



PALLINGHURST

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PALLINGHURST RESOURCES LIMITED -  
APPLICATION OF KING IV PRINCIPLES

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*Last update: 13 March 2018*

This register illustrates how Pallinghurst Resources Limited (“Pallinghurst”, the “Group” or the “Company”)<sup>1</sup> applied each of the principles of King IV during 2017.

### **Application of King IV Principles**

#### **LEADERSHIP, ETHICS AND CORPORATE CITIZENSHIP**

##### **Leadership**

#### **Principle 1 The Board should lead ethically and effectively**

The Board take responsibility for ensuring the integrity and the effectiveness of the Group’s governance processes and for determining policies and processes to ensure the integrity of the Group’s risk management and internal controls.

The Board take responsibility for determining the Group’s strategic direction and providing oversight of corporate governance. The Board are focused on ethics and in particular ensure that appropriate standards of governance and ethics are in place across the Group, and to the extent possible ensure that these are mirrored at a potential investee as part of the diligence process carried out prior to an acquisition. The Board also monitor the performance of Pallinghurst’s investments on an ongoing basis, including the handling of ethical and governance issues.

The Board take responsibility for the Group’s ethical foundation. The Board ensure that an appropriate ethical foundation is in place at the Group’s portfolio companies. The Group utilises Vistra Fund Services (Guernsey) Limited (“Vistra Guernsey”), as the Group’s administrator. Vistra Guernsey is a key service provider. The Board also review the ethical foundations in place at Vistra Guernsey.

##### **Organisational Ethics**

#### **Principle 2 The Board should govern the ethics of the company in a way that supports the establishment of an ethical culture**

The Board take responsibility for determining the Group’s strategic direction and providing oversight of corporate governance. The Board are focused on ethics and in particular ensure that appropriate standards of governance and ethics are in place across the Group, and to the extent possible ensure that these are mirrored at a potential investee as part of the diligence process carried out prior to an acquisition. The Board also monitor the performance of Pallinghurst’s investments on an ongoing basis, including the handling of ethical and governance issues.

##### *Dealing in securities*

PRL has a defined policy for the conduct of Directors and employees classified as insiders in relation to dealing in PRL’s shares. The JSE Listings Requirements define closed periods, which are around the time of the annual results, the interim results, or around the release of any other major announcements, price sensitive negotiations, acquisitions or disposals, or pending the release of any other price sensitive information. Directors (and their close family members) as well as employees who are classified as insiders are prohibited from trading in PRL’s shares during these closed periods. Directors and employees can trade PRL shares outside of these periods, after first obtaining approval in writing from the Chairman and the Finance Director. Any transactions by Directors are advised to the JSE and BSX and are published on SENS and on the Company’s website.

##### **Responsible corporate citizenship**

#### **Principle 3 The Board should ensure that the company is and is seen to be a responsible corporate citizen**

The Directors recognise the importance of sustainable development. Previously as an investment holding company, the Company did not have a significant direct impact on the natural environment in which it operated. The responsibility for sustainable development was largely retained by the Company's investments, Gemfields, Sedibelo Platinum Mines and Jupiter. Since the acquisition of Gemfields, the Company has integrated the corporate social responsibility and sustainability initiatives across the Group. Where possible, the Board also uses its influence on the Group's investments to ensure that Pallinghurst's investees act responsibly and that independent assurance is provided on their sustainability reporting. Detailed sustainability information for the Group's investments can usually be obtained from publicly available information.

For information on Gemfields plc ("Gemfields") see [www.gemfields.com](http://www.gemfields.com)

For information on Sedibelo Platinum Mines Limited ("Sedibelo Platinum Mines") see [www.sedibeloplatinum.com](http://www.sedibeloplatinum.com)

For information on Jupiter Mines Ltd ("Jupiter") see [www.jupitermines.com](http://www.jupitermines.com)

Strategy, performance and reporting

**Principle 4 The Board should appreciate that the company's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process**

The Board believe that strategy, risk, performance and sustainability are inseparable. This principle is particularly relevant to the Group's investments and the Board strive to ensure that this principle is reflected at each investee. This principle is evidenced in the external reporting from each investee.

The Directors recognise the importance of sustainable development. Previously as an investment holding company, the Company did not have a significant direct impact on the natural environment in which it operated. The responsibility for sustainable development was largely retained by the Company's investments, Gemfields, Sedibelo Platinum Mines and Jupiter. Since the acquisition of Gemfields, the Company has integrated the corporate social responsibility and sustainability initiatives across the Group. Where possible, the Board also uses its influence on the Group's investments to ensure that Pallinghurst's investees act responsibly and that independent assurance is provided on their sustainability reporting. Detailed sustainability information for the Group's investments can usually be obtained from publicly available information.

For information on Gemfields see [www.gemfields.com](http://www.gemfields.com)

For information on Sedibelo Platinum Mines see [www.sedibeloplatinum.com](http://www.sedibeloplatinum.com)

For information on Jupiter see [www.jupitermines.com](http://www.jupitermines.com)

**Principle 5 The Board should ensure that reports issued by the company enable stakeholders to make informed assessments of the company's performance, and its short, medium and long-term projects**

The Board, assisted by the Audit Committee, takes responsibility for the Group's external reporting and ensures that it fairly represents the performance of the Group. The Audit Committee oversees the integrated reporting process and reviews the audited financial statements.

The Board recognise that the perceptions of stakeholders could affect Pallinghurst's reputation. The Board believe that the best way to manage stakeholder perceptions is via effective, regular communication.

The Board regularly communicates with its shareholders regarding the Group's financial performance and strategy, via SENS and via the website, [www.pallinghurst.com](http://www.pallinghurst.com). The Board communicates with other stakeholders as appropriate.

## GOVERNING STRUCTURES AND DELEGATION

Primary role and responsibilities of the Board

### **Principle 6 The Board should serve as the focal point and custodian corporate governance in the company**

The Board takes responsibility for ensuring the integrity and the effectiveness of the Group's governance processes and for determining policies and processes to ensure the integrity of the Group's risk management and internal controls. The Directors ensure that the Group's core corporate governance principles are communicated and adhered to by all employees of the Group.

The Board has an approved charter, which is reviewed as and when required. On an annual basis the board assures itself that it has discharged its responsibilities in terms of the charter. The Board approves charters for each of its sub-committees, who in turn discharge their responsibilities.

The performance of each member of the Board is monitored on an ongoing basis. The performance of the Board's committees is assessed on an annual basis. Evaluation processes are not performed solely on an annual basis. The Chairman is responsible for the assessment of the performance of each Director and committee.

All Directors are entitled to seek independent professional advice on the affairs of the Group, at the Group's expense, if they believe that course of action would be in the best interests of the Group.

### Board meetings table

Below is a list of the Directors and their attendance record for the scheduled meetings of the Board and (and where they were committee member) its committees during 2017:

|                                     | Board | Audit | Remuneration | Nomination |
|-------------------------------------|-------|-------|--------------|------------|
| Mr Brian Gilbertson                 | 6/6   | n/a   | n/a          | n/a        |
| Mr Arne H. Frandsen                 | 6/6   | n/a   | n/a          | n/a        |
| Mr Andrew Willis                    | 6/6   | n/a   | n/a          | n/a        |
| Mr Sean Gilbertson <sup>1</sup>     | 1/2   | n/a   | n/a          | n/a        |
| Mr Priyank Thapliyal <sup>1,2</sup> | 1/1   | n/a   | n/a          | n/a        |
| Mr Christo Wiese                    | 1/6   | n/a   | n/a          | n/a        |
| Mr Martin Tolcher                   | 6/6   | 2/2   | 1/1          | 2/2        |
| Mr Lumkile Mondli <sup>3</sup>      | 5/6   | 1/1   | n/a          | n/a        |
| Mr Erich Clarke <sup>4,5</sup>      | 2/2   | n/a   | n/a          | n/a        |
| Mr Kwape Mmela <sup>4,6</sup>       | 2/2   | n/a   | n/a          | n/a        |
| Mr Clive Harris <sup>7</sup>        | 3/4   | 1/1   | 1/1          | 2/2        |
| Mr Stuart Platt Ransom <sup>7</sup> | 4/4   | 1/1   | 1/1          | 2/2        |

1 Appointed to the Board 17 July 2017.

2 Resigned from the Board 16 November 2017.

3 Appointed to the Audit, Remuneration and Nomination Committees 11 July 2017.

4 Appointed to the Board 31 July 2017.

5 Appointed to the Audit Committee 14 September 2017.

6 Appointed to the Nomination and Remuneration Committees 14 September 2017.

7 Resigned from the Board, Audit, Remuneration and Nomination Committees 11 July 2017.

Attendances set out above include attendance in person or by telephone.

Composition of the Board

**Principle 7 The Board should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively**

*Independence of directors*

As of 1 January 2018, the Board consists of six Non-Executive Directors, Mr Tolcher, Mr Mondy, Mr Clarke and Mr Mmela are considered by the Board to be independent in the context of King IV. The Chairman of PRL, Mr Brian Gilbertson converted from Executive Chairman to Non-Executive Chairman from the beginning of 2018. Mr Tolcher has served on the Board for a tenure of more than nine years and as per the recommendations of King IV the Board is required to review his independence. As Mr Tolcher has no significant interests in the Company and his remuneration is non-material, the Board have concluded that his independent classification should remain for the foreseeable future. A review of the independence of the directors is undertaken each year by the board.

*New appointments*

The Board adopted a policy on the promotion of gender diversity at Board level and will adopt a more formal policy on the promotion of race diversity during the 2018 financial year to ensure compliance with the amended JSE Listings Requirements.

When considering the balance of the Board or the nomination of new members or the appointment of senior executives, the range of skills, knowledge, experience and diversity of existing incumbents are taken into account, including gender. The Company seeks to promote diversity at Board level, including gender, although does not set targets for race, age, sexual orientation or gender when making appointments to the Board. The key factors considered are those which will result in the appointment of the best qualified individuals who can best serve the interests of all of the stakeholders of the Company. The Nomination Committee seeks to ensure that the Board has the right balance necessary to carry out its responsibilities in keeping with robust standards of governance.

Any Director appointed since the previous AGM may only hold office until the next AGM. A retiring Director can be re-elected at the same AGM and if re-elected at the same AGM is deemed to have not vacated their office. During the year Mr Sean Gilbertson, Mr Thapliyal, Mr Clarke and Mr Mmela were appointed to the Board. Mr Thapliyal also resigned from the Board during the year to commit more time to his role of CEO at Jupiter.

*Chair of the Governing Body*

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. King IV recommends that the Board should be led by an independent non-executive chairman who should not be the chief executive officer of the Company. The offices of Chairman and Chief Executive are separate. The Chairman of PRL, Mr Brian Gilbertson, has become non-executive Chairman from the beginning of 2018 to further align the Company with the principles of King IV. 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.

Mr Mondy became the Company's Lead Independent Non-Executive Director ("LID") effective 14 September 2017, previous to this Mr Platt-Ransom served as the Company's LID up to his resignation date. 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.

#### *Company Secretary*

Vistra Guernsey acts as Pallinghurst's Company Secretary, rather than a specific individual. Vistra Guernsey employs a number of individuals with expertise in different areas who are able to assist the Board as necessary, with experience in areas including corporate governance, directors' fiduciary responsibilities, compliance and private equity fund structures. Given the nature of the legal issues that face the Group, the Board believe they are better-served by having access to a broader range of advice via Vistra Guernsey than employing an individual as company secretary.

#### *Induction of directors*

All new Directors undergo a formal induction programme. The programme is tailored for the individual director; in broad terms, the programme would set out the Directors' responsibilities and educate the individual on the Group and its investments.

#### Committees of the Board

**Principle 8      The Board should ensure that its arrangement for delegation within its own structured promote independent judgement, and assist with balance of power and the effective discharge of its duties**

The Board has delegated certain responsibilities to an Audit Committee, a Remuneration Committee and a Nomination Committee.

Each committee has formal terms of reference which set out the membership, authority and responsibilities of each committee. The chairman of each committee reports back to the Board after each meeting. The Board ensures that each committee is well-structured and has a suitable level of authority, whilst retaining overall responsibility for the Group's governance.

The Committees are appropriately constituted and members are appointed by the Board, with the exception of the Audit Committee whose members are nominated by the Board and elected by shareholders periodically.

#### Audit Committee

The Group's Audit Committee consists of Mr Tolcher, Mr Clarke and Mr Mondy, each of whom is an independent Non-Executive Director. The Audit Committee members have suitable levels skills and experience. The performance of the members of the Audit Committee is evaluated on an annual basis by the Board. The Audit Committee is chaired by Mr Tolcher.

The Audit Committee has clear terms of reference which set its agenda and focus. These terms are approved by the Board on at least an annual basis. The Audit Committee may meet without any of the Executive Directors being present. The Committee may meet with the auditor, either formally or informally, throughout the year; the audit partner has access to the Committee through the Chair.

The Board, assisted by the Audit Committee, takes responsibility for the Group's external reporting and ensures that it fairly represents the performance of the Group. The Group utilises Vistra Fund Services (Guernsey) Limited ("Vistra Guernsey") as administrator. One of Vistra Guernsey's key duties

is the provision of the Company's accounting function. The Audit Committee is satisfied that Vistra Guernsey's internal controls are adequate and fit for purpose and has therefore recommended to the Board that the Group should not currently appoint its own internal audit function. An analysis will be undertaken over the next twelve months on whether it is deemed to be appropriate for the Company to appoint its own internal audit function as a result of the Company converting to an operating mining company.

The Audit Committee annually reviews the appropriateness of the expertise and adequacy of the resources of the finance function. The Audit Committee also assesses the Finance Director. The Audit Committee is responsible for overseeing the external audit process.

The Board has delegated monitoring of the Group's risk management process to the Audit Committee and the Audit Committee monitors risk on an ongoing basis. The ultimate responsibility for risk management lies with the Board. The Audit Committee recommends the appointment of the external auditor to shareholders on an annual basis at the AGM. The Audit Committee is responsible for overseeing the external audit process and reports to the Board. The Audit Committee reports to the Board on an ongoing basis and reports formally on how it has discharged its duties.

The Audit Committee met twice during 2017.

#### Nomination Committee

The Group's Nomination Committee consists of Mr Mondy, Mr Tolcher and Mr Mmela, each of whom is an independent Non-Executive Director. The Nomination Committee is chaired by Mr Mondy. The Nomination Committee assists the Board in considering new board appointments as and when the need arises. A formal process exists to appoint new Directors. When considering the balance of the Board or the nomination of new members or the appointment of senior executives, the range of skills, knowledge, experience and diversity of existing incumbents are taken into account, including gender. The Company seeks to promote diversity at Board level, including gender, although does not set targets for race, age, sexual orientation or gender when making appointments to the Board. The key factors considered are those which will result in the appointment of the best qualified individuals who can best serve the interests of all of the stakeholders of the Company. The Nomination Committee seeks to ensure that the Board has the right balance necessary to carry out its responsibilities in keeping with robust standards of governance. The Board would then collectively agree on any new appointment.

External advisors, Executive Directors and members of management attend committee meetings by invitation.

The Board considers the allocation of roles and the composition of membership across committees to achieve the following:

- Effective collaboration through cross-membership between committees, where required; coordinated timing of meetings; and avoidance or duplication or fragmented functioning in so far as possible.
- Where more than one Committee has jurisdiction to deal with a similar matter, the specific role and positioning of each Committee in relation to such matter are defined to ensure complementary rather than competing approaches.
- There is a balanced distribution of power in respect to membership across Committees, so that no individual has the ability to dominate decision making, and no undue reliance is placed on any individual.

The succession plan of directors is reviewed annually by the Nomination Committee and includes the identification, mentorship and development of future candidates.

#### Remuneration Committee

The Remuneration Committee consists of Mr Mmela, Mr Tolcher and Mr Mondi, each of whom is an independent Non-Executive Director. The Remuneration Committee is chaired by Mr Mmela.

The Remuneration Committee determines the levels of remuneration for each member of the Company's Board. The fee payable for each Non-Executive Director increased from US\$35,000 per annum to US\$40,000 per annum with effect from 14 September 2017. Other fees are payable for membership of committees or other duties. Members of the Remuneration Committee do not participate when the level of their personal remuneration is considered.

The Executive Directors; Mr Brian Gilbertson as Chairman, Arne H. Frandsen as Chief Executive, Andrew Willis as Finance Director and Mr Sean Gilbertson as Chief Investment Officer have provided a renewed five-year commitment to the Company. Priyank Thapliyal acted as Chief Operating Officer during the period 17 July - 16 November 2017. Priyank resigned from the Board to focus on his position as a full-time CEO of Jupiter Mines Limited. The Chairman of PRL, Brian Gilbertson, has become Non-Executive Chairman from the beginning of 2018.

On 26 June 2017, shareholders of the Company voted in favour of the restructuring of the Company. Pallinghurst's life was extended by 50 years and is set to become an operating mining company. Pallinghurst has terminated the existing Investment Management Agreement for no consideration and the Investment Manager's Benefit and all carried interest arrangements ceased on 14 September 2017. The Company's shareholders voted in favour that each Executive Director shall be remunerated US\$50,000 per month with effect from 15 September 2017. Other performance related fees may be payable to the Executive Directors if certain targets are met.

Sean Gilbertson elected to reduce his base compensation by approximately 22.5% from US\$600,000 to GBP350,000 per annum. Andrew Willis elected to reduce his base compensation by approximately 42.5% from US\$600,000 to GBP260,000 per annum. These reductions are backdated to 15 September 2017. Any annual bonuses for Executive Directors will be calculated entirely on these lower base compensation amounts where applicable, for 2017 and beyond.

The Chairman of PRL, Brian Gilbertson, has become Non-Executive Chairman from the beginning of 2018 to further align the Company with the principles of King IV. As a result of his transition from Executive to Non-Executive Chairman, Brian Gilbertson has elected to decrease his base compensation of US\$600,000 per annum from 1 January 2018 by approximately 83% to a Non-Executive Chairman's fee of US\$60,000 plus an additional GBP30,000 (equivalent to US\$40,480 at 31 December 2017), for acting as chairman of Gemfields. The fee is capped at a maximum Non-Executive Director fee of US\$100,000 per annum. As Non-Executive Chairman, Brian Gilbertson will not be eligible for participation in the annual bonus scheme from 1 January 2018.

The Pallinghurst Share Option Plan was approved by shareholders on 26 June 2017 and as detailed in the Circular, share options were awarded at a R3.45 strike price to each of the Company's five Executive Directors. Priyank Thapliyal elected not to take up any share options. Each Executive Director (other than Priyank Thapliyal) was awarded 27,890,213 share options of which 1/5th vested immediately and then annually over the next 4 years. Due to Brian Gilbertson becoming Non-Executive Chairman, he will forego his right to 22,312,170 share options i.e. all share options other than the 5,578,043 share options which vested immediately upon grant on 14 September 2017.



The Group employed certain key management personnel throughout the year to assist with the day to day running of the business, the Remuneration Committee's remit includes consideration of the remuneration paid to these individuals. Pallinghurst does not currently have a Social and Ethics Committee as historically the nature and size of the company has made such a committee redundant. The relevant activities in practice are in carried out by the Audit Committee and therefore by a majority of non-executive directors in line with the recommendations of King IV. The Company will review the requirement of containing a Social and Ethics Committee in the future.

Evaluations of the performance of the Board governing body

**Principle 9 The Board should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness**

The performance of each member of the Board is monitored on an ongoing basis. The performance of the Board's committees is assessed on an annual basis. Evaluation processes are not performed solely on an annual basis. The Chairman is responsible for the assessment of the performance of each Director and committee.

Appointment and delegation to management

**Principle 10 The Board should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities**

Mr Frandsen acts as the Company's Chief Executive. The Chief Executive is responsible for executing strategy and the day-to-day business of the Company. The Group acts as an operating mining holding company. The Company has recently employed a small number of key management personnel and the Board will ensure that the delegation of role clarity and relevant responsibilities are passed down to the employees in an effective manner. Historically all authority rested with the Board. The Board has also delegated specific responsibilities to the Audit Committee, Remuneration Committee and Nomination Committee.

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.

The Nomination Committee are responsible for ensuring that succession plans are in place for the Chief Executive. The Board evaluates the performance of the Chief Executive annually against agreed performance measures and targets.

Mr Mondy 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.

Vistra Guernsey acts as Pallinghurst's Company Secretary, rather than a specific individual. Vistra Guernsey is regulated by the Guernsey Financial Services Commission ("GFSC") and employs a number of individuals with expertise in different areas who are able to assist the Board as necessary, with experience in areas including corporate governance, directors' fiduciary responsibilities, compliance and private equity fund structures. Given the nature of the legal issues that face the Group, the Board believe they are better-served by having access to a broader range of advice via Vistra Guernsey than employing an individual as company secretary. The Board considers the and satisfies itself on an annual basis on the competence, qualifications and experience of the Company Secretary.

The Company Secretary has a direct channel of communication to the Chairman, while maintaining an arm's-length relationship with the Board.

## GOVERNANCE FUNCTIONAL AREAS

### Risk governance

#### **Principle 11 The Board should govern risk in a way that supports the company in setting its strategic objectives**

The Board takes full responsibility for all aspects of the governance of risk. The Board monitor the Risk Assessment Programme on an ongoing basis and determine what action to take (if any) to mitigate each risk and is responsible for ensuring that any such actions are implemented.

The Board also consider how best to anticipate infrequent, unlikely, but high impact events/risks. The Audit Committee help the Board to monitor the Risk Assessment Programme.

The Group's principal risks and uncertainties are disclosed in the Group's annual financial reporting as well as on the Company's website. Any material changes are articulated in the Group's interim financial reporting. The Group also communicates material information/updates to its shareholders via SENS.

### Technology and information governance

#### **Principle 12 The Board should govern technology and information in a way that supports the company setting and achieving its strategic objectives**

The Board are collectively responsible for IT governance. As the Company is an operating mining holding company, the Company does not directly own any significant Information Technology assets. Vistra Guernsey has a formal programme of Information Technology risk management and a Head of Information Technology. The Audit Committee do not currently believe that it would be appropriate for the Group to appoint a Chief Information Officer. The Board have concurred with this recommendation. An analysis will be undertaken on whether it is deemed to be appropriate for the Company to appoint its own Chief Information Officer as a result of the Company converting to an operating mining company.

### Compliance governance

#### **Principle 13 The Board should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the company being ethical and a good corporate citizen**

The Company requires all Group companies and their directors and employees to comply with all applicable laws. Each Director has an understanding of the laws and standards applicable to Pallinghurst. The Board receives an update on these issues at each scheduled meeting.

The Company Secretary presents the Board with a governance update at each scheduled meeting; the update includes operational issues, the UK Bribery Act, the Guernsey Code of Corporate Governance and the Alternative Investment Fund Managers' Directive as standing items.

The Company Secretary 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.

To the extent that legal and regulatory matters have an impact on the financial statements, reports are presented to the Audit Committee and the Board.

Vistra (Guernsey) Compliance Services Limited acts as the Company's Compliance Officer through Vistra Guernsey. Compliance risk is integral to Pallinghurst's Risk Assessment Programme and is monitored on an ongoing basis.

Remuneration governance

**Principle 14 The Board should ensure that the company remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long-term**

The Remuneration Committee consists of Mr Mmela, Mr Tolcher and Mr Mondji, each of whom is an independent Non-Executive Director. The Remuneration Committee is chaired by Mr Mmela.

The Remuneration Committee determines the levels of remuneration for each member of the Company's Board. The fee payable for each Non-Executive Director increased from US\$35,000 per annum to US\$40,000 per annum with effect from 14 September 2017. Other fees are payable for membership of committees or other duties. Members of the Remuneration Committee do not participate when the level of their personal remuneration is considered.

Prior to the termination of the Investment Manager's agreement on 14 September 2017, PRL Executive Directors did not draw a salary. It was only the Company's Non-Executive Directors who received remuneration prior to this date. The announcement of the Gemfields takeover however, triggered the need for the creation of a robust Remuneration Policy due to the proposed change in nature of the Company from an investment entity to an operating mining group. In preparation for a successful takeover, the Board, including with input from the Remuneration Committee, set about creating a new comprehensive Remuneration Policy (the "Remuneration Policy") that would apply after the takeover and termination of the Investment Management Agreement.

In designing the Remuneration Policy, there were three key areas of focus:

- The policy should function as a strong tool to incentivise the performance of Executive Directors toward the success of PRL, its shareholders and other stakeholders.
- Shareholder consultation and approval are of vital importance to the Board and is a key metric by which the Remuneration Committee will measure the success of the policy.
- The King IV standards were to be incorporated into the policy.

The Executive Directors; Mr Brian Gilbertson as Chairman, Arne H. Frandsen as Chief Executive, Andrew Willis as Finance Director and Mr Sean Gilbertson as Chief Investment Officer have provided a renewed five-year commitment to the Company. The Chairman of PRL, Mr Brian Gilbertson converted from Executive Chairman to Non-Executive Chairman from the beginning of 2018. Priyank Thapliyal acted as Chief Operating Officer during the period 17 July - 16 November 2017. Priyank resigned from the Board to focus on his position as a full-time CEO of Jupiter Mines Limited. On 26 June 2017, shareholders of the Company voted in favour of the restructuring of the Company. Pallinghurst's life is now extended by 50 years and is set to become an operating mining company. Pallinghurst has terminated the existing Investment Management Agreement for no consideration and the Investment Manager's Benefit and all carried interest arrangements ceased on 14 September 2017. The Company's shareholders voted in favour that each Executive Director shall be remunerated

US\$50,000 per month with effect from 15 September 2017. Other performance related fees may be payable to the Executive Directors if certain targets are met.

Sean Gilbertson elected to reduce his base compensation by approximately 22.5% from US\$600,000 to GBP350,000 per annum. Andrew Willis elected to reduce his base compensation by approximately 42.5% from US\$600,000 to GBP260,000 per annum. These reductions are backdated to 15 September 2017. Any annual bonuses for Executive Directors will be calculated entirely on these lower base compensation amounts where applicable, for 2017 and beyond.

The Chairman of PRL, Brian Gilbertson, has become non-executive Chairman from the beginning of 2018 to further align the Company with the principles of King IV. In changing his Chairman position from Executive to Non-Executive, Mr Gilbertson will no longer be eligible for participation in the Annual Bonus scheme from 1 January 2018.

The Pallinghurst Share Option Plan was approved by shareholders on 26 June 2017 and as detailed in the Circular, share options were awarded at a R3.45 strike price to each of the Company's five Executive Directors. Priyank Thapliyal elected not to take up any share options. Each Executive Director (other than Priyank Thapliyal) was awarded 27,890,213 share options of which 1/5<sup>th</sup> vested immediately and then annually over the next 4 years. Due to Brian Gilbertson becoming Non-Executive Chairman, he will forego his right to 22,312,170 share options i.e. all share options other than the 5,578,043 share options which vested immediately upon grant on 14 September 2017.

The Group employed certain key management personnel throughout the year to assist with the day to day running of the business, the Remuneration Committee's remit includes consideration of the remuneration paid to these individuals.

The remuneration policy aims to enable the attraction and retention of skilled individuals and results in the rewards aligned with shareholder interests.

The Board and Remuneration Committee actively engages with Pallinghurst's shareholders, which has resulted in the Remuneration policy undergoing changes. The Remuneration Committee considers shareholders' contributions thoroughly and incorporates them into the policy where these improvements align with the Company's strategy.

At the July 2017 AGM, 78% of votes cast were in favour of the previous policy. Pallinghurst discloses the remuneration of each director individually in its annual financial statements.

Shareholder engagement has been key to creating the Remuneration Policy and applying it to the first year of Executive Director remuneration. Advisory votes are a key means of Shareholder feedback from which the Remuneration Committee can tailor both practical remuneration and Policy. At the July 2017 AGM, 78% of votes cast were in favour of the previous policy. Pallinghurst discloses the remuneration of each director individually in its annual financial statements. The yearly shareholder vote is key for the Remuneration Committee to collate shareholder feedback following the initial setting of the Remuneration Policy and the Executive Director remuneration.

Should any Shareholder advisory vote conclude in a result of less than 75% in favour of the remuneration matter under vote, the Remuneration Committee will re-examine the matter. Where possible the Remuneration Committee will engage in direct conversation with shareholders to understand the motivation behind such a vote, to better understand their opinions and wishes. However, a number of shares are held anonymously, therefore creating an obstacle in shareholder communication. In light of this circumstance, the Remuneration Committee will consider communicating with Shareholders individually and also via the PRL website, or the financial press,

encouraging anonymous shareholders to come forward should they believe their view is yet to be represented.

In line with the recommended practices of King IV, the remuneration policy will be tabled for a separate non-binding advisor vote by shareholders at the 2018 AGM.

Assurance

**Principle 15 The Board should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the company's external reports**

The Board, assisted by the Audit Committee, takes responsibility for the Group's external reporting and ensures that it fairly represents the performance of the Group.

The Group utilises Vistra Guernsey as administrator. One of Vistra Guernsey's key duties is the provision of the Company's accounting function. The Board believe that it would not be appropriate for the Group to appoint its own internal audit function. The Audit Committee is responsible for overseeing the external audit process.

Vistra Guernsey is regulated by the GFSC and is required to maintain a robust systems and controls environment and to maintain separate Risk and Compliance functions. This environment is reviewed by Vistra Guernsey's auditor as part of the annual audit process. In addition, Vistra Guernsey has engaged their auditor to produce a report on internal controls in accordance with International Standard of Assurance Engagements ("ISAE") 3402 Assurance Reports on Controls at a Service Organisation. The most recent report is dated 7 March 2018 and reports on the internal controls in place at 31 October 2017 (the "ISAE Report"). The ISAE Report concluded that Vistra Guernsey had designed suitable control procedures in place in order to meet its control objectives.

The Board are satisfied that Vistra Guernsey's internal controls are adequate and fit for purpose.

STAKEHOLDER RELATIONSHIPS

Stakeholders

**Principle 16 In the execution of its governance role and responsibilities, the Board should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the company over time**

The Board recognise that the perceptions of stakeholders could affect Pallinghurst's reputation. The Board believe that the best way to manage stakeholder perceptions is via effective, regular communication. The Board regularly communicates with its shareholders regarding the Group's financial performance and strategy, via SENS and via the website, [www.pallinghurst.com](http://www.pallinghurst.com). The Board communicates with other stakeholders as appropriate. The Company ensures communication with smaller shareholders who lack access to electronic media by way of publishing financial results in a main South African daily newspaper.

Interaction with stakeholders happens during the normal course of business across the Pallinghurst Group where individuals strive to resolve any disputes with its stakeholders in an effective manner.