statements. The Group's Annual Financial Statements were prepared under International Financial Reporting Standards ("IFRS") and the financial reporting guides issued by the Accounting Practices Committee of the South African Institute of Chartered Accountants (the "SAICA Reporting Guides").

The Interim 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 Condensed Consolidated Statement of Cash Flows, the Interim Financial Statements have been prepared on the accruals basis.

As the Group is an investment holding company, materially all of the Group's results are related to the Group's investment valuations. As such, the Group's interim results are not directly affected by seasonality or the cyclicality of operations. The portfolio company's most recent financial results do not usually directly impact upon the fair value of that portfolio company. There is no direct link between the fair value of the Group's mining investments and their seasonal operating cycle. All the Group's investments are at an early stage of their development and other factors are usually more relevant in determining fair value than seasonality or cyclicality of operations.

The principal accounting policies applied are consistent with those adopted and disclosed in the Annual Financial Statements other than as follows:

**Segmental reporting**

Gemfields completed its merger with Fabergé on 28 January 2013, as described in Note 4 *Realised loss on Gemfields/Fabergé Merger*. The Group no longer holds a direct interest in Fabergé and will present segmental information for its enlarged interest in Gemfields as a single Coloured Gemstones & Luxury Brands segment. The Group's comparative information has been reclassified to align with the revised current year presentation. Restated balance sheets for the relevant prior periods have not been presented as the restatement would not have any impact on these balance sheets.

**Adoption of new accounting standards**

The Group has adopted IFRS10 *Consolidated Financial Statements* ("IFRS10"), IFRS11 *Joint Arrangements* ("IFRS11"), and IFRS12 *Disclosures of Involvement with 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*.

Under IFRS10, 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.

# Notes to the Interim Financial Statements (cont.)

for the six months ended 30 June 2012

The Group has also adopted IAS28 *Investment 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 any material impact on the Group's accounting for its subsidiaries, associates or joint ventures.

**Associates and joint ventures that are part of the Group's Investment Portfolio**

Associates and joint ventures that are held as part of the Group's Investment Portfolio are measured at fair value under IAS39 *Financial Instruments: Recognition and Measurement* ("IAS39") in line with the exemptions contained within IAS28.

**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 investment entities measure investments in subsidiaries at fair value through profit or loss (rather than consolidating such interests).
- New disclosure requirements.
- Requirements for an investment entity's separate financial statements.

The Investment Entities Amendments are effective from 1 January 2014 with early adoption permitted. The Directors have not early adopted the Investment Entities Amendments in the period to 30 June 2013. The Directors believe that the early adoption of the Investment Entities Amendments would not have had an impact on the Group's balance sheet in this reporting period although the adoption of the Investment Entities Amendments may affect the Group's accounting in the future.

**Early adoption of IFRS13 and revised definition of fair value**

The Group early adopted IFRS13 *Fair Value Measurement* ("IFRS13") during 2011. IFRS13 defines fair value as *"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"*. The revised definition of fair value has not had a material impact on the valuation of the Group's Investment Portfolio since 2011.

**Other investments**

The Group's balance sheet includes certain listed equity investments which do not form part of the Investment Portfolio. These investments are designated at 'fair value through profit or loss' ("FVTPL") at inception and are initially measured at the fair value of consideration paid. Listed equity investments are usually valued at the mid-price on the valuation date. These investments do not form part of the Investment Portfolio and are immaterial.

**Headline Loss Per Share**

Circular 2/2013 – Headline Earnings (the "Circular") was released during the six months ended 30 June 2013 and has been formally incorporated into the JSE Listing Requirements.

The Circular is effective for financial periods ending on or after 31 July 2013 and can also be voluntarily early adopted. The Group has chosen to early adopt the Circular in the current period. This has had no impact on headline earnings in either the current or any comparative period.

## 3. Segmental reporting

The Group's segmental reporting is based around three investment platforms (PGMs, Steel Making Materials and Coloured Gemstones & Luxury Brands), each of which is categorised as an operating segment. The Chief Operating Decision Maker ("CODM") is Mr Gilbertson, the Chairman, who measures the performance of each operating segment on a regular basis.

The Income Statement segmental information provided to the CODM for the six months ended 30 June 2013 is as follows:

| 30 June 2013 | PGMs US$ (reviewed) | Steel Making Materials US$ (reviewed) | Coloured Gemstones & Luxury Brands US$ (reviewed) | Unallocated US$ (reviewed) | Total US$ (reviewed) |
|---|---|---|---|---|---|
| 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 | 17,787,178 | – | – | – | 17,787,178 |
| Unrealised fair value losses | – | (7,807,483) | (26,348,416) | – | (34,155,899) |
| Unrealised foreign exchange losses | (26,080,468) | (4,558,312) | (5,700,887) | – | (36,339,667) |
| Net segmental expense | (8,293,290) | (12,365,795) | (52,028,960) | – | (72,688,045) |
| Other income | | | | – | – |
| Net losses on investments and income from operations | | | | | (72,688,045) |
| Expenses, net finance income, share of loss of associates and taxation | | | | (3,663,353) | (3,663,353) |
| Net segmental loss | (8,293,290) | (12,365,795) | (52,028,960) | (3,663,353) | (76,351,398) |

The Income Statement segmental information provided to the CODM for the six months ended 30 June 2012 is as follows:

| 30 June 2012 | PGMs US$ (reviewed) (restated) | Steel Making Materials US$ (reviewed) (restated) | Coloured Gemstones & Luxury Brands US$ (reviewed) (restated) | Unallocated US$ (reviewed) (restated) | Total US$ (reviewed) (restated) |
|---|---|---|---|---|---|
| Unrealised fair value gains | – | – | 23,478,958 | – | 23,478,958 |
| Unrealised fair value losses | – | (38,990,401) | – | – | (38,990,401) |
| Unrealised foreign exchange gains | – | – | 412,653 | – | 412,653 |
| Unrealised foreign exchange losses | (268,249) | (129,800) | – | – | (398,049) |
| Loan interest income | – | – | 576,608 | – | 576,608 |
| Net segmental (expense)/income | (268,249) | (39,120,201) | 24,468,219 | | (14,920,231) |
| Other income | | | | – | – |
| Net losses on investments and income from operations | | | | | (14,920,231) |
| Expenses, net finance income, share of profit of associates and taxation | | | | 335,974 | 335,974 |
| Net segmental (loss)/profit | (268,249) | (39,120,201) | 24,468,219 | 335,974 | (14,584,257) |

# Notes to the Interim Financial Statements (cont.)

for the six months ended 30 June 2012

## 3. Segmental reporting (continued)

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

| 31 December 2012 | PGMs US$ (audited) (restated) | Steel Making Materials US$ (audited) (restated) | Coloured Gemstones & Luxury Brands US$ (reviewed) (restated) | Unallocated US$ (audited) (restated) | Total US$ (audited) (restated) |
|---|---|---|---|---|---|
| Impairment of Fabergé loan | – | – | (1,638,471) | – | (1,638,471) |
| Realised gain on Sedibelo Platinum Mines transaction | 50,932,811 | – | – | – | 50,932,811 |
| Realised loss on Jupiter foreign exchange contract | – | (318,880) | – | – | (318,880) |
| Realised fair value gain on Jupiter shares | – | 3,250,521 | – | – | 3,250,521 |
| 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 | 8,293,290 | 1,977,488 | 1,878,219 | – | 12,148,997 |
| Realised foreign exchange gain | 1,440,847 | – | – | – | 1,440,847 |
| 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 profit 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) |

The segmental information provided to the CODM for the reportable segments for the period ended 30 June 2013 is as follows:

| **30 June 2013** | **PGMs US$ (reviewed)** | **Steel Making Materials US$ (reviewed)** | **Coloured Gemstones & Luxury Brands US$ (reviewed)** | **Total US$ (reviewed)** |
|---|---|---|---|---|
| **Investment Portfolio** | | | | |
| **Listed investments** | **–** | **26,372,627** | **91,595,135** | **117,967,762** |
| **Unlisted investments** | **176,202,162** | **–** | **–** | **176,202,162** |
| **Total segmental assets** | **176,202,162** | **26,372,627** | **91,595,135** | **294,169,924** |
| | | | | |
| **Investments in associates, current assets and liabilities** | | | | **30,836,590** |
| **Net assets** | | | | **325,006,514** |

### 3. Segmental reporting (continued)

The comparative segmental information provided for the period ended 30 June 2012 is as follows:

| 30 June 2012 | PGMs US$ (reviewed) (restated) | Steel Making Materials US$ (reviewed) (restated) | Coloured Gemstones & Luxury Brands US$ (reviewed) (restated) | Total US$ (reviewed) (restated) |
|---|---|---|---|---|
| Investment Portfolio | | | | |
| Listed investments | – | 46,635,577 | 63,327,424 | 109,963,001 |
| Unlisted investments | 123,560,255 | – | 87,006,204 | 210,566,459 |
| Loans and receivables | – | – | 36,137,699 | 36,137,699 |
| Total segmental assets | 123,560,255 | 46,635,577 | 186,471,327 | 356,667,159 |
| Investments in associates, current assets and liabilities | | | | 42,556,029 |
| Net assets | | | | 399,223,188 |

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

| 31 December 2012 | PGMs US$ (audited) (restated) | Steel Making Materials US$ (audited) (restated) | Coloured Gemstones & Luxury Brands US$ (reviewed) (restated) | Total US$ (audited) (restated) |
|---|---|---|---|---|
| Investment Portfolio | | | | |
| 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 |

### 4. Realised loss on Gemfields/Fabergé Merger

Gemfields completed its merger with Fabergé during the period. 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 effective 28 January 2013.

The Group had also made certain loans to Fabergé totalling US$50 million at 31 December 2012 (excluding interest, including structuring fees). The US$50 million loan was convertible into Fabergé shares at US$35 per share under certain conditions. These conditions were 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 therefore decided 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.

# Notes to the Interim Financial Statements (cont.)

for the six months ended 30 June 2012

## 4. Realised loss on Gemfields/Fabergé Merger (continued)

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 at 31 December 2012 | (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 at 31 December 2012 | (50,599,070) |
| | **(12,027,277)** |

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

There were no comparative amounts at 30 June 2012.

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 Income Statement 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 8 *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.

## 5. Realised gain on Sedibelo Platinum Mines transaction

The consolidation of the three contiguous properties of Pilanesberg Platinum Mines ("PPM"), Sedibelo and Magazynskraal, in the North West Province of South Africa (the "Consolidation") was identified at the outset of Pallinghurst's investment into PGMs as the key to unlocking significant value by creating a low cost PGM producer of industry significance with a shallow resource base. The assets were vended into Platmin (which is to be renamed Sedibelo Platinum Mines[1]) 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, as this had been one of the conditions precedent for the IDC's investment. The completion of these transactions 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 in the comparative year to 31 December 2012 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 either the current period to 30 June 2013 or the comparative period to 30 June 2012.

1 *It is anticipated that Platmin will be renamed Sedibelo Platinum Mines. Platmin has been referred to as Sedibelo Platinum Mines throughout this Interim Report, although the change of name is not yet in effect.*

## 6. 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 at 16.66% both pre and post the Jupiter Rights Offer.

The Group realised the following gain on the acquisition:

| | *Number of shares* | *Price per share in AUD* | *AUD* | US$ |
|---|---|---|---|---|
| *Realised fair value gain on acquisition of Jupiter shares* | | | | |
| 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 a contract to hedge 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$ |
|---|---|---|
| *Realised foreign exchange loss on forward contract to acquire Jupiter shares* | | |
| 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)** |

There are no equivalent amounts in either the current period or the comparative period to 30 June 2012.

## 7. Completion of Rights Offer during 2012

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. This impacted on both share capital and share premium in the six months ended 30 June 2012 and the year ended 31 December 2012.

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

**Impact of Rights Offer**

The Rights Offer raised proceeds of US$77,241,092 in the year to 31 December 2012 (six months ended 30 June 2012: US$50,638,596).

The costs associated with the Rights Offer in the year to 31 December 2012 can be broken down as follows:

| | US$ |
|---|---|
| **Costs** | |
| 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 (six months ended 30 June 2012: US$49,384).

# Notes to the Interim Financial Statements (cont.)

for the six months ended 30 June 2012

## 8. Investments

The reconciliation of the Investment Portfolio from 1 January 2013 to 30 June 2013 is as follows:

| Investment | Opening at 1 January 2013 US$ (reviewed) | Unrealised fair value gains US$ (reviewed) | Unrealised fair value losses US$ (reviewed) | Unrealised foreign exchange gains US$ (reviewed) | Unrealised foreign exchange losses US$ (reviewed) | Realised loss on Gemfields/ Fabergé Merger[1] US$ (reviewed) | Additions and disposals[2,3] US$ (reviewed) | Closing at 30 June 2013 US$ (reviewed) |
|---|---|---|---|---|---|---|---|---|
| **Listed equity investments** | | | | | | | | |
| **Gemfields** | 59,569,151 | – | (26,348,416) | – | (5,700,887) | – | 64,075,287 | 91,595,135 |
| **Jupiter** | 38,106,215 | – | (7,807,483) | – | (4,558,312) | – | 632,207 | 26,372,627 |
| | 97,675,366 | – | (34,155,899) | – | (10,259,199) | – | 64,707,494 | 117,967,762 |
| **Unlisted equity investments** | | | | | | | | |
| **Fabergé** | 33,455,874 | – | – | – | – | (7,952,380) | (25,503,494) | – |
| **Sedibelo Platinum Mines** | 184,495,452 | 17,787,178 | – | – | (26,080,468) | – | – | 176,202,162 |
| | 217,951,326 | 17,787,178 | – | – | (26,080,468) | (7,952,380) | (25,503,494) | 176,202,162 |
| **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 Investment Portfolio** | 366,225,762 | 17,787,178 | (34,155,899) | – | (36,339,667) | (19,979,657) | 632,207 | 294,169,924 |

1 *See Note 4 Realised loss on Gemfields/Fabergé Merger.*
2 *See Note 4 Realised loss on Gemfields/Fabergé Merger.*
3 *The Group acquired 9,432,978 Jupiter shares during June 2013 for a cost of US$632,207.*

The reconciliation of the Investment Portfolio from 1 January 2012 to 30 June 2012 is as follows:

| Investment | Opening at 1 January 2012 US$ (reviewed) | Unrealised fair value gains US$ (reviewed) | Unrealised fair value losses US$ (reviewed) | Unrealised foreign exchange gains US$ (reviewed) | Unrealised foreign exchange losses US$ (reviewed) | Additions and disposals US$ (reviewed) | Accrued interest & structuring fee US$ (reviewed) | Renegotiation of Fabergé loan facility US$ (reviewed) | Closing at 30 June 2012 US$ (reviewed) |
|---|---|---|---|---|---|---|---|---|---|
| Listed equity investments | | | | | | | | | |
| Jupiter | 85,755,778 | – | (38,990,401) | – | (129,800) | – | – | – | 46,635,577 |
| Gemfields | 39,435,813 | 23,478,958 | – | 412,653 | – | – | – | – | 63,327,424 |
| | 125,191,591 | 23,478,958 | (38,990,401) | 412,653 | (129,800) | – | – | – | 109,963,001 |
| Unlisted equity investments | | | | | | | | | |
| Platmin | 53,455,699 | – | – | – | (268,249) | – | – | – | 53,187,450 |
| Moepi Group | 13,373,315 | – | – | – | – | – | – | – | 13,373,315 |
| Richtrau | 36,621,344 | – | – | – | – | 1,855,949 | – | – | 38,477,293 |
| Sedibelo | – | – | – | – | – | 18,522,197 | – | – | 18,522,197 |
| Fabergé | 87,006,204 | – | – | – | – | – | – | – | 87,006,204 |
| | 190,456,562 | – | – | – | (268,249) | 20,378,146 | – | – | 210,566,459 |
| Loans and receivables | | | | | | | | | |
| Fabergé – US$25 milion loan | 22,436,091 | – | – | – | – | 3,125,000 | 505,970 | (26,067,061) | – |
| Fabergé – US$50 milion loan | – | – | – | – | – | 10,000,000 | 70,638 | 26,067,061 | 36,137,699 |
| | 22,436,091 | – | – | – | – | 13,125,000 | 576,608 | – | 36,137,699 |
| Total Investment Portfolio | 338,084,244 | 23,478,958 | (38,990,401) | 412,653 | (398,049) | 33,503,146 | 576,608 | – | 356,667,159 |

## 8. 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$ (audited) | Unrealised fair value gains US$ (audited) | Unrealised fair value losses US$ (audited) | Unrealised foreign exchange gains US$ (audited) | Realised foreign exchange gain US$ (audited) | Additions and disposals US$ (audited) | Impairment of Fabergé loan US$ (audited) | Accrued interest & structuring fee US$ (audited) | Closing at 31 December 2012 US$ (audited) |
|---|---|---|---|---|---|---|---|---|---|
| Listed equity investments | | | | | | | | | |
| Gemfields | 39,435,813 | 18,255,119 | – | 1,878,219 | – | – | – | – | 59,569,151 |
| Jupiter | 85,755,778 | – | (65,879,656) | 1,977,488 | – | 16,252,605 | – | – | 38,106,215 |
| | 125,191,591 | 18,255,119 | (65,879,656) | 3,855,707 | – | 16,252,605 | – | – | 97,675,366 |
| Unlisted equity investments | | | | | | | | | |
| Fabergé | 87,006,204 | – | (53,550,330) | – | – | – | – | – | 33,455,874 |
| Moepi Group[1] | 13,373,315 | – | – | – | – | (13,373,315) | – | – | – |
| Richtrau[1] | 36,621,344 | – | – | – | – | (36,621,344) | – | – | – |
| Platmin[1] | 53,455,699 | – | – | – | 1,440,847 | (54,896,546) | – | – | – |
| Sedibelo Platinum Mines[1] | – | – | – | 8,293,290 | – | 176,202,162 | – | – | 184,495,452 |
| | 190,456,562 | – | (53,550,330) | 8,293,290 | 1,440,847 | 71,310,957 | – | – | 217,951,326 |
| Loans and receivables | | | | | | | | | |
| Fabergé – US$25 milion loan | 22,436,091 | – | – | – | – | (22,942,061) | – | 505,970 | – |
| Fabergé – US$50 milion 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 Investment Portfolio | 338,084,244 | 18,255,119 | (119,429,986) | 12,148,997 | 1,440,847 | 115,683,673 | (1,638,471) | 1,681,339 | 366,225,762 |

1 *The Group vended its interests in Moepi Group, Richtrau (Magazynskraal) and Sedibelo into Sedibelo Platinum Mines for new shares during the year ending 31 December 2012, see Note 5 Realised gain on Sedibelo Platinum Mines transaction for more detail.*

The valuation methodologies and other details for the Group's investments at 30 June 2013 are detailed below. The JSE requires certain further information to be disclosed on the Group's ten largest investments.

Since incorporation, the Group has made eleven separate equity investments. In line with its strategic objectives, and in order to maximise value for shareholders, the Group has consolidated these investments into its three current Investment Platforms through various corporate actions including mergers and disposals. This has occurred most recently through the Gemfields/Fabergé Merger, completed in January 2013 (see Note 4 *Realised loss on Gemfields/Fabergé Merger*) and the completion of the Consolidation of the Group's African Queen interests in December 2012 (see Note 5 *Realised gain on Sedibelo Platinum Mines transaction*). Although the reduction in the number of Investment Platforms has occurred in line with the Group's strategic objectives, shareholders should be aware that the number of separate Investment Platforms has reduced. The impact of these transactions is that the three Investment Platforms now account for the following proportion of the Group's NAV: African Queen: 54%, Gemfields/Fabergé: 28% and Jupiter/Tshipi: 8%. In addition, the current cash balance accounts for a further 9% of NAV. The Directors do not anticipate any change to the number of Investment Platforms in the foreseeable future.

Accordingly, fewer than ten separate investments were held at the balance sheet date and the following details are included for each investment in the Investment Portfolio.

**Sedibelo Platinum Mines – 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.<br><br>The Consolidation of the three contiguous properties of PPM, Sedibelo and Magazynskraal was completed on 3 December 2012 and is described in Note 5 *Realised gain on Sedibelo Platinum Mines transaction*.<br><br>The Group's cash cost of investment for Sedibelo Platinum Mines is approximately US$123 million. The Group's first African Queen investment was the acquisition of an interest in the Moepi Group made in August 2008. |
| Fair value methodology | Price of recent investment.<br><br>The Group's interest in Sedibelo Platinum Mines has been valued using the price of recent investment methodology. This valuation is based on the Consolidation and the investment by the IDC. |

# Notes to the Interim Financial Statements (cont.)

for the six months ended 30 June 2012

The completion of the Consolidation and the investment by the IDC gave an implied fair value for the Group's 6.73% indirect interest of US$176,202,162. The Directors believe that this US$ value best represents the fair value of the Group's interest in Sedibelo Platinum Mines at 30 June 2013.

In reaching this conclusion, the Directors have noted that Sedibelo Platinum Mines' operational results have improved during 2013 and that most analysts and brokers forecast that PGM prices will increase over time. The industry consensus is that there will likely be further supply-side constraints which may affect other platinum producers, primarily in South Africa, combined with the likelihood of increased platinum consumption in the industrial, jewellery, chemical and investment sectors.

The Group's interest is denominated in ZAR and has been revalued for the movement in the US$/ZAR exchange rate during the period. The rate at 31 December 2012 was US$1/ZAR8.4726, compared to US$1/ZAR9.8675 at 30 June 2013. This has resulted in a foreign exchange loss of US$26,080,468 during the period. The Directors do not believe that the valuation of the investment should be reduced below US$176,202,162, whether due to foreign exchange movements or otherwise, as the valuation set on 3 December 2012 in US$ terms best reflects fair value. The Directors have not found any specific indicators of impairment. The Directors have therefore included a fair value gain of US$17,787,178. The closing fair value of the Group's interest in Sedibelo Platinum Mines is US$176,202,162.

**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 100% acquisition of Fabergé on 28 January 2013. Gemfields is listed on AIM.

The Group owns a see-through interest of approximately 48% in Gemfields at 30 June 2013. The Group's cost of investment is approximately US$119 million and the Group's initial investment was made in October 2007.

Fair value methodology

Listed share price (Gemfields).

The Group's interest in Gemfields is valued at the 30 June 2013 mid-price of GBP0.2325 per share, translated at the closing rate of US$1/GBP0.6572.

**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 is listed on the ASX.

The Group's initial investment into Jupiter was made in May 2008. The Group owned an effective 17.08% interest in Jupiter at 30 June 2013. During July 2013, the Group acquired a further 31,372,272 shares in Jupiter, see Note 15 *Events occurring after the end of the period* for detail. The Group's percentage interest in Jupiter has increased to 18.45%.

The Group's cash cost of investment is approximately US$27 million.

Fair value methodology

Listed share price (Jupiter).

The Group's interest in Jupiter is valued at the 30 June 2013 mid-price of AUD0.0740 per share, translated at the closing rate of US$1/AUD1.0934.

## 9. Cash flows from operations

| | Notes | 1 January to 30 June 2013 US$ (reviewed) | 1 January to 30 June 2012 US$ (reviewed) | 1 January to 31 December 2012 US$ (audited) |
|---|---|---|---|---|
| **Net loss for the period/year** | | **(76,351,398)** | (14,584,257) | (39,048,308) |
| Realised fair value loss on disposal of Fabergé equity | 4 | **7,952,380** | – | – |
| Realised loss on conversion of Fabergé loan to Gemfields shares | 4 | **12,027,277** | – | – |
| Impairment of Fabergé loan | 4 | **–** | – | 1,638,471 |
| Realised gain on Sedibelo Platinum Mines transaction | 5 | **–** | – | (50,932,811) |
| Realised loss on Jupiter foreign exchange contract | 6 | **–** | – | 318,880 |
| Realised fair value gain on Jupiter shares | 6 | **–** | – | (3,250,521) |
| Unrealised fair value gains | 8 | **(17,787,178)** | (23,478,958) | (18,255,119) |
| Unrealised fair value losses | 8 | **34,155,899** | 38,990,401 | 119,429,986 |
| Unrealised foreign exchange gains | 8 | **–** | (412,653) | (12,148,997) |
| Unrealised foreign exchange losses | 8 | **36,339,667** | 398,049 | – |
| Unrealised fair value loss on other investments | | **25,502** | – | – |
| Unrealised foreign exchange loss on other investments | | **3,370** | – | – |
| Realised foreign exchange gains | 8 | **–** | – | (1,440,847) |
| Accrued interest | | **–** | (576,608) | (1,681,340) |
| Foreign exchange gain on cash balances | | **–** | (4,211) | – |
| Foreign exchange loss on cash balances | | **26,170** | 354,508 | 1,237,920 |
| Finance income | | **(17,573)** | (253,781) | (281,198) |
| Share in loss/(profit) of associates | | **473,989** | (3,134,545) | (1,119,941) |
| Increase in trade and other receivables | | **(135,518)** | (246,670) | (199,569) |
| (Decrease)/increase in trade and other payables | | **(97,346)** | 525,945 | (44,297) |
| **Net cash outflows from operations** | | **(3,384,759)** | (2,422,780) | (5,777,691) |

## 10. Related parties

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 8 *Investments*.

Certain Directors act on the boards of the Group's portfolio companies. Mr Gilbertson is the Chairman of Sedibelo Platinum Mines and Jupiter, and Mr Frandsen is a director of Sedibelo Platinum Mines.

The Investment Manager is a related party to the Group. Certain amounts are payable by the Group to the Investment Manager as disclosed in the most recent Annual Report. 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.

Legis Fund Services Ltd ("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. Ms White resigned from the Board on 15 March 2013. The Group's relationship with Legis is at arm's length.

The Non-Executive Directors each receive a Director's fee of US$25,000 per annum, pro rated as necessary. In addition, Mr Tolcher, Mr Platt-Ransom and Mr Harris each receive an additional US$3,000 for their roles as members of the Audit Committee; Mr Tolcher receives an additional US$2,000 for his role as chair of the Audit Committee; and Mr Platt-Ransom receives an extra US$2,000 for his role as the Lead Independent Director.

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

# Notes to the Interim Financial Statements (cont.)

for the six months ended 30 June 2012

## 11. Net Asset Value and Headline Loss Per Share

**NAV per share**

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

| | **30 June 2013 US$ (reviewed)** | 30 June 2012 US$ (reviewed) | 31 December 2012 US$ (audited) |
|---|---|---|---|
| Net assets | **325,006,514** | 399,223,192 | 401,357,918 |
| Number of shares | **760,452,631** | 663,451,510 | 760,452,631 |
| **NAV per share** | **0.43** | 0.60 | 0.53 |

**Headline Loss Per Share**

There are no reconciling items between Headline Loss Per Share ("HLPS") and Loss Per Share ("LPS"). There are no dilutive items to LPS. LPS is therefore equal to Diluted LPS.

The Group's HLPS is as follows:

| | **30 June 2013 US$ (reviewed)** | 30 June 2012 US$ (reviewed) | 31 December 2012 US$ (audited) |
|---|---|---|---|
| Loss for the period/year | **(76,351,398)** | (14,584,257) | (39,048,308) |
| Weighted average number of shares | **760,452,631** | 498,611,862 | 625,490,450 |
| **Headline Loss Per Share** | **(0.10)** | (0.03) | (0.06) |

## 12. Financial instruments

The Group owns certain financial instruments that are measured at fair value subsequent to initial recognition. The equity investments held within the Investment Portfolio fall into this category. In addition the Group owns certain other equity investments which do not form part of the Investment Portfolio, held within Other investments on the balance sheet. 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); and
- 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).

## 12. Financial instruments (continued)

| 30 June 2013 | Level 1 US$ | Level 2 US$ | Level 3 US$ | Total US$ |
|---|---|---|---|---|
| **Financial assets at FVTPL** | | | | |
| **Equity investments** | **117,967,762** | **–** | **176,202,162** | **294,169,924** |
| **Other investments** | **58,851** | **–** | **–** | **58,851** |
| | **118,026,613** | **–** | **176,202,162** | **294,228,775** |

| 30 June 2012 | Level 1 US$ | Level 2 US$ | Level 3 US$ | Total US$ |
|---|---|---|---|---|
| Financial assets at FVTPL | | | | |
| Equity investments | 109,963,001 | – | 210,566,459 | 320,529,460 |
| Other investments | – | – | – | – |
| | 109,963,001 | – | 210,566,459 | 320,529,460 |

| 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 |
| Other investments | – | – | – | – |
| | 97,675,366 | – | 217,951,326 | 315,626,692 |

IFRS requires the presentation of a reconciliation of the Group's Level 3 financial assets from the beginning to the end of the period. A reconciliation of the Group's equity investments, from 1 January 2013 to 30 June 2013 is provided below:

| | Level 1 US$ | Level 2 US$ | Level 3 US$ | Total US$ |
|---|---|---|---|---|
| Financial assets at FVTPL | | | | |
| Balance at 1 January 2013 | 97,675,366 | – | 217,951,326 | 315,626,692 |
| Realised fair value loss on disposal of Fabergé equity | – | – | (7,952,380) | (7,952,380) |
| Fair value gains | – | – | 17,787,178 | 17,787,178 |
| Fair value losses | (34,206,903) | – | – | (34,206,903) |
| Foreign exchange losses | (10,265,939) | – | (26,080,468) | (36,346,407) |
| Additions | 64,824,089 | – | – | 64,824,089 |
| Disposals | – | – | (25,503,494) | (25,503,494) |
| Balance at 30 June 2013 | 118,026,613 | – | 176,202,162 | 294,228,775 |

The comparative reconciliation of the Group's equity investments, from 1 January 2012 to 30 June 2012 is provided below:

| | Level 1 US$ | Level 2 US$ | Level 3 US$ | Total US$ |
|---|---|---|---|---|
| Financial assets at FVTPL | | | | |
| Balance at 1 January 2012 | 125,191,591 | – | 190,456,562 | 315,648,153 |
| Unrealised fair value gains | 23,478,958 | – | – | 23,478,958 |
| Unrealised fair value losses | (38,990,401) | – | – | (38,990,401) |
| Unrealised foreign exchange gains | 412,653 | – | – | 412,653 |
| Unrealised foreign exchange losses | (129,800) | – | (268,249) | (398,049) |
| Additions | – | – | 20,378,146 | 20,378,146 |
| Balance at 30 June 2012 | 109,963,001 | – | 210,566,459 | 320,529,460 |

# Notes to the Interim Financial Statements (cont.)

for the six months ended 30 June 2012

## 12. Financial instruments (continued)

The comparative reconciliation of the Group's equity investments, from 1 January 2012 to 31 December 2012 is provided below:

| | Level 1 US$ | Level 2 US$ | Level 3 US$ | Total US$ |
|---|---|---|---|---|
| Financial assets at FVTPL | | | | |
| 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 |

## 13. 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 31 December 2012. Since the completion of the Gemfields/Fabergé Merger, it is the intention that Gemfields either undertake this guarantee on Fabergé's behalf or indemnify the Group against any potential liability to the landlord. The Directors' assessment is that the maximum amount of the Group's contingent liability continues to be US$219,000.

The Group had no other significant contingent liabilities or contingent assets at 30 June 2013, 30 June 2012 or 31 December 2012.

## 14. Commitments

The Group had no material commitments at the balance sheet date or the date of signature of these Interim Financial Statements.

## 15. Events occurring after the end of the period

**Acquisition of Jupiter shares**

The Group acquired 9,432,978 Jupiter shares during June 2013 for a cost of US$632,207. These shares are included as additions to the Group's investment in Jupiter, see Note 8 *Investments*. The Group also acquired 31,372,272 additional Jupiter shares for US$2,008,995 during July 2013. This acquisition will be accounted for in the second half of the year.

The Group also acquired 22,404,185 Jupiter shares on behalf of certain Pallinghurst Co-Investors for US$1,450,156 during July 2013. These shares have subsequently been disposed of at cost to the relevant Pallinghurst Co-Investors.

**Interim Review Report**

The Interim Report has been reviewed by the Group's auditor, Saffery Champness who have provided a report to the Company (the "Independent Review Report"). The Independent Review Report is available from the registered office of the Company. The Independent Review Report confirms that nothing has come to the auditor's attention that might cause them to believe that the Interim Report was not prepared, in all material respects, in accordance with IAS34 and the SAICA Reporting Guides.

# Company Information

**Directors**
Brian Gilbertson
Arne H. Frandsen
Andrew Willis[1]
Dr Christo Wiese[2]
Stuart Platt-Ransom[3]
Martin Tolcher
Clive Harris
Patricia White[4]
Chris Powell[1]
Brian O'Mahoney[3]

*1 The Board resolved to appoint Mr Powell as Permanent Alternate to Mr Willis on 15 March 2013. The appointment became effective 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.*

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