

PALLINGHURST



Pallinghurst Resources Limited
ANNUAL REPORT 2012

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Cover photos from left to right:

Sampling in the Upper Group 2 plant at the Pilanesberg Platinum Mine ("PPM").

Gemfields' brand ambassador Mila Kunis wears Fabergé's emerald and diamond Romanov Necklace, set with 2,225 gemstones totalling 363 carats, including 79 emeralds from Kagem.

Logging samples taken from an exploration drill rig at PPM.

Welcome from management

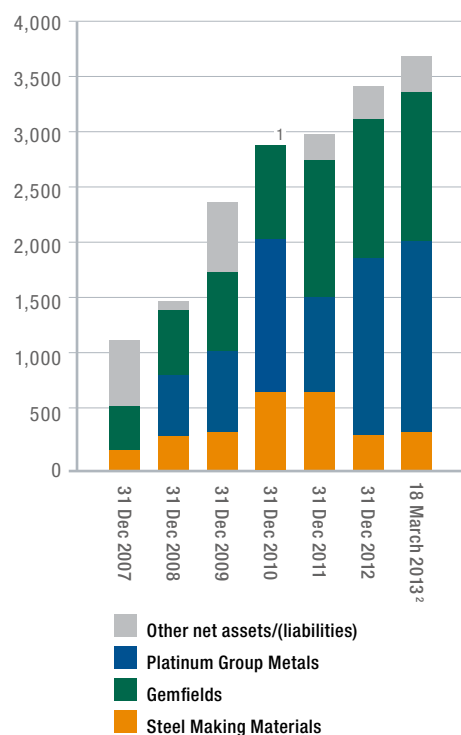


During the first five years, Pallinghurst has created three unique and attractive platforms, each well-positioned to provide superior returns for shareholders.

Our value

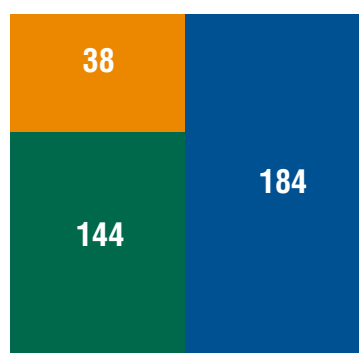
Net Asset Value by Investment Platform (in ZAR)

ZAR million



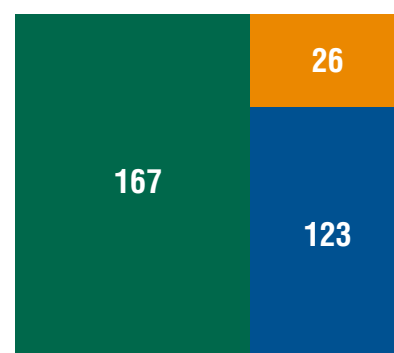
Net Asset Value per Investment Platform³ at 31 December 2012

US\$366m



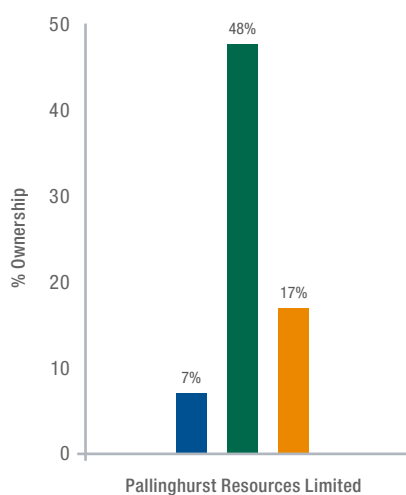
Net funds invested by Investment Platform at 31 December 2012

US\$317m

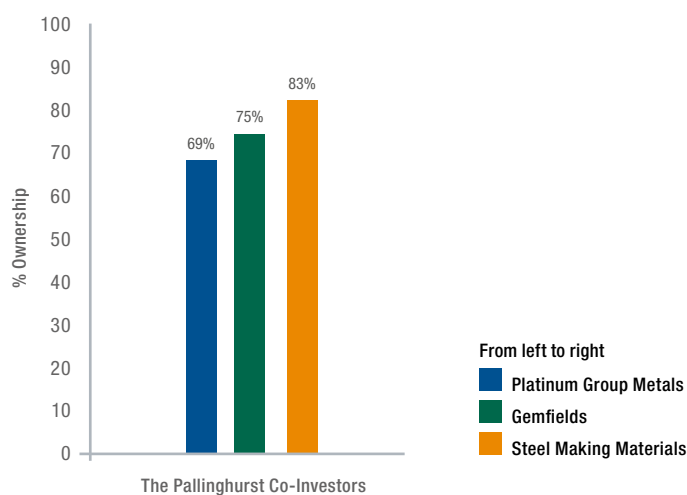
¹ Other net liabilities at 31 December 2010 was ZAR282,960,485² US\$ NAV per 31 December 2012 translated at the 18 March 2013 exchange rate of US\$1:ZAR9.1³ Assumes completion of Gemfields/Fabergé Merger at 31 December 2012

Control of each of the investments

PRL ownership at 31 December 2012



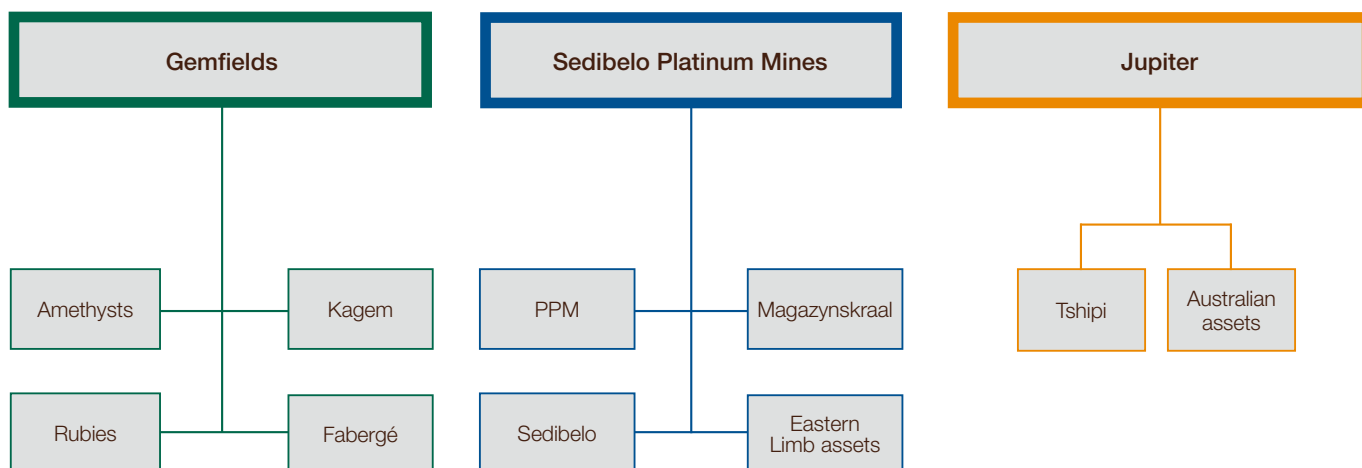
Pallinghurst Co-Investors' aggregate ownership, including PRL, at 31 December 2012



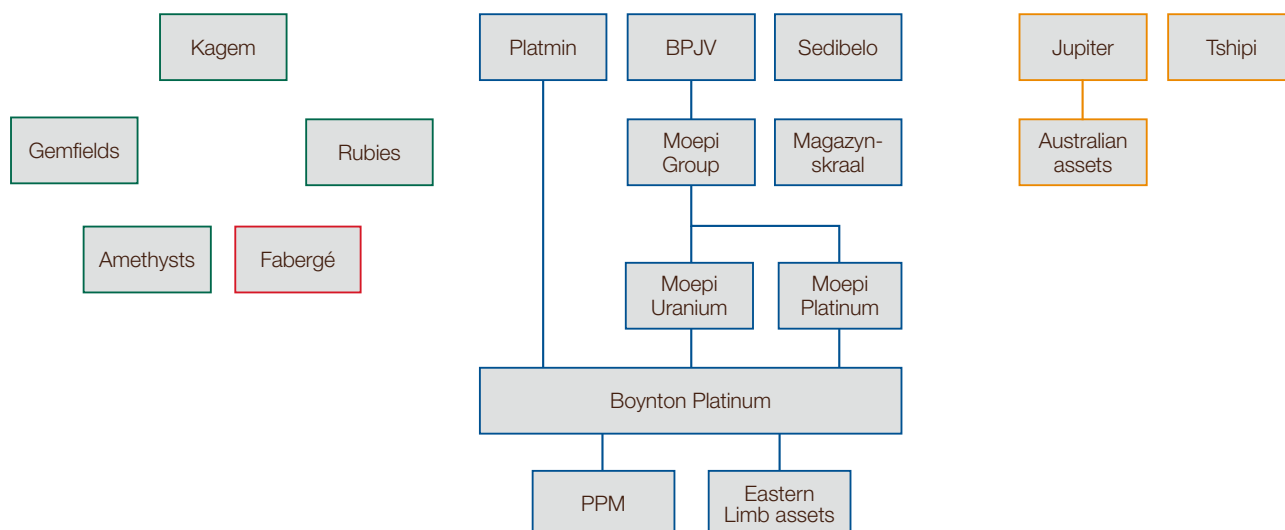
Consolidating our vision

During 2012 we rationalised the Investment Portfolio and fulfilled key strategic objectives.

Current structures



Pre-consolidation structures



The Pallinghurst Co-Investors



AMCI CAPITAL

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

www.amcicapital.com

APG

Algemene Pensioen Groep ("APG") is one of Europe's largest pension funds. It carries out collective pension schemes for participants in the education, government and construction sectors, housing corporations and energy and utility companies. APG manages pension assets of approximately €324 billion (December 2012) for these sectors. APG works for over 30,000 employers and provides for the income of more than 4.5 million participants and administers over 30% of all collective pension schemes in the Netherlands.

www.apg.nl

ENERGY AND MINERALS GROUP

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

www.emgtx.com

INVESTEC

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

www.investec.com

PALLINGHURST RESOURCES LIMITED

www.pallinghurst.com

POSCO

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

www.posco.com

SMEDVIG/SOUTHERN PROSPECTING GROUP

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

The Southern Prospecting Group is a privately owned business focussed on the identification, acquisition and turning to account of international exploration and mining opportunities. Historically, it was responsible for securing the mineral rights that gave rise to Impala Platinum, the world's second largest platinum producer.

www.smedvigcapital.com

TEMASEK

Temasek is the Asia investment company headquartered in Singapore. Temasek invests in many areas, including resources, with assets concentrated principally in Singapore, Asia and growth markets, with a portfolio valued at approximately SGD198 billion (March 2012).

www.temasek.com.sg

Chairman's statement



The turbulence created by the Global Financial Crisis in 2008 is still impacting the markets. Whilst we have recently seen the Dow and FTSE indices reach new highs, there remains a sentiment of pessimism about global growth and in particular the lack of growth from the developed economies. In the mining industry such uncertainty affects access to funding and delays the commitment to new projects. Added to this, the increase in legislation and regulatory restrictions is making the development of projects far more costly and time consuming.

Such an environment does however create opportunities and we continue to explore transactions in our existing investments and in new areas. The Company's balance sheet remains strong; we have no debt and have funded all our investments with equity capital. This investment philosophy has made us financially independent and provided the robustness needed in times of financial uncertainty.

The management teams of each of our Investment Platforms have made significant progress during 2012 and each is advancing towards the desired strategic outcome. I remain confident that all of the platforms will realise their inherent value potential, for the benefit of all shareholders.

Particular highlights of 2012 were the consolidation of all the Company's PGM properties and the landmark investment by the IDC; the building of the Tshipi Borwa mine and its first successful shipment of manganese ore; and the merger of Fabergé and Gemfields, which will radically change the coloured gemstone industry, realising our vision of a "De Beers for Coloured Gemstones".

It brings me pleasure to welcome Dr Christo Wiese to the Board. As one of Africa's most successful businessmen, he brings unique insights from which we will all benefit greatly. Following Dr Wiese's appointment, Ms Patricia White has stepped down from the Board. My thanks go to her for her substantial contribution over the past years in her roles as both a Director and an Alternate Director.

Finally, I extend my thanks for the hard work and substantial contributions of my fellow Directors and of the management teams of our portfolio companies.

Brian Gilbertson
Chairman

Chief Executive's statement



In my Chief Executive's Statement last year, I predicted that our current investments would soon enter their "harvesting season". That prediction was accurate and I am delighted to report that for the past twelve months the ripening has been significant for all our platforms, both due to the operational milestones achieved and as a consequence of significant consolidation activities.

Platinum Group Metals

We achieved the successful consolidation of all our PGM investments, creating "Sedibelo Platinum Mines", a PGM producer with a unique growth profile and a substantial, shallow and contiguous resource base. With production levels now at almost 150,000 4E PGM ounces on an annualised basis, the harvesting will commence and the unlocking of value looks promising. Another milestone achieved was the successful completion of the IDC's ZAR3.24 billion investment for a 16.2% equity stake, giving Sedibelo Platinum Mines one of the strongest balance sheets in the industry and securing the funding needed to develop its attractive portfolio of assets. With its shallow resource base of approximately 70 million 4E PGM ounces and an aggressive growth plan, Sedibelo Platinum Mines is well-positioned to maximise value in an IPO which is expected to take place within the next twelve months.

Steel Making Materials

For the past year, Tshipi has been a hive of activity with 70 metres of overburden being removed to expose the manganese ore. Much of the processing and other necessary infrastructure has been installed, in particular a 7.9 kilometre rail siding. In the last quarter

of 2012, the Tshipi mine shipped its first manganese ore. We have taken this investment from "Greenfield-to-Producer" and are confident that the mine will provide benefits for decades to come. The ramp up of production as well as potential M&A growth makes Tshipi a truly exciting investment, which is set to provide significant value for all stakeholders. In our Australian iron ore initiatives, the Mount Ida feasibility study identified a major reserve base with almost two billion tonnes of iron ore. However, the decision was made to hold further development on Mount Ida until there is more clarity regarding the logistics of the project as well as a firmer iron ore price. Mount Ida remains one of the largest magnetite resources known in the Yilgarn region of Western Australia. Optimisation work continues on Mount Mason and if port access can be secured, it has the potential to rapidly generate significant free cash flows.

Gemstones & Luxury

Our emerald operation now consistently produces significant quantities of quality stones and Gemfields has successfully positioned itself as the world's largest and most prominent producer of emeralds. Gemfields has now commenced mining activities at the new ruby mine in Mozambique, and I expect to see the first auction of ruby production in the coming months. Given the long-life nature of our operations, we expect profitable harvests for years to come. Lastly, Fabergé has progressed in its planned build-up and the synergies of the combination of Gemfields and Fabergé will accelerate the development of the world's preeminent coloured gemstone producer, with access to the significant parts of the value-chain from mine-to-market.

In spite of very challenging market conditions, the Company successfully completed one of the largest rights offers on the JSE in 2012, raising some ZAR640 million at ZAR2.24 per share. The funds were needed for our existing Investment Platforms while providing the ability to make new investments. The management of the Company is grateful for this vote of confidence from shareholders, and we believe that the funds will successfully contribute to the value growth of the Company.

Besides a continued focus on realising the inherent value potential of Pallinghurst's Investment Portfolio, the key challenge of 2013 will be to get the Company's NAV more adequately reflected in the share price. The current share price performance is unsatisfactory and will have to be addressed in the year ahead. However, I have been consistent in saying that when we deliver the first harvest, the share price should respond as the market sees the significant value embedded in our Investment Portfolio being realised.

Arne H. Frandsen
Chief Executive

Platinum Group Metals

Investment strategy

At the time of the Initial Public Offering ("IPO") of the Company in 2007, Pallinghurst identified the platinum group metals ("PGM") industry as having attractive investment fundamentals. PGMs are essential to a wide range of industries and do not have any substitutes in their main applications, in particular in automotive catalytic converters. Platinum and other PGMs are also increasingly used in high-end jewellery and as investments in physical metals and Exchange Traded Funds. An estimated 20% of consumer products either contain PGMs or use them during the manufacturing process. The strong demand fundamentals for PGMs are expected to continue as the global population grows, global economies expand and the consuming middle class numbers increase in emerging market countries.

The supply of PGMs is however constrained, with deposits being rare and existing predominantly in South Africa. The Bushveld Complex ("BC"), north of Johannesburg, contains approximately 80% of the world's known PGM resources and accounts for 90% of the world's annual output. Significant challenges face the PGM industry with increasing depth of mining, high cost inflation and significant capital expenditure requirements, resulting in expectations of only limited growth in the ounces capable of being supplied to the market in the medium term. The diverse and solid demand dynamics, when combined with ongoing supply pressures and high barriers to entry, give confidence that the price outlook for PGMs and platinum in particular, is attractive.

Pallinghurst identified three shallow PGM deposits north of the Pilanesberg on the Western Limb of the BC which, while individually attractive, collectively as one consolidated mining entity, could benefit considerably from

economies of scale and significant synergies. Pallinghurst assembled a consortium of Pallinghurst Co-Investors, including the Company, to invest in the PGM strategy. The Bakgatla Ba Kgafela Tribe (the "Bakgatla"), which already held interests in the deposits, joined the consortium as its Black Economic Empowerment ("BEE") partner.

For the past five years, Pallinghurst and its partners have executed a strategy of acquiring the three deposits and consolidating them into a single contiguous operation, to create a low cost PGM producer of industry significance with a large and shallow resources base. 2012 saw the realisation of this strategy with the completion of the consolidation of the three Western Limb properties of Pilanesberg Platinum Mine (Platmin), Sedibelo and Magazynskraal (the "Consolidation").

The Consolidation

In May 2012, the South African Department of Mineral Resources ("DMR") gave its consent for the acquisition of both the western area of the Sedibelo property ("Sedibelo West") by Platmin, as well as the acquisition of a 49.9% stake in the balance of the Sedibelo property by the Pallinghurst Co-Investors from the Bakgatla. The Pallinghurst Co-Investors also increased their aggregate interest in Magazynskraal to 40% and acquired key water and electricity rights and entitlements necessary for the development of the three contiguous properties. The regulatory consent for the Sedibelo acquisition was the main outstanding condition required to complete the Consolidation.

Following the DMR consent, consolidation agreements were signed by Platmin, the Pallinghurst Co-Investors, the Bakgatla and Anglo American Platinum Limited, and in November 2012 the Consolidation was completed.

The consolidated entity was renamed "Sedibelo Platinum Mines" and now has a resource base of approximately 70 million 4E PGM (platinum, palladium, rhodium and gold) ounces. As the majority of these resources are shallower than 600 metres, Sedibelo Platinum Mines expects to benefit from considerable safety and cost advantages in an industry where many other producers are mining deep, challenging and marginally profitable resources. The consolidated entity is set to engage in an aggressive growth plan to realise the full potential of the consolidated properties.

The IDC investment

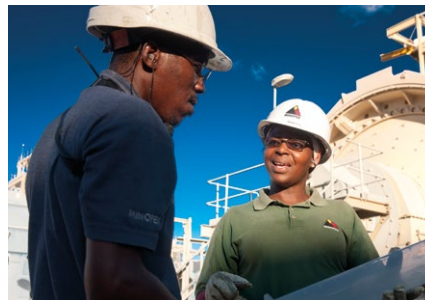
In March 2012, the Industrial Development Corporation of South Africa ("IDC") agreed to invest ZAR3.24 billion, conditional on the completion of the Consolidation, in consideration for a 16.2% interest in Sedibelo Platinum Mines. With the Consolidation successfully completed, the IDC transaction was completed in December 2012, giving Sedibelo Platinum Mines one of the strongest balance sheets in the PGM industry and the funding needed to develop its attractive portfolio of PGM mining assets. The introduction of the IDC, a blue-chip government finance and development organisation, as a cornerstone investor is a significant step in the PGM strategy of having a solid and long term shareholder base which is committed to creating a low cost producer of industry significance.

In addition, a PGM beneficiation joint venture between Sedibelo Platinum Mines and the IDC has been established to explore, develop and fund PGM beneficiation opportunities in South Africa. The first memorandum of understanding has been signed in respect of the KELL process, an energy-efficient beneficiation process which could be used at Sedibelo Platinum Mines. In addition, the recovery improvements and



Developing an attractive portfolio of PGM mining assets

- Successful consolidation of Pallinhurst's PGM interests.
- Landmark investment of ZAR3.24 billion by the Industrial Development Corporation.



Geoffrey Qhena, CEO of the IDC, Brian Gilbertson and Arne H. Frandsen after announcing the terms of the IDC's investment into Sedibelo Platinum Mines.

environmentally-advanced benefits of KELL could be of value not just for Sedibelo Platinum Mines but also for the entire industry, the local community and other stakeholders.

Operational performance

Platmin successfully completed the reorganisation of its contract mining agreements into five individual contracts during 2011, which enabled each contractor to focus solely on its core competencies, and production performance has seen significant improvements. On 30 June 2012, Platmin took direct control over the operation of its concentrator, thereby improving management of the beneficiation process and resulting in increases to the third and fourth quarter production results. In an industry where many leading producers are recording declining production levels, Platmin achieved record production in 2012 in excess of 100,000 4E PGM ounces, approximately 50% higher than production in 2011. Based on the fourth quarter production performance, the current annualised production profile is approaching 150,000 4E PGM ounces. These production increases are expected to continue and bode well for profitability of the consolidated operations. Work has commenced in preparation for an IPO of Sedibelo Platinum Mines.

The existing mine employs approximately 1,300 people, more than half of whom are from the Bakgatla community. The planned expansion of operations is expected to create a significant number of sustainable jobs for the local community as well as being a catalyst for community development and lasting social benefits for the region. Sedibelo Platinum Mines provides further services to the local community, such as maintaining and developing roads, water supply and other infrastructure. This tangible commitment to the local community is one of the cornerstones for the successful development of the PGM portfolio.

Outlook

As demand for PGMs is expected to remain strong and supply constrained, forecasts for PGM prices are positive. As Sedibelo Platinum Mines increases its production through the development of the consolidated properties, it is well positioned to also benefit from strong PGM prices and realise its objective of a successful IPO. This is expected to crystallise significant value for the Company and the other shareholders of Sedibelo Platinum Mines.

Steel Making Materials

Investment strategy

In 2007, Pallanghurst identified the raw materials needed for steelmaking as a key area of growth. Steel is an important driver of the global economy and has experienced consistent growth through a number of economic cycles, in particular when developing economies expand rapidly.

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

Investment history and development

These dynamics led the Investment Manager to pursue manganese as an investment target for the Company. In 2008, Pallanghurst identified an early stage manganese exploration opportunity within the KMF. The mining property is owned by Tshipi é Ntle Manganese Mining (Pty) Limited ("Tshipi") and is well-located, being adjacent to Samancor's Mamatwan manganese mine that has been in operation since 1964, and its deposit is an extension of the Mamatwan ore body.

The Investment Manager assembled a consortium of Pallanghurst Co-Investors, including the Company, to acquire a 49.9% interest in Tshipi from Ntsimbintle Mining (Pty) Limited ("Ntsimbintle"). Ntsimbintle is a broad based BEE consortium consisting of Safika Resources, Nkojane Economic Prospecting, and a number of national and local economic development and community organisations and social trusts, which continues to hold the remaining 50.1%

in Tshipi. The Pallanghurst Co-Investors provided the early exploration funding, successfully proving a 163 million tonne manganese resource at an estimated average grade of 37%.

In 2010, South Korea's POSCO, one of the world's largest steel producers, acquired a stake in Tshipi from the Pallanghurst Co-Investors. This transaction realised a profit for the Company, a significant valuation uplift, and introduced to Tshipi the skills and expertise of a leading manganese end-user. Ntsimbintle investors also introduced into their consortium OM Holdings Limited ("OMH"), an Australian Securities Exchange ("ASX") listed integrated manganese mining and trading house. OMH's involvement with the project has enabled Ntsimbintle to meet its share of the Tshipi development costs. Ntsimbintle is led by Saki Macozoma, a successful South African businessman and a former managing director of Transnet, South Africa's railway network operator. Mr Macozoma has significant experience in rail and logistics, both of which are critical to the success of Tshipi.

At the same time as the OMH transaction, Jupiter Mines Limited ("Jupiter"), an ASX-listed exploration company, in which the Company already held an investment, acquired the Pallanghurst Co-Investors' 49.9% interest in Tshipi. In January 2011, Jupiter raised AUD150 million for its share of the Tshipi mine construction funding and for its own exploration prospects located in the Central Yilgarn region of Western Australia.

Construction of the Tshipi Borwa mine

In February 2011, Tshipi approved the construction of South Africa's newest open pit manganese mine following receipt of the requisite mining permits and funding commit-

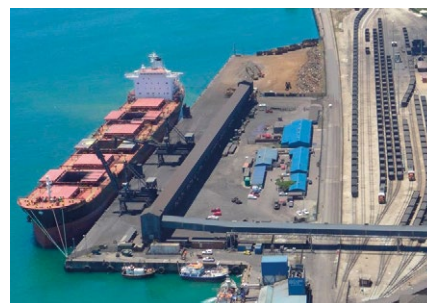
ments from Jupiter and Ntsimbintle. The mine was named Tshipi Borwa and has been designed to produce up to 2.4 million tonnes per annum of manganese ore. Jupiter and Ntsimbintle assembled a skilled team for the construction phase, including personnel that had been with Tshipi since the exploration programme. The latter half of 2011 saw the commencement of bulk earth moving works and the establishment of plant, infrastructure, housing and offices.

The 7.9 kilometre rail siding was completed in July 2012 and received formal approval from Transnet for its operation, a critical achievement given the importance of the rail connection in exporting ore from the mine. Tshipi's rail siding was used by Transnet in September 2012 to compile a trial 208-wagon distributed power train, double the length typically used by manganese trains to Port Elizabeth. The technology is the same as that used on the heavy haul Sishen-Saldanha iron ore line, and could significantly increase manganese rail capacity from the KMF. The Transnet-approved rapid load-out station is presently under construction and is expected to be operational by April 2013.

A temporary crushing and screening plant was commissioned in October 2012 and successfully used to produce saleable material in advance of the completion of the permanent infrastructure. The mining operations have also continued to advance waste stripping in order to open up the ore body and ensure sufficiently exposed ore in order to maintain and build ROM ore stocks available for crushing.

Tshipi enters production and export phase

After almost a year of mine construction and 70 metres of pre-stripping, Tshipi mined its first



manganese ore in October 2012. In November 2012, Tshipi's first train load of manganese ore was transported by rail to Port Elizabeth by Transnet. The train comprised 104 wagons and contained approximately 6,500 tonnes of manganese. The ore was stored at the Transnet Port Elizabeth bulk manganese terminal and following additional train deliveries, was loaded onto a vessel on 19 December 2012 and shipped to Asia. This is a significant milestone and marks Tshipi's move into operations and cash flow generation. Demand for Tshipi's ore remains strong with production being sold to Asia.

Environment, safety and corporate social responsibility

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

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

Jupiter's Central Yilgarn iron ore assets

Jupiter holds two iron ore assets in the Central Yilgarn region of Western Australia, the Mount Ida magnetite project and the Mount Mason Direct Shipping Ore ("DSO") hematite project. The two projects are located within 110 kilometres of existing rail to the Port of Esperance, a deep water port capable of taking Capesize vessels, with proven ability to handle bulk commodities, in particular iron ore. In January 2012, the Government of Western Australia announced its commitment to expand the Port of Esperance's iron ore handling capacity by up to 20 million tonnes per annum, which was a significant boost for the Yilgarn region and Jupiter's Mount Ida and Mount Mason projects.

In 2011, Jupiter announced a conceptual resource expectation of 1.1–1.3 billion tonnes of magnetite iron ore at the Mount Ida project. A scoping study completed by external technical consultants found Mount Ida to be technically and financially robust based on the assumption of extracting 25 million tonnes per annum of ore to produce ten million tonnes per annum of high grade magnetite concentrate. However, in November 2012, Jupiter took the decision to freeze further expenditure on Mount Ida due to increasing cost estimates, uncertainty in delivering key infrastructure needed to export magnetite concentrate and iron ore price volatility. Pre-feasibility study drilling increased the JORC-compliant inferred resource to 1.85 billion tonnes at 29.48% Fe (Iron) and a project director has been appointed to optimise the capital and operating expenditure strategies to increase the project's financial attractiveness for development.

A scoping study completed by external technical consultants in 2011 on Mount Mason indicated a robust operation which could produce DSO at a rate of 1.5 million tonnes per annum. The resource model was then updated to a total measured/indicated resource of 5.9 million tonnes at a grade of 60.1%. Jupiter has applied for the relevant approvals for construction of the Mount Mason mine, which are expected to be received during 2013. Work continues on optimising the capital and operating expenditure strategies, along with alternatives to secure port access. Port access through the Port of Esperance is the key infrastructure obstacle for the development of Mount Mason and alternatives have been considered. If port access can be secured, Mount Mason has the potential to rapidly generate significant free cash flows and to establish Jupiter as a producer in the Central Yilgarn region.

Jupiter raised AUD76 million in the third quarter of 2012 to provide working capital as Tshipi ramps up its production and to complete optimisation work on its Australian iron ore assets. The Company contributed AUD12.7 million to maintain its 16.7% interest in Jupiter.

Outlook

Demand for steel remains strong and prices for its key raw material inputs remain at levels significantly above their historic averages. Jupiter is well placed to take advantage of this strong environment as Tshipi Borwa ramps up to full manganese production and the iron ore exploration programmes are optimised.



Producing essential raw materials for steelmaking

- Construction of Tshipi Borwa mine.
- First manganese ore mined and shipped to Asia.

Gemfields

Investment strategy

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

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

Today, Gemfields is the world’s leading coloured gemstone producer, working at the intersection of exploration, mining and marketing. With an expanded gemstone portfolio now covering emeralds, amethysts and rubies, Gemfields’ focus remains to deliver a consistent supply of ethically produced, conflict-free rough gemstones of certified provenance directly from mine to market.

Implementation of operational strategy

Priority was given to optimising operational efficiency at Kagem, notably by investing in new mining equipment and upgrading key infrastructure. Additional personnel and the implementation of management systems and monitoring and control procedures, have significantly improved security. These measures have increased mining capability, reduced theft and resulted in considerably higher production than that achieved historically.

Shortly after the acquisition, the changes enabled production levels at Kagem to more than double. In June 2011, Gemfields commenced expansion of the main pit, removing significant amounts of waste material in order to open up new areas for increased ore extraction. The short term focus on waste mining resulted in production of 21.1 million carats for the year ending 30 June 2012, a 36% decrease from the record breaking 33.0 million carats in the prior year. The benefits of the project have begun to be realised, with a two-thirds increase in production to 14.5 million carats for the six months ended 31 December 2012 compared to the six months to 31 December 2011. Further increases in production at Kagem will enable Gemfields to continue to supply the market with consistent quantities of quality emeralds, a cornerstone of the investment strategy.

Kagem has been trialling a pioneering underground mining project, using an incline shaft and tunnel system designed, developed and constructed by the in-house team. Underground mining has the potential to transform Zambian emerald mining by reducing rock handling requirements and allowing mining operations to follow the ore zone in a surgical fashion without the need to strip and move all

of the surrounding barren rock. The trial has been successful and indicated that a larger scale underground mining project could be safely and effectively implemented, which could increase the projected life of mine of Kagem by a further 20 years.


Pioneering auction system

In 2009, Gemfields implemented an innovative auction system for selling its rough gemstones. Gemfields’ auctions are held in a secure location, with all Kagem material placed on offer certified as natural, untreated and of Zambian origin. The emeralds and beryl are separated into different lots and potential bidders submit a sealed bid for individual lots. A sale occurs if the highest bid received exceeds a pre-determined, but undisclosed, reserve price. The auctions have brought a level of professionalism and transparency previously unseen in the industry.

As there was no industry standard grading system for emeralds, Gemfields established its own grading system to assess each emerald according to its individual characteristics (size, colour, shape and clarity). Gemfields used its grading system to develop two auction classes, one offering its superior quality material and the other catering for the large volume of lower quality material.

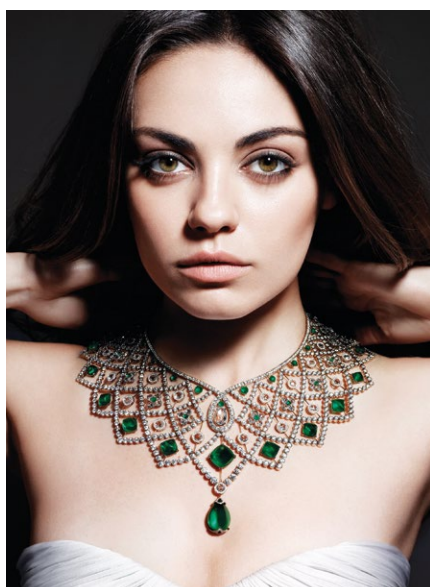
Strong auction and financial results

Despite the ongoing volatility in global sales of precious gemstones and jewellery, Gemfields has continued to experience robust demand for its ethically sourced and transparently supplied emeralds. Gemfields’ healthy sales performance highlights the success of its formalised and consistent method of marketing rough coloured gemstones by auction.



Delivering a consistent supply of ethically produced rough gemstones directly from mine to market

- Merger of Fabergé and Gemfields completed.
- Ruby mining activities commenced at Montepuez.
- Mila Kunis unveiled as Gemfields' brand ambassador.



Gemfield's brand ambassador Mila Kunis wears Fabergé's emerald and diamond Romanov Necklace.

In March 2012, Gemfields held a higher quality emerald auction in Singapore. A total of 0.69 million carats were sold for US\$26.2 million, representing an average price of US\$38.25 per carat. A further higher quality auction was held in Singapore in November 2012, realising total revenues of US\$26.8 million from 0.90 million carats, representing an average price of US\$29.71 per carat. The lower average per carat price achieved in the November 2012 auction reflected the different grade characteristics of the gemstones placed on offer.

Gemfields also held an auction of lower quality emerald and beryl in Jaipur, India in June 2012. A total of 3.47 million carats were sold for US\$9.0 million, representing an average price of US\$2.61 per carat, more than double the average price achieved in the November 2011 auction.

Gemfields' auctions have achieved more than US\$160 million in revenue across the eleven 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 consistently and ethically supplied coloured gemstones. Gemfields anticipates holding a lower quality emerald and beryl auction, a higher quality emerald auction and its first ever ruby auction by 30 June 2013.

Gemfields' successful auctions, combined with efficient cost control and strong production, translated into a record gross profit of US\$61.7 million for the year to 30 June 2012, more than twice that of the previous year. During 2012, Gemfields commissioned SRK, a leading mining consultancy, to conduct a mineral resource estimate on one of the emerald belts on the Kagem mining licence and a feasibility study

for underground mining. SRK concluded that it contains in excess of one billion carats of emerald and beryl at a nominal value of US\$855 million, and that underground mining would have a projected life of mine of over 20 years. In 2009, given the prevailing uncertainty in the global economy, combined with the mine being loss making at the time, an impairment of US\$200 million was taken against the value of Kagem. Following SRK's report, Gemfields made a full reversal of the US\$200 million in its results for the year to 30 June 2012.

On 4 March 2013, Gemfields announced unaudited net profit after tax for the six months to 31 December 2012 of US\$4.7 million, compared with US\$22.0 million in the six months to 31 December 2011. Only one auction was held during the six months to 31 December 2012, whereas two auctions had been held in the six months to 31 December 2011. However, EBITDA was still strong at US\$19.5 million. Closing cash was US\$27.9 million and inventory value (at production cost) rose to US\$37.5 million. Gemfields currently values its inventory at production cost, which provides further upside given that the auctions held to date have demonstrated that its inventory can be sold at prices considerably above production cost.

Marketing initiatives

Gemfields continued to increase demand and consumer awareness through its "Rare Coloured Gemstone" marketing campaign during 2012, and in February 2013 Gemfields unveiled Hollywood actress Mila Kunis as its brand ambassador. The long-term partnership will feature Mila Kunis wearing Gemfields' coloured gemstones at high profile events and endorsing Gemfields as the world's leading coloured gemstone company. The Mila Kunis



campaign will officially launch in April 2013 in publications around the world, and is expected to increase retail demand for Gemfields' ethically sourced gemstones, enhancing prices throughout the supply chain.

Montepuez ruby mine

In keeping with its strategic objective of being the world's leading coloured gemstone producer, Gemfields acquired 75% of a large ruby deposit in northern Mozambique in 2012 for a purchase consideration of US\$2.5 million. The Montepuez mining licence covers an area of 34,000 hectares and is believed to contain one of the most significant ruby discoveries in recent years. A project management and operating team has been assembled, the initial equipment purchased and a temporary base-camp constructed. Preliminary bulk sampling commenced in August 2012 and a 50 tonne per hour wash plant was commissioned in December 2012. The results have been encouraging and by 31 December 2012, 110,000 carats were produced as part of the bulk sampling. Gemfields has subsequently entered into conditional agreements to acquire controlling interests in neighbouring properties in order to allow for future consolidation.

Environment, safety and corporate social responsibility

Kagem has implemented sector-leading environmental and safety standards, which led to the Environmental Council of Zambia awarding Kagem with the highest possible category of environmental compliance. In July 2012, the Mines Safety Department also awarded Kagem a certificate in recognition of its achievement of two million injury-free shifts.

Gemfields aims to be a leader in sustainable corporate social responsibility, and maintains

a focus on four key areas: health, education, farming and cultural awareness. In particular, Kagem provides high quality medical care to its employees and their families, promotes HIV/AIDS awareness, has invested in improving workers' accommodation and provides sports and recreational facilities. Kagem has also built and equipped local medical clinics and schools, and provides education, advice and raw materials to local farmers and subsequently buys their produce at market prices. Gemfields plans to continue to increase Kagem's contribution to the surrounding community and implement similar initiatives at Montepuez and its other project areas. As part of its commitment to the environment, Gemfields has embarked on a "Zero Carbon Project" to neutralise the effect of carbon emissions and has planted over 100,000 trees to date.

Gemfields/Fabergé Merger

In November 2012, Gemfields agreed a merger with Fabergé, the high-end luxury goods brand that is part of the Company's existing Investment Portfolio, in exchange for 214 million new Gemfields shares. The transaction completed on 28 January 2013. As a result of the merger, the Company's interest in Gemfields increased from 33% to 48%. The transaction consolidates Gemfields 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 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. The transaction is expected to broaden Gemfields' investor and institutional appeal over time, beyond the traditional mining investment community and potentially allow Gemfields to gain exposure to luxury sector multiples.

Fabergé continued to expand its global retail presence during 2012, opening a concession in January 2012 within Lane Crawford, Hong Kong's leading speciality store for luxury brands and a new boutique in May 2012 at 694 Madison Avenue in New York. 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 and at the Dubai Mall.

Outlook

Despite volatile economic conditions, Gemfields' successful emerald auctions underpin strong expectations for continued growth in demand and prices for its products. Interest in Gemfields' ethically produced gemstones is also expected to increase as the expansion of marketing initiatives benefit demand. As Gemfields takes Fabergé towards profitability and the Montepuez ruby deposit adds a further revenue source, the Company should see a rise in the valuation of its increased shareholding in Gemfields.

Directors



EXECUTIVE DIRECTORS

Brian Gilbertson (69)

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

Chairman

Member of the Remuneration Committee

Appointed 4 September 2007

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

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

In late 2003, Brian led the mining group Vedanta Resources plc to the first primary listing of an Indian company on the LSE in the second largest Initial Public Offering of the year. He was chairman of Vedanta Resources plc until

July 2004. In 2004 he initiated the foundation of Incwala Resources Proprietary Limited, a pioneering Black Economic Empowerment corporation in South Africa, and was its first chairman until March 2006.

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



Arne H. Frandsen (46)

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

Chief Executive

Member of the Remuneration Committee

Appointed 4 September 2007

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

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

Arne joined Pallinghurst in 2006 and is a partner of both Pallinghurst Advisors LLP and the Investment Manager. He is also a director of a number of Pallinghurst group companies. In addition, Arne is primarily responsible for Pallinghurst's PGM interests and is a director of Platmin. Arne is a Danish citizen and is a resident of Switzerland.



Andrew Willis (33)

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

Finance Director

Member of the Remuneration Committee

Appointed 25 November 2008

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

Andrew is a partner of Pallinghurst Advisors LLP and the Investment Manager. Andrew is a British and New Zealand citizen.



NON-EXECUTIVE DIRECTOR

Dr Christo Wiese (71)

BA LLB D.Comm (h.c.)

Appointed 11 February 2013

Christo Wiese has been a prominent figure in the South African business community for more than 40 years. Christo practised at the Cape Bar in the 1970s before joining Pepkor Holdings of which he has been the chairperson and controlling shareholder since 1981. Christo is also the chairman and controlling shareholder of Shoprite Holdings which was unbundled from Pepkor in 2000 and today has a market capitalisation of more than US\$11 billion. The two companies are respectively Africa's largest clothing and food retailers with an extensive footprint across sub-Saharan Africa in particular. Between them they operate some 6,000 stores in 19 countries employing more than 140,000 people.

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

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



INDEPENDENT NON-EXECUTIVE DIRECTORS

Stuart Platt-Ransom (44)

Chartered FCSI, CMgr FCMI, FInstLM, FloD

Lead Independent Non-Executive Director

Member of the Audit Committee

Appointed 4 September 2007

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

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

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

Directors



Martin Tolcher (49)

Chartered FCSI

Chairman of the Audit Committee

Appointed 25 November 2008

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

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

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



Clive Harris (58)

BSc (Econ), ACA

Member of the Audit Committee

Appointed 4 September 2007

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

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

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

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



Patricia White (47)

CA, Chartered FCSI

Appointed 29 February 2012,

resigned 15 March 2013

Patricia White is managing director of Legis Fund Services Limited and has over 20 years' experience in the offshore finance industry. Qualifying as a member of the Institute of Chartered Accountants of Scotland in 1988, her career in the offshore finance industry began in Guernsey with KPMG. Subsequently she was appointed as assistant director of finance with Leopold Joseph before entering the funds industry with CIBC, Cayman Islands as a mutual funds account manager. Following her return to Guernsey she joined Butterfield Fund Services Limited where she had operational responsibility for a variety of projects including implementation of their fund administration system.

Patricia joined Legis as former managing director of Anson Fund Managers Limited during which time she was also director of its group companies in addition to holding a number of external directorships. Patricia is also a Chartered Fellow of the Chartered Institute for Securities & Investment.

Patricia resigned from the Board on 15 March 2013.



PERMANENT ALTERNATES

Chris Powell (35)

ACA

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

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

The Board resolved to appoint Chris as a Permanent Alternate to Mr Willis on 15 March 2013¹. Chris is a British citizen.

¹ This appointment will become effective subsequent to the completion of certain requisite documentation and filings.

Brian O'Mahoney (42)

FCA, MBA (Manchester Business School)

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

Brian is a Fellow of the Institute of Chartered Accountants in Ireland and holds an MBA from Manchester Business School.

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



Recent meeting of the Directors in Guernsey

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

Partners of the Investment Manager



Sean Gilbertson (40)

BSc (Mining Engineering)

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

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

Sean is a founding partner of both Pallinghurst Advisors LLP and the Investment Manager and is primarily responsible for Pallinghurst's Coloured Gemstones strategy. Sean is a director of Gemfields and Fabergé. Sean is a British and South African citizen.



Priyank Thapliyal (41)

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

Priyank Thapliyal acted as deputy to Anil Agarwal (founder and chairman of Vedanta) and was responsible for spearheading the main strategic developments that resulted in the listing of Vedanta on the London Stock Exchange ("LSE") in December 2003. The listing has been credited for transforming Vedanta from a US\$100 million Indian copper smelting company in 2000 to the current US\$5 billion (by market capitalisation) LSE-listed company. A significant part of this value uplift was attributable to the US\$50 million acquisition of a controlling stake in Konkola Copper Mines in Zambia in November 2004, which was initiated and led by Priyank.

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

About the Group

Structure

Pallinghurst Resources (Guernsey) Limited was incorporated on 4 September 2007 in accordance with Guernsey Law, under company registration number 47656 and is regulated in Guernsey by the Guernsey Financial Services Commission ("GFSC"). It initially listed on the Bermuda Stock Exchange ("BSX") on 26 September 2007 and subsequently inward listed on the securities exchange of the Johannesburg Stock Exchange ("JSE") on 20 August 2008, with the JSE becoming the primary listing and the BSX becoming the secondary listing. On 22 May 2009, a change of name from Pallinghurst Resources (Guernsey) Limited to Pallinghurst Resources Limited ("PRL", the "Company" or the "Group") was approved by shareholders at an Extraordinary General Meeting ("EGM"). The Company's main objective is to carry on the business of an investment holding company in investments falling within its Investment Scope (see below).

Report and Financial Statements

This annual report is for the year ended 31 December 2012 (the "Annual Report"), and covers the Group. The "Group" is Pallinghurst Resources Limited and all entities controlled by the Company (its subsidiaries), and its associates and joint ventures. The annual financial statements contained within the Annual Report also cover the Group and are for the year ended 31 December 2012 (the "Financial Statements").

Investment Objectives

On the advice of Pallinghurst (Cayman) GP L.P. ("Pallinghurst Cayman" or the "Investment Manager"), the Group, either alone or with selected strategic equity partners, on a case-by-case basis, utilises its financial ability, unique expertise and execution skill in the resources sector to participate in investments falling within the Investment Scope. The principal objective is to provide investors with a high overall rate of return.

Investment Scope

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

Investment Policy

The Group invests in accordance with the Investment Scope as detailed above and in Fabergé Limited ("Fabergé"). The Investment Policy has been set out in various documents since inception in 2007. The Investment Policy has not changed since the Company's inception.

Number of investments in the Investment Portfolio

At the year end, the Group had acquired ten separate equity investments and exited from six. The Group held four separate equity investments within four separate Investment Platforms, Platinum Group Metals (Sedibelo Platinum Mines), Steel Making Materials (Jupiter), Coloured Gemstones (Gemfields) and Luxury Brands (Fabergé).

During 2012, the Group vended its interests in Moepe, Richtrau and Sedibelo into Platmin in return for new shares (Platmin has subsequently been renamed Sedibelo Platinum Mines). The Gemfields/Fabergé Merger completed on 28 January 2013 with the effect that the Group's equity and loan investments into Fabergé have been vended into Gemfields in return for new Gemfields equity shares. At the signature date of the Financial Statements, the Group therefore owns three separate equity investments, in Sedibelo Platinum Mines, Jupiter and Gemfields.

Status as a Guernsey closed-end Company

PRL is a closed-end Guernsey company. One of the implications of this status is that shareholders will be asked to vote on whether the Company should be liquidated (after returning its assets to its shareholders) at certain future dates. These shareholder meetings must occur on or before 14 September 2017, 14 September 2018, or 14 September 2019; these dates are the tenth, eleventh and twelfth anniversaries of 14 September 2007, when PRL was first capitalised, subsequent to its incorporation on 7 September 2007.

About the Group (continued)

The Group's relationship with the Pallinghurst Co-Investors

The Group has an affiliation with a number of other investors (known collectively as the "Pallinghurst Co-Investors", also sometimes described as strategic equity partners). Pallinghurst Cayman acts as the investment manager for both the Group and these other investors. The Group usually makes investments alongside the other Pallinghurst Co-Investors, although it may also act alone. The Pallinghurst Co-Investors collectively have the ability to control all of the investments in the Group's portfolio of investments (the "Investment Portfolio"); they cooperate to achieve the strategic objectives recommended by Pallinghurst Cayman. This enables the Group to take an active part in the management and strategic direction at each investment; which would not usually be the case for a company holding interests of less than 50% in each of its investments. The Pallinghurst Co-Investors typically share the same commercial and strategic objectives and cooperate effectively although each Pallinghurst Co-Investor retains legal title and influence over their individual shareholdings, and is ultimately able to determine its own course of action. The Group benefits from these relationships in many ways, including the following:

- The Investment Manager is able to access much higher levels of funding than if they were acting solely on behalf of the Group, meaning that a broader scope of investments can be contemplated.
- This funding scope can make an approach by the Pallinghurst Co-Investors more attractive or credible to a potential target company or group than a stand-alone approach by the Group.
- The Pallinghurst Co-Investors are able to exercise a greater level of influence or control over each investment than if they were acting alone.
- The Group may be able to diversify by participating in a larger number of investments, as it usually shares an investment's funding requirements with other Pallinghurst Co-Investors.

In addition, the Group has entitlement to an initial minimum interest of 20% of the collective Pallinghurst Co-Investor ownership of each investment at the point of acquisition, subject to certain conditions. The other Pallinghurst Co-Investors have no such similar entitlements.

Private equity status

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

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

The Group is therefore able to make certain accounting policy choices under International Financial Reporting Standards ("IFRS"). The most important of these is the election to account for interests in associates within the Group's Investment Portfolio under International Accounting Standard ("IAS") 39 *Financial Instruments: Recognition and Measurement* ("IAS39") as financial instruments, with movements in fair value taken directly through the income statement, rather than equity accounting under IAS28 *Investments in Associates* ("IAS28"). The Group also utilises the similar exemption in IAS31 *Interests in Joint Ventures* ("IAS31").

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

Principal Risks and Uncertainties

The Group makes and holds various investments, and does not directly carry out any other operating activities. The performance of the Group's Investment Portfolio is therefore the most significant factor in determining the Group's Net Asset Value ("NAV"). Prospective investors should consider carefully the following risks and uncertainties, which may not be comprehensive, before investing in the Group.

Key risks to the Investment Portfolio

Macroeconomic risks

The macroeconomic outlook is uncertain and could adversely impact on the Group's investments. Macroeconomic problems could impact on the Group in various ways. The Group does not consolidate any mining assets or hold any physical commodities on its balance sheet, so commodity price changes have no direct impact on the Financial Statements. However, commodity prices, particularly the prices of PGMs, manganese and iron ore, can impact on the valuation of the Group's investments. Predicted long-term commodity prices can impact on the viability of projects the Group has or may invest in. The prices of certain precious and semi-precious gemstones, in particular emeralds, rubies and amethysts, also affect the Group's investment valuations. Long-term price forecasts for gemstones are difficult to attain and may be less accurate than forecasts for commodities such as PGMs, manganese and iron ore.

A poor macroeconomic outlook could create other difficulties for the Group's investments. Suppliers or customers may come under pressure. Governments may introduce changes to the tax and regulatory environments in which the investments operate. These factors could result in a material adverse impact on the Group's future prospects.

Country and concentration risk

The Group holds indirect investments in various countries including South Africa, Australia and Zambia. Risks associated with these countries and other countries in which the Group might invest include regulatory risks, foreign exchange

fluctuations, industrial relations problems, and other local economic conditions. The Group's investments could also suffer from other unanticipated events or problems.

The failure of any of the Group's investments would be likely to have a material impact on the Group. Since the completion of the Gemfields/Fabergé Merger on 28 January 2013, the Group's Investment Portfolio consists of only three separate investments (Sedibelo Platinum Mines, Jupiter and Gemfields). Fabergé is now a Gemfields subsidiary.

The concentration of the Group's Investment Portfolio is in line with the Group's strategic objectives which have been stated previously. Nonetheless, shareholders should be aware that as the number of separate investments has reduced, the impact of the failure of any of those individual investments has increased proportionately. The Directors do not anticipate any changes to the number of different investments in the immediate future, although circumstances are likely to change over time.

Unlisted investments can present different risks compared to listed investments. Trading in unlisted investments may be illiquid, and it may not be possible for the Group to divest of unlisted investments at their balance sheet valuation. The performance and retention of a small number of key personnel may be key to the future success of an unlisted investment.

At the signature date of the Financial Statements, the Group's Investment Portfolio contains one unlisted investment, Sedibelo Platinum Mines. Sedibelo Platinum Mines does not have the same risk profile as a typical unlisted investment as it was previously listed on the JSE, AIM and Toronto Stock Exchange ("TSX"). The risks faced by the Group through holding unlisted investments may change in the future as the number of unlisted investments may increase or decrease.

Resources sector and mining risk

The Group investments are focussed in the resources sector. All such investments have associated operational performance, political, economic, litigation, foreign currency and country risks. If the resources sector suffers from any such difficulties, these could adversely affect more than one investment simultaneously.

Exploration, extraction and processing activities are generally speculative in nature and there can be no assurance that any mineral deposits will be discovered, successfully extracted or processed. The exploration, development, mining and processing of mineral deposits gives rise to significant uncertainties and operations are subject to all of the hazards and risks normally encountered in such activities. Costs can be difficult to predict. Exploration, extraction and processing activities are usually subject to environmental and safety laws and labour and occupational health legislation. A breach of environmental or safety laws and regulations could result in the imposition of a fine, or closure of operations. Any environmental damage could create negative publicity for the investment, which could also affect the Group. Such breaches could also affect any future mining licence applications by the Group's investments. Damage to, or destruction of, an investment's facilities or property, environmental damage or pollution and, together with potential legal liability, could have a material adverse impact on the business, operations and financial performance of an investment. As mining companies move towards production, the risks associated with the investments significantly change and develop. Material new types of risk such as energy security, safety, sustainable development, employee relations and the risks associated with mining rights and permits are all likely to become more significant. Existing risks such as environmental risks are likely to increase in importance. Other specific mining risks include "resource nationalism", which could see the sequestration of mining assets by national governments, or the adverse impact caused by the rejection of applications for mining permits or licences.

Principal Risks and Uncertainties

(continued)

Other risks facing the Investment Portfolio

The Group's investments also face other risks in carrying out their respective businesses. Further information relating to the Group's listed investments, Gemfields and Jupiter, is publicly available, see www.gemfields.co.uk and www.jupitermines.com. The financial statements for these listed investments each contain information on risk, governance and sustainable development. In addition, relevant information may be contained in investor presentations, stock exchange announcements or within policy documents. In addition, Platmin's website www.platmin.com also contains information likely to be of relevance to shareholders.

Direct risks to the Group

Liquidity risk

The completion of the Group's Rights Offer during July 2012 has ensured that funds are in place to cover the Group's anticipated operating expenses for a number of years and the Group is unlikely to be affected by liquidity problems in the foreseeable future. The Directors monitor the Group's cash balances and expenditure on a regular basis and will take appropriate steps as necessary to ensure that the Group has sufficient funding in place.

Counterparty risk (banking or other)

The Group holds materially all of its cash balances with two counterparties, Deutsche Bank International Limited (Guernsey branch), which is an indirect subsidiary of Deutsche Bank Group ("Deutsche") and HSBC Bank Plc ("HSBC"). The Group also holds certain cash balances with Investec Bank (Channel Islands) Limited, a subsidiary of Investec. The Group's subsidiaries and associates also hold immaterial cash balances with various other banks. Bankruptcy or insolvency of any of these counterparties, but particularly Deutsche or HSBC, could have a significant adverse impact on the Group.

Exchange rate risk

The Group's investments are denominated in currencies other than the US\$ including ZAR, AUD and GBP. These assets are translated into US\$ at each balance sheet date and the Group's income statement includes related unrealised foreign exchange gains or losses. The Group also makes realised foreign exchange gains or losses, usually relating to the completion of transactions in assets denominated in currencies other than the US\$. A key element of the Group's treasury policy is that all material cash balances are held in US\$, other than amounts allocated for a specific investment in a currency other than the US\$, which are usually held in the relevant currency. The Group's cash balance is therefore not subject to material foreign exchange risk in most circumstances.

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

The Group's external financial reporting is reliant on the integrity of various information systems at Legis. Failure of information systems could lead to the loss of accounting records, which could ultimately lead to a material error in the Group's financial reporting. The integrity and quality of staff members at both Legis and the Investment Manager is also important to the Group. The valuation of the Investment Portfolio each reporting period is complex and subjective; if the Group's investment valuations were misstated, this could materially affect both the Group's NAV and its reputation.

The relative importance of certain risks compared to others changes over time, in particular as the Group has changed over time and the Investment Portfolio has developed. Users of the Financial Statements should also anticipate further changes over time. Other than as described above, there have been no material changes to the Group's risk profile since the reporting date.

Statement of Directors' Responsibilities

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets of the Group, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report, which complies with the requirements of The Companies (Guernsey) Law, 2008. The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with The Companies (Guernsey) Law, 2008, the AC500 Standards issued by the Accounting Practices Board of the South African Institute of Chartered Accountants, the JSE Listing Requirements and the BSX Listing Regulations.

The Directors have prepared Financial Statements for the Group in accordance with IFRS as required by the JSE Listing Requirements. IAS1 *Presentation of Financial Statements* ("IAS1") requires that financial statements present fairly, for each financial year, the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's ("IASB") Framework for the preparation and presentation of financial statements. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. A fair presentation also requires the Directors to:

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

Directors' Report

The Directors present the Group's Annual Report and Financial Statements for the year ended 31 December 2012.

Principal activities and review of the business

The Group is an investment holding company with investments within the resources sector. The Group's equity and loan investments in Fabergé have been swapped for new Gemfields shares per the terms of the Gemfields/Fabergé Merger which completed on 28 January 2013.

Results and dividends

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

Directors

The Directors in office at the date of the publication of this Annual Report are:

Executive Directors

Brian Gilbertson – Chairman
Arne H. Frandsen – Chief Executive
Andrew Willis – Finance Director

Non-Executive Director

Dr Christo Wiese

Independent Non-Executive Directors

Stuart Platt-Ransom – Lead Independent
Non-Executive Director
Martin Tolcher
Clive Harris
Patricia White¹

Permanent Alternates

Chris Powell (Permanent Alternate to Andrew Willis)²
Brian O'Mahoney (Permanent Alternate to Stuart Platt-Ransom and previously, to Patricia White)¹

Further information on the members of the Group's Board is included in the *People* section.

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

² The Board resolved to appoint Mr Powell as Permanent Alternate to Mr Willis on 15 March 2013. The appointment will become effective subsequent to the completion of certain requisite documentation and filings.

Retirement and re-election of Directors

In accordance with the Company's Articles of Association ("Articles"), Dr Wiese and Mr Platt-Ransom will offer themselves for re-election at the Annual General Meeting ("AGM") to be held on 16 August 2013.

Shareholder meetings

The Group's last AGM was held on 18 May 2012. The following resolutions were considered and passed:

1. The adoption of the Company's annual report for the year ending 31 December 2011.
2. The reappointment of Saffery Champness as auditor and authorisation that the Board agree their remuneration.
3. The re-election of Clive Harris as a Director.
4. The re-election of Patricia White as a Director.

Omission of Company-only financial information from the Financial Statements

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

Auditor

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

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

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

Saffery Champness ("Saffery") have been appointed as the Group's auditor and a resolution to reappoint them will be proposed at the AGM.

On behalf of the Directors

Andrew Willis
20 March 2013

Stuart Platt-Ransom
20 March 2013

Corporate Governance Report

The Board is the focal point of the Group's corporate governance and is ultimately accountable and responsible for the affairs of the Group. The Directors confirm that the Company has applied the recommendations of the *King Code of Governance Principles 2009* ("King III") during 2012 other than as set out below.

Application of King III principles

The JSE Listing Requirements include certain mandatory corporate governance requirements; the Group's adherence to these requirements is included in this Corporate Governance Report. In addition, the Group adheres to the principles of King III on a "comply or explain" basis. The Group has recently developed a King III compliance register (the "King III Register") which details how compliance with each separate principle has been achieved. Due to the size of the King III Register and that it is regularly updated, it is not included in the Annual Report. The King III Register is available on the Company's website, www.pallinghurst.com.

King III recommends that the Board should be led by an independent non-executive chairman who should not be the CEO of the Company. The offices of Chairman and Chief Executive are separate. However, the Chairman is an Executive Director, which is not in compliance with this principle of King III. The rest of the Board believe that the Chairman's wealth of knowledge and experience in the mining industry mean that he is best placed to provide overall leadership to the Board and that the Group's practice is appropriate in this instance.

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

King III recommends that sustainability reporting should be independently assured. Key responsibilities for sustainability reporting are largely retained by the Group's investments, Sedibelo Platinum Mines, Gemfields and Jupiter respectively. Detailed sustainability information for the Group's Investment Portfolio can usually be obtained from publicly available information. The Board strives to ensure that the sustainability reporting prepared by its investments is independently assured.

Board responsibilities

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

Board composition

King III recommends that a Board should comprise a balance of Executive and Non-Executive Directors, with a majority of Non-Executive Directors. Between 29 February 2012 and 11 February 2013, the Board consisted of three Executive Directors and four Non-Executive Directors. These four Non-Executive Directors are independent in the context of King III.

Dr Christo Wiese was appointed to the Board on 11 February 2013. Dr Wiese has an indirect beneficial interest in over 5% of the share capital of the Company and is therefore not considered independent in the context of King III. In addition, Ms Patricia White resigned from the Board on 15 March 2013. The Board's current make up is three Executive Directors, one Non-Executive Director and three Independent Non-Executive Directors.

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

Mr Platt-Ransom has been appointed as 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 an additional point of contact.

Appointment of new Directors

The Board collectively considers new Board appointments as and when the need arises. Due to the Group's size, there is no separate nomination committee. When appointing a new Director, the Board ensures that the individual would be able to devote enough time to the Group's affairs, has an appropriate level of skills and experience and that the Board's collective skills and experience would remain appropriate.

Rotation of Directors

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

Board meetings

Board meetings are scheduled on a quarterly basis each year, to consider strategy, performance and investment valuations. Additional Board meetings may be convened on an *ad hoc* basis. Directors use their best endeavours to be present at Board meetings and participate fully, frankly and constructively. Matters are decided at Board meetings by a majority of votes. In case of an equality of votes the chairperson of the meeting shall have a second, casting vote. This ensures that no one individual has unfettered powers of decision making. Five Board meetings were held during 2012 at which all resolutions were agreed unanimously.

Corporate Governance Report (continued)

Role of Independent Valuer

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

Audit Committee

The Board has established an Audit Committee to assist in discharging the Board's responsibilities. The Audit Committee Report to shareholders is included within this Annual Report.

Remuneration Committee

The Board has established a Remuneration Committee to assist in discharging certain responsibilities. The Remuneration Committee members are Mr Gilbertson, Mr Frandsen and Mr Willis. The Remuneration Committee is scheduled to meet on an annual basis although it may meet more often if necessary.

The Remuneration Committee's only current responsibility is to determine the fees for the Non-Executive Directors. One meeting of the Remuneration Committee was held during 2012.

The Executive Directors do not receive any fees for their services on the Remuneration Committee, therefore the decisions made by the members are considered to be free from conflict and thus independent. The Directors are each entitled to receive fees for their services as determined by the Remuneration Committee. The Independent Non-Executive Directors each received a fee of US\$25,000 per annum during 2012, on a *pro rata* basis as necessary. The amount receivable per Non-Executive Director is limited to a maximum of US\$40,000 per annum, as approved by shareholders. Any change to this limit would first be put to shareholders for approval.

King III states that the Remuneration Committee should consist of Non-Executive Directors, of whom the majority should be independent. However, the Directors have resolved that it is appropriate for the Remuneration Committee to consist of the Executive Directors, as the role of the Remuneration Committee is solely to determine the remuneration of the Non-Executive Directors. The Executive Directors are not remunerated for their role as Directors. The make-up of the Remuneration Committee does not comply with King III and the Directors are in discussion with the JSE as to how best this should be resolved.

Risk management

The Directors are responsible for the Group's system of internal controls, which is designed to provide reasonable assurance against material misstatement and loss. The Group's system of internal controls is designed to provide assurance on the maintenance of proper accounting records and the completeness and accuracy of financial information used by management for decision making and for publication. The internal control system includes the following elements:

- A Risk Register which is assessed and revised on an ongoing basis.
- An organisational structure and division of responsibilities.
- Established policies and procedures.

Insurance

The Group has taken out a directors' and officers' liability insurance policy. This insures the Company and also includes certain cover for other Group companies including entities within the Investment Portfolio.

Sustainability reporting

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

Communication with stakeholders

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

Trading in the Company's shares

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

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

Directors are able to trade PRL shares outside of these periods, after first obtaining approval in writing from the Chairman and the Finance Director. Details of any such transactions are advised to the JSE and BSX for publication. Details of the Directors' holdings in PRL shares are detailed in Note 21 *Related party transactions*.

Audit Committee Report

Role of the Audit Committee

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

Composition and meetings

The Committee comprised of three independent non-executive directors throughout 2012. The Committee members have suitable levels of skills and experience. The Committee met three times during 2012. Minutes of Committee meetings are circulated to the Board.

The following individuals served on the Committee during 2012:

Independent Non-Executive Director
Martin Tolcher (Chair of the Committee)¹
Chartered FCSI

Stuart Platt-Ransom¹
Chartered FCSI, CMgr FCMI, FInstLM, FIoD

Clive Harris
BSc (Econ), ACA

The Committee may meet without any of the Executive Directors being present. The Committee may meet with Saffery Champness (“Saffery”), either formally or informally, throughout the year; the audit partner has access to the Committee through the Chair. If Saffery request an unscheduled Committee meeting, Mr Tolcher decides whether to convene such a meeting and whether to invite any of the Executive Directors.

The following sections set out the Committee’s responsibilities (as included within the Committee’s Terms of Reference (the “Terms”)), followed by comments on how the Committee has discharged its responsibilities during the year (in italics).

Listing, Compliance and Legal Regulations

Responsibilities

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

Comments for 2012

The Group has complied with all relevant legal requirements and regulations during the year. The Group’s King III Register, which details how compliance with each separate principle has been achieved, is included on the Group’s website and is not included in the Annual Report. The Committee regularly reviews the King III Register and approves any changes.

Internal Controls and Risk Management

Responsibilities

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

Comments for 2012

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

Legis 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 Legis’ auditor, PwC, as part of the annual audit process. In addition, Legis has engaged PwC 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 22 February 2013 and reports on the internal controls in place at 31 October 2012. The report concluded that Legis had designed and put in place suitable control procedures in order to meet its control objectives. The Committee is satisfied that Legis’ internal controls are adequate and fit for purpose.

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

Financial Reporting

Responsibilities

- The Committee monitors the integrity and accuracy of the Group’s financial reporting and ensures compliance with IFRS.
- The Committee approves the valuation of the Group’s Investment Portfolio.
- The Committee ensures that the Group’s accounting policies are suitable and considers the adoption of new and amended accounting standards.

¹ The Committee has been chaired by Mr Tolcher since 1 November 2012. Previously, the Committee was chaired by Mr Platt-Ransom.

Audit Committee Report (continued)

- The Committee reviews the Group's cash position and going concern status.
- The Committee reviews the calculation of the Investment Manager's Benefit.
- The Committee reviews the calculation of the Performance Incentive accrual.
- The Committee considers any significant adjustments resulting from the audit.
- The Committee considers the role and performance of the Finance Director.
- The Committee considers the performance of Legis' accounting function.
- The Committee reviews the quality of the Group's external reporting and communication with stakeholders.
- The Committee considers any other significant areas of judgement.

Comments for 2012

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

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

The Committee did not identify any other issues.

Auditor

Responsibilities

- The Committee considers the qualifications, independence and objectivity of the auditor.
- The Committee considers the scope, results and cost effectiveness of the audit and interim review.
- The Committee recommends the appointment/reappointment of the external auditor to the Board.
- The Committee considers the auditor's terms of engagement.

- The Committee considers the auditor's management letter and any response from the Directors.
- The Committee considers whether to engage the auditor for any non-audit services.
- The Committee ensures that a process exists by which the Committee is informed of any issues identified by the external auditor.

Comments for 2012

The Committee has considered Saffery's qualifications, independence and objectivity and approved their terms of engagement. Saffery are responsible for ensuring that they adhere to various guidelines under auditing practices relating to the length of tenure of the audit partner and that the independence of key individuals is maintained. Saffery have confirmed to the Committee that all requirements in terms of independence and rotation have been complied with. The Committee have also concluded that Saffery are independent from PRL in the context of King III.

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

During the year, the Committee proposed to the Board that a review be undertaken whether to recommend the reappointment of Saffery or another audit firm to shareholders at the next AGM in May 2013. The Board requested that the Committee assess Saffery as incumbent auditor and a number of other firms. The Board reviewed the results of this process and concluded that the reappointment of Saffery be recommended to shareholders at the AGM.

The Group's policy is that all material services undertaken are approved in advance by the Committee. This includes the provision of any non-audit services by Saffery. Saffery were not requested to provide any non-audit services to the Group during 2012 (2011: nil).

Independent Valuer and other services rendered

Responsibilities

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

Comments for 2012

The Committee has considered the Independent Valuer's qualifications, independence and objectivity and approved their terms of engagement. The Committee also approved the fees paid to the Independent Valuer.

Approval of Audit Committee Report

The Committee confirms that it has performed in accordance with its Terms during 2012 and that this report to shareholders has been approved by the Board.

Martin Tolcher

Chair of the Audit Committee

FINANCIAL STATEMENTS
and other information

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Independent Auditor's Report

to the shareholders of Pallinghurst Resources Limited

We have audited the financial statements of Pallinghurst Resources Limited for the year ended 31 December 2012 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity and related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards.

This report is made solely to the Company's members, as a body, in accordance with section 262 of The Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

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

Scope of the audit of the financial statements

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

In addition, we read the other information contained in the annual report to identify inconsistencies with the audited financial statements. This other information comprises the sections entitled Overview, Review (which includes the Chairman's Statement and the Chief Executive's Statement), Investment Platforms, People, Governance and Other Information. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

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

Matters on which we are required to report by exception

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

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

Saffery Champness
Chartered Accountants
Guernsey
20 March 2013

Consolidated Income Statement

for the year ended 31 December 2012

	Notes	2012 US\$	2011 US\$
INCOME			
Investment Portfolio			
Realised gain on Sedibelo Platinum Mines transaction	5	50,932,811	–
Impairment of Fabergé loan	6	(1,638,471)	–
Realised loss on Jupiter foreign exchange contract	7	(318,880)	–
Realised fair value gain on Jupiter shares	7	3,250,521	–
Unrealised fair value gains	9	18,255,119	14,533,179
Unrealised fair value losses	9	(119,429,986)	(150,362,622)
Unrealised foreign exchange gains	9	12,148,997	–
Unrealised foreign exchange losses	9	–	(1,395,079)
Net loss on Platmin Note	9	–	(180,033)
Realised foreign exchange gains	9	1,440,847	–
Realised foreign exchange gain on Jupiter forward contract		–	429,330
Realised fair value loss on acquisition of Jupiter shares		–	(1,478,098)
		(35,359,042)	(138,453,323)
Investment Portfolio revenue			
Loan interest income		1,681,340	893,057
Structuring fee and other income	10	375,000	–
		2,056,340	893,057
		(33,302,702)	(137,560,266)
EXPENSES			
Investment Manager's Benefit	11	(5,102,237)	(4,627,775)
Performance Incentive accrual reversal	11	–	32,512,233
Operating expenses	12	(806,588)	(773,239)
Foreign exchange gains		–	14,364
Foreign exchange losses		(1,237,920)	(17,984)
		(7,146,745)	27,107,599
Loss from operations		(40,449,447)	(110,452,667)
Finance income	13	281,198	136,228
Finance costs		–	–
Net finance income		281,198	136,228
Loss before share in loss of associates		(40,168,249)	(110,316,439)
Share in profit/(loss) of associates	14	1,119,941	(4,105,703)
Loss before tax		(39,048,308)	(114,422,142)
Tax credit	15	–	42,113,518
NET LOSS FOR THE YEAR		(39,048,308)	(72,308,624)
Basic and diluted loss per ordinary share	22	(0.06)	(0.15)

All elements of loss for the year and the comparative year are attributable to owners of the parent company. There are no non-controlling interests. The accompanying notes form part of these Financial Statements.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2012

	2012 US\$	2011 US\$
NET LOSS FOR THE YEAR	(39,048,308)	(72,308,624)
Items of other comprehensive income	—	—
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	(39,048,308)	(72,308,624)

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

Consolidated Balance Sheet

as at 31 December 2012

	Notes	2012 US\$	2011 US\$
ASSETS			
Non-current assets			
Investments in associates	14	1,936,241	21,067,826
Investment Portfolio			
Quoted investments	9	97,675,366	125,191,591
Unquoted investments	9	217,951,326	190,456,562
Loans and receivables	9	50,599,070	22,436,091
		366,225,762	338,084,244
Total non-current assets		368,162,003	359,152,070
Current assets			
Trade and other receivables	16	1,379,301	1,179,732
Cash and cash equivalents		31,975,952	5,274,327
Total current assets		33,355,253	6,454,059
Total assets		401,517,256	365,606,129
LIABILITIES			
Current liabilities			
Trade and other payables	17	159,344	203,642
Total current liabilities		159,344	203,642
Total liabilities		159,344	203,642
Net assets		401,357,912	365,402,487
Share capital	18	7,606	4,760
Share premium	18	375,227,145	300,226,258
Retained earnings		26,123,161	65,171,469
Equity		401,357,912	365,402,487
NAV and tangible NAV per share	22	0.53	0.77

The Financial Statements were approved and authorised for issue by the Directors on 20 March 2013 and were signed on its behalf by:

Andrew Willis

Stuart Platt-Ransom

The accompanying notes form part of these Financial Statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2012

	Notes	2012 US\$	2011 US\$
Cash outflows from operations	19	(5,777,691)	(5,457,643)
Additions to investments	9	(33,699,110)	(5,568,750)
Loans extended to investments	9	(28,120,111)	(18,500,000)
Loan repayments from investments	9	–	28,821,690
Finance income received	13	281,198	136,228
Net cash outflows from operating activities		(67,315,714)	(568,475)
Cash flows from/(used in) investing activities			
Amounts invested in associates	14	(141,729)	(23,559,037)
Cash flows from associates	14	20,393,255	–
Net cash from/(used) in investing activities		20,251,526	(23,559,037)
Cash flows from financing activities			
Rights Offer – proceeds	8	77,241,092	–
Rights Offer – costs	8	(2,187,704)	–
Rights Offer – foreign exchange losses	8	(49,655)	–
Net cash from financing activities		75,003,733	–
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		27,939,545	(24,127,512)
Cash and cash equivalents at the beginning of the year		5,274,327	29,405,459
Foreign exchange gain on cash		–	14,364
Foreign exchange loss on cash		(1,237,920)	(17,984)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		31,975,952	5,274,327

The accompanying notes form part of these Financial Statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2012

	Share capital US\$	Share premium US\$	Retained earnings US\$	Total equity US\$
Balance at 1 January 2011	4,760	300,226,258	137,480,093	437,711,111
Total comprehensive loss for the year	–	–	(72,308,624)	(72,308,624)
Balance at 31 December 2011	4,760	300,226,258	65,171,469	365,402,487
Rights Offer – proceeds	2,846	77,238,246	–	77,241,092
Rights Offer – costs	–	(2,187,704)	–	(2,187,704)
Rights Offer – foreign exchange losses	–	(49,655)	–	(49,655)
Total comprehensive loss for the year	–	–	(39,048,308)	(39,048,308)
Balance at 31 December 2012	7,606	375,227,145	26,123,161	401,357,912

The accompanying notes form part of these Financial Statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2012

1. General information

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

The financial statements are presented in United States dollars ("US\$") because the primary economic environment in which the Group operates is denominated in US\$. Foreign operations are included in the Group's results in accordance with the policies set out in Note 3 *Accounting policies*.

2. Adoption of new and revised Standards

Standards affecting the Financial Statements

No standards were introduced during 2012 which had an impact on the Group's reporting or Financial Statements. The Group early adopted IFRS13 *Fair Value Measurement* ("IFRS13") during 2011.

Standards not affecting the Group's reported result or its financial position

The following revised accounting standard has been adopted in the current year. The adoption of this revision has not had any significant impact on the amounts reported in these Financial Statements, but may impact the accounting for the Group's future transactions or arrangements.

IAS12 *Income Taxes* Rebuttable presumption introduced that an investment property will be recovered in its entirety through sale.

New standards not yet adopted

The following new standards have been issued but not yet adopted by the Group. Whilst the Directors have not yet fully determined what the impact of each change will be, it is anticipated that the impact of these new standards may be significant.

The IASB originally issued IFRS9 *Financial Instruments* ("IFRS9") during 2009, as the first step in its project to replace IAS39. IFRS9 introduces new requirements for classifying and measuring financial assets, and originally had to be applied for periods commencing 1 January 2013 or later, with early adoption permitted. IFRS9 was reissued in October 2010, incorporating new requirements on accounting for financial liabilities, and carrying over from IAS39 the requirements for derecognition of financial assets and financial liabilities. The Basis for Conclusions was also restructured and IFRIC9 *Reassessment of Embedded Derivatives* and the 2009 version of IFRS9 were withdrawn.

In December 2011, the IASB issued Mandatory Effective Date and Transition Disclosures (amendments to IFRS9 and IFRS7 *Financial Instruments: Disclosures* ("IFRS7")), which amended the effective date of IFRS9 to annual periods beginning on or after 1 January 2015, and modified the relief from restating comparative periods and the associated disclosures in IFRS7. Once adopted, all financial assets and liabilities within the scope of IFRS9 will be accounted for in accordance with the standard. The impact on the Group's balance sheet may be significant.

Three new accounting standards were issued on 12 May 2011, IFRS10 *Consolidated Financial Statements* ("IFRS10"), IFRS11 *Joint Arrangements* ("IFRS11"), and IFRS12 *Disclosures of Involvement with Other Entities* ("IFRS12").

IFRS10 replaces IAS27 *Consolidated and Separate Financial Statements* ("IAS27") and SIC-12 *Consolidation – Special Purpose Entities*. The objective of IFRS10 is to create a single basis for consolidation for all entities, based on control. The standard provides a revised definition of control, with detailed application guidance.

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

IFRS11 is the new standard used to account for joint arrangements, including joint operations and joint ventures, and partially replaces IAS31. IAS28 *Investments in Associates and Joint Ventures* was also issued in May 2011, and supersedes both IAS28 *Investments in Associates*, which was last amended in 2000, and IAS31.

IFRS12 requires extensive disclosures relating to an entity's interests in subsidiaries, joint arrangement, associates or unconsolidated structured entities. The key principle is that an entity should disclose information that helps users of its financial statements evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on its financial statements.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2012

2. Adoption of new and revised Standards (continued)

Each of the three new standards, and two amended standards, is effective for annual periods commencing on or after 1 January 2013, although early application is permitted as long as each of the other standards (together known as the “package of five”) is adopted at the same time. In June 2012, the IASB published *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS10, IFRS11 and IFRS12)*. These amendments clarified the transition guidance in IFRS10, IFRS11 and IFRS12, limiting the requirements to present adjusted comparative information upon implementation.

The Group currently takes advantage of the scope exemptions for venture capital companies contained within IAS28 and IAS31, and accounts for associates and joint ventures within the Investment Portfolio at fair value under IAS39. The Directors have assessed whether the “package of five” will impact on the Group’s valuations or balance sheet, and believe that new measurement exemptions will mean there should be no significant difference to the Group’s valuations post adoption, and therefore the impact of the “package of five” will be limited. The Group has not early adopted the “package of five” during 2012.

In October 2012, the IASB issued *Investment Entities (Amendments to IFRS10, IFRS12 and IAS27)* (the “Investment Entities Amendments”). This included various amendments including the following:

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

The amendments are effective from 1 January 2014 with early adoption permitted. The Directors have not yet decided whether to early adopt these amendments to IFRS10, IFRS12 and IAS27. The adoption of the Investment Entities Amendments would have no impact on the Group’s balance sheet at the current time. However, the adoption of the Investment Entities Amendments may affect the Group’s accounting for certain investments in the future.

The following new and revised standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

IAS1 <i>Presentation of Financial Statements</i>	<i>Annual Improvements 2009–2011 Cycle</i> : Amendments clarifying the requirements for comparative information including minimum and additional comparative information required.
IAS12 <i>Income Taxes</i>	Rebuttable presumption introduced that an investment property will be recovered in its entirety through sale.
IAS16 <i>Property, Plant and Equipment</i>	<i>Annual Improvements 2009–2011 Cycle</i> : Amendments to the recognition and classification of servicing equipment.
IAS19 <i>Employee Benefits</i>	Amendments to the accounting for current and future obligations resulting from the provision of defined benefit plans.
IAS32 <i>Financial Instruments: Presentation</i>	Amendments require entities to disclose gross amounts subject to rights of set-off, amounts set off in accordance with the accounting standards followed, and the related net credit exposure. This information will help investors understand the extent to which an entity has set off in its balance sheet and the effects of rights of set-off on the entity’s rights and obligations. <i>Annual Improvements 2009–2011 Cycle</i> : Amendments to clarify the tax effect of distributions to holders of equity instruments.
IAS34 <i>Interim Financial Reporting</i>	Clarification of disclosure requirements around significant events and transactions including financial instruments. <i>Annual Improvements 2009–2011 Cycle</i> : Amendments to improve the disclosures for interim financial reporting and segment information for total assets and liabilities

The Directors do not expect that the adoption of any of these standards and interpretations will have a material impact on the Group’s financial statements in future periods. These standards will be applied in the first financial period for which they are required. The Directors will consider whether to early adopt specific standards where appropriate.

3. Accounting policies

Basis of accounting

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

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

Basis of consolidation

The Financial Statements incorporate the financial statements of the Company and entities under its control (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating activities of an entity so as to obtain benefits from its activities.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The existence and effect of potential voting rights that are presently exercisable are considered when assessing whether the Group controls another entity. Intercompany transactions and balances between the Group and its subsidiaries are eliminated upon consolidation.

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

Going concern

At the date of these Financial Statements, the Directors have a reasonable expectation that the Company has adequate resources to continue in its activities for the foreseeable future. The Financial Statements have, therefore, been prepared on the going concern basis.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group and the Company in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS3 *Business Combinations* are recognised at their fair values at the acquisition date.

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

Acquisition of investments

As the Group holds investments, accounting for new investments is more likely to have a material impact on the Group than accounting for new subsidiaries.

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

Investments in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The Group's associate entities include those associates that are held as part of the Investment Portfolio, and associate entities through which the Group holds its underlying investments.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2012

3. Accounting policies (continued)

Associates that hold the Group's underlying investments

Associates that hold the Group's underlying investments are accounted for using equity accounting.

Under the equity method, investments in associates are carried in the consolidated balance sheet at cost and adjusted for post-acquisition changes in the Group's share of associates' net assets.

Equity accounting involves recognising the Group's share of its associates' earnings for the year in the Consolidated Income Statement. The results of associate entities acquired and disposed of during the year are included from the effective dates of acquisition to the effective dates of disposal.

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

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

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

Associates that are part of the Group's Investment Portfolio

Associates that are held as part of the Group's Investment Portfolio are measured at fair value under IAS39.

Joint ventures

A joint venture entity is an entity in which the Group holds a long-term interest and shares joint control over the strategic, financial and operating decisions with one or more other venturers under a contractual arrangement.

Joint ventures that are part of the Group's Investment Portfolio

Investments in joint ventures that are held as part of the Group's Investment Portfolio are measured at fair value under IAS39.

Joint ventures incorporated to hold the Group's underlying investments

Joint ventures incorporated for the purpose of holding underlying investments are accounted for using proportionate consolidation. The Group's proportionate share of the assets, liabilities, revenue and expenses of these joint ventures are combined on a line-by-line basis with similar items in the primary statements.

Accounting for the Investment Portfolio

(i) Classification

The Investment Portfolio includes listed and unlisted equity investments, loans and receivables and may include other equity instruments such as convertible notes or debentures.

The Group has elected to account for all investments that are held as part of the Group's Investment Portfolio at fair value. This includes associates over which the Group may have significant influence and joint venture entities which the Group jointly controls with one or more other venturers. This is normal practice in the private equity industry and makes the Financial Statements comparable with those of similar organisations.

(ii) Recognition and derecognition

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

(iii) Initial measurement

Listed and unlisted equity investments are designated at "fair value through profit or loss" ("FVTPL") at inception and are initially measured at the fair value of consideration paid. All investments are held at cost until it is appropriate to measure fair value on a different basis.

3. Accounting policies (continued)

(iv) Subsequent measurement of fair value

The Directors determine the measurement of each investment within the Investment Portfolio at fair value, using the most appropriate basis.

Fair value under IFRS13 is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where no such transaction exists, an estimate of fair value is made by the Directors.

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

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

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

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

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

(v) Loans and receivables

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

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

(vi) Fair value measurement hierarchy

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

- Listed prices (unadjusted) in active markets for identical assets or liabilities (level one);
- Inputs other than listed prices included within level one that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level two); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level three).

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

Trade and other receivables

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

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2012

3. Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents represent cash balances held at bank and in on demand deposits. All the Group's cash balances are either accessible on demand, or with a notice period of up to 32 days. Cash and cash equivalents are categorised as loans and receivables for the purpose of IAS39.

Trade and other payables

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

Share capital

Ordinary Shares

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

Management Shares

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

Gains/losses on investments

Gains/losses realised on disposal of investments are calculated as the net proceeds of the disposal less the carrying value of the asset in the balance sheet at the date of disposal.

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

Investment Portfolio revenue

Portfolio revenue is directly related to the return from investments within the Investment Portfolio. The balance includes fee income earned directly from portfolio companies, interest on loans made to portfolio companies and dividends received from portfolio companies.

Portfolio revenue is recognised in profit or loss when the Group's right to receive payment is established and the amount of revenue can be measured reliably.

Other income

Other income includes dividends received from entities not within the Investment Portfolio and other income not related to the Investment Portfolio.

Other income is recognised in profit or loss when the Group's right to receive payment is established and the amount of income can be measured reliably.

Taxation

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

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

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

3. Accounting policies (continued)

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

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

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

Earnings/(Loss) Per Share (“EPS” or “LPS”)

EPS (or LPS) is a key performance measure for the Group. EPS is based on attributable profit for the year divided by the weighted average number of ordinary shares in issue during the year. LPS is based on attributable loss divided by the weighted average number of shares in issue.

Diluted Earnings/(Loss) Per Share (“DEPS” or “DLPS”) is presented when the inclusion of potential ordinary shares has a dilutive effect on earnings per share. There are no dilutive indicators or dilutive ordinary shares in issue and as such DLPS is equal to LPS in the current year.

Headline Loss Per Share (“HLPS”)

HLPS is similar to LPS, except that attributable profit specifically excludes certain items, as set out in Circular 3/2012 *Headline earnings* (“Circular 3/2012”) issued by the South African Institute of Chartered Accountants (“SAICA”).

The gain or loss on disposal of an associate would normally be excluded from headline earnings (and HLPS). However, per Circular 3/2012, private equity companies should include gains or losses on disposal of associates in HLPS because any profit realised on the disposal of these investments is considered to be part of the trading results of private equity operations and the profit does not relate to the capital platform of the business as would normally be the case. Circular 3/2012 further explains that in this context, the choice to recognise an investment in an associate at fair value through profit or loss, instead of applying equity accounting, does not imply that the investment is part of the capital or platform of the business and should not have any impact on the decision to include the gain or loss on disposal of associates within headline earnings. Therefore where a gain or loss is made on the disposal of an associate that is part of the Investment Portfolio the item is included within headline earnings. If an associate that is part of the capital structure of the Group were to be disposed of the arising gain or loss would be excluded from headline earnings in line with the guidance from SAICA.

Foreign currencies

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

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

For the purpose of presenting financial statements, the assets and liabilities of the Group’s foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On disposal of a foreign operation (i.e. a disposal of the Group’s entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of significant influence over an associate that includes a foreign operation, or loss of joint control over a jointly controlled entity that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss.

Derivatives

Derivatives are occasionally used by the Group to manage risks, usually but not exclusively, associated with foreign currency risk. The derivatives entered into usually relate to the Investment Portfolio, particularly the entering into or exiting from an investment not denominated in US\$. This risk management is normally implemented by the use of foreign currency forward contracts. The Directors also consider the use of currency

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2012

3. Accounting policies (continued)

swaps in certain circumstances, either to facilitate the making of new investments, or if appropriate whilst raising new equity share capital. The Group may also acquire derivatives as part of the Investment Portfolio in certain circumstances, such as entering into convertible notes, convertible bonds or other equity derivatives.

Derivatives are recognised initially at fair value on the contract date and subsequently remeasured to the fair value at each reporting date. Changes in the fair value of financial instruments are taken to the income statement, or other comprehensive income if appropriate.

Critical accounting judgements and estimates

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions that materially affect the reported amounts of assets, liabilities, income and expenses.

The most critical accounting estimates and assumptions relate to the valuation of the Group's portfolio of investments. Carrying out impairment assessments for the Group's unlisted investments is both difficult and subjective. Details of the fair valuation methodologies for each investment are set out in Note 9 *Investments*. Estimates and assumptions used are reviewed periodically. The Directors believe that their estimates of fair value are materially accurate.

4. Segmental reporting

The Group's segmental reporting is based around its four Investment Platforms (PGMs, Steel Making Materials, Gemfields and 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 by assessing the fair value of the Group's Investment Portfolio on a regular basis.

As detailed in Note 6 *Unrealised loss on Gemfields/Fabergé Merger*, the transaction whereby Gemfields acquired 100% of the shares in Fabergé completed on 28 January 2013. The Group will therefore present the Gemfields and Luxury Brands platforms as a single segment in future reporting periods and present restated comparative figures accordingly.

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

31 December 2012	PGMs US\$	Steel Making Materials US\$	Gemfields US\$	Luxury Brands US\$	Unallocated US\$	Total US\$
Income						
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
Realised gain on subscription for Jupiter shares	–	2,931,641	–	–	–	2,931,641
Realised gain on Sedibelo Platinum Mines transaction	50,932,811	–	–	–	–	50,932,811
Impairment of Fabergé loan	–	–	–	(1,638,471)	–	(1,638,471)
Loan interest income	–	–	–	1,681,340	–	1,681,340
Net segmental income/(expense)	60,666,948	(60,970,527)	20,133,338	(53,507,461)	–	(33,677,702)
Other income					375,000	375,000
Net losses on investments and income from operations						(33,302,702)
Expenses, net finance income, share of loss of associates and taxation					(5,745,606)	(5,745,606)
Net segmental profit/(loss)	60,666,948	(60,970,527)	20,133,338	(53,507,461)	(5,370,606)	(39,048,308)

4. Segmental reporting (continued)

The comparative Income Statement segmental information for the year ended 31 December 2011 is as follows:

31 December 2011	PGMs US\$	Steel Making Materials US\$	Gemfields US\$	Luxury Brands US\$	Unallocated US\$	Total US\$
Income						
Unrealised fair value gains	–	–	14,533,179	–	–	14,533,179
Unrealised fair value losses	(5,211,360)	(145,151,262)	–	–	–	(150,362,622)
Unrealised foreign exchange gains	–	–	–	–	–	–
Unrealised foreign exchange losses	(1,317,174)	(49,059)	(28,846)	–	–	(1,395,079)
Net unrealised loss on Platmin Note	(180,033)	–	–	–	–	(180,033)
Realised foreign exchange gain on Jupiter forward contract	–	429,330	–	–	–	429,330
Realised loss on Jupiter shares	–	(1,478,098)	–	–	–	(1,478,098)
Loan interest income	343,506	–	–	549,551	–	893,057
Net segmental (expense)/income	(6,365,061)	(146,249,089)	14,504,333	549,551	–	(137,560,266)
Other income					–	–
Net losses on investments and income from operations						(137,560,266)
Expenses, net finance income, share of loss of associates and taxation					65,251,642	65,251,642
Net segmental (loss)/profit	(6,365,061)	(146,249,089)	14,504,333	549,551	65,251,642	(72,308,624)

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

31 December 2012	PGMs US\$	Steel Making Materials US\$	Gemfields US\$	Luxury Brands US\$	Total US\$
Investment Portfolio					
Listed investments	–	38,106,215	59,569,151	–	97,675,366
Unlisted investments	184,495,453	–	–	33,455,874	217,951,327
Loans and receivables	–	–	–	50,599,069	50,599,069
Total segmental assets	184,495,453	38,106,215	59,569,151	84,054,943	366,225,762
Investments in associates, current assets and liabilities					35,132,150
Net assets					401,357,912

The comparative segmental information provided for the year ended 31 December 2011 is as follows:

31 December 2011	PGMs US\$	Steel Making Materials US\$	Gemfields US\$	Luxury Brands US\$	Total US\$
Investment Portfolio					
Listed investments	–	85,755,778	39,435,813	–	125,191,591
Unlisted investments	103,450,358	–	–	87,006,204	190,456,562
Loans and receivables	–	–	–	22,436,091	22,436,091
Total segmental assets	103,450,358	85,755,778	39,435,813	109,442,295	338,084,244
Investments in associates, current assets and liabilities					27,318,243
Net assets					365,402,487

Notes to the Consolidated Financial Statements (continued)

for the year ended 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 Mines¹) in return for new equity shares.

The completion of the Consolidation enabled the IDC to complete its investment into Sedibelo Platinum Mines on 3 December 2012. The completion of the Consolidation was one of the conditions precedent for the IDC's investment. The completion of the Consolidation gives 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 is 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

The benefits to Sedibelo Platinum Mines from the completion of the Consolidation and the investment by the IDC include the following:

- The creation of a large and contiguous ore-body which will allow for the development of a safe and shallow mining complex, with a long life.
- The creation of an unhedged and debt-free producer, with a strong balance sheet.
- Unlocks synergies and benefits from anticipated rapid organic growth with associated job creation.
- Reinforces the strong partnership with the Bakgatla community which is also the BEE partner of Sedibelo Platinum Mines.
- Creates an opportunity to partner with the IDC to form a joint venture to explore and develop opportunities for energy efficient PGM beneficiation.

The Group will share in these benefits as a shareholder in Sedibelo Platinum Mines.

6. Unrealised loss on Gemfields/Fabergé Merger

Gemfields completed its merger with Fabergé on 28 January 2013. The shareholders of Fabergé (including the Group) vended their equity interests in Fabergé in return for 213,999,999 new shares in Gemfields representing approximately 40% of Gemfields' fully diluted enlarged share capital. The Group previously owned equity interests of 33% in Gemfields and 49% in Fabergé.

The Group has also made certain loans to Fabergé totalling US\$50 million at 31 December 2012 (excluding interest, including structuring fees). This loan was convertible into Fabergé shares at US\$35 per share in certain circumstances, as follows: if the loan was not repaid by 31 August 2013; or if a transaction or corporate event occurred affecting more than 30% of Fabergé's shares in issue. The Gemfields/Fabergé Merger met this latter criterion and the Group therefore agreed with Fabergé to convert its loan interests in Fabergé to equity assuming completion of the transaction, which was subject to various conditions precedent. The Gemfields/Fabergé Merger completed once these conditions were met on 28 January 2013; the Group converted its loan into new Fabergé shares which were immediately vended into Gemfields in return for new Gemfields shares.

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

6. Unrealised loss on Gemfields/Fabergé Merger (continued)

At 31 December 2012, the terms of the Gemfields/Fabergé Merger had been agreed but the transaction had not yet completed and was subject to certain outstanding conditions precedent. The valuation of the Group's interest in Fabergé at the year end is therefore 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 are based on the difference between these valuations and the previous carrying values of these assets.

Post completion of the Gemfields/Fabergé Merger on 28 January 2013, the Group owns 48% of the enlarged Gemfields. The Group has realised a loss for accounting purposes on completion of the transaction. At 31 December 2012, the transaction had not yet completed and the unrealised fair value loss was as follows:

	US\$
Unrealised fair value loss on disposal of Fabergé equity shares	
Fair value of 60,290,905 Gemfields shares receivable	33,455,874
Previous carrying value of Fabergé equity interest	(87,006,204)
	(53,550,330)

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, resulting in the following impairment:

	US\$
Impairment of Fabergé loan	
Fair value of 91,184,694 Gemfields shares receivable	50,599,070
Previous carrying value of Fabergé loan including interest	(52,237,541)
	(1,638,471)

The Gemfields/Fabergé Merger completed on 28 January 2013. See Note 25 *Events occurring after the end of the year* for more detail.

7. Realised gain on subscription for Jupiter shares

On 19 July 2012, Jupiter announced that it would undertake a capital raising to support the development of its manganese and iron ore assets in South Africa and Australia. The first element of the equity raising was an AUD40 million private placement at AUD0.16 per share to Stichting Pensioenfonds ABP ("ABP"), the Netherlands-based institutional investor, and another Pallinghurst Co-Investor. The private placement increased the number of Jupiter shares in issue and therefore decreased the Group's percentage interest in Jupiter from 16.66% to 14.64%.

On 13 August 2012, Jupiter announced the second element of the equity raising, a rights offer to existing shareholders (the "Jupiter Rights Offer"). The terms of the Jupiter Rights Offer were that each Jupiter shareholder was entitled to subscribe for five new ordinary shares for every 19 shares held (as at 8 August 2012) at an issue price of AUD0.16 per share. The Group subscribed for its entitlement of 79,216,009 shares at a cost of AUD12,674,561 and received these shares on 3 September 2012. The Group's new Jupiter shareholding is 380,236,843 of the 2,281,835,383 shares in issue. Following its participation in the Jupiter Rights Offer, the Group's interest in Jupiter has increased back to 16.66%.

The Group entered into a foreign exchange contract to hedge the foreign exchange risk of the acquisition. 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)

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2012

7. Realised gain on subscription for Jupiter shares (continued)

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

8. Completion of Rights Offer

The Company completed a rights offer (the "Rights Offer") to shareholders on 25 July 2012. Shareholders had the right to subscribe for new shares, in relation 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).

Certain existing shareholders agreed to participate in a pre-placing of their allocation of shares in advance of the completion of the Rights Offer (the "Pre-placement"). The participants in this pre-placing (the "Pre-placement Participants") subscribed for 187,647,650 shares during May 2012. The Pre-placement Participants each received a fee of 3% of the cost of the shares they had subscribed for (the "Pre-placement Fee"). The Pre-placement Participants were not able to sell any of their Pre-placement shares until after the Rights Offer had completed.

The JSE formally approved the terms of the Rights Offer and the content of the Company's Rights Offer Circular to shareholders on 8 June 2012 and the funds received from Pre-placement Participants were therefore credited to share capital and share premium on this date. Those participating Rights Offer shareholders who subscribed for new shares outside of the Pre-placement paid for their shares between 16–20 July 2012. The Rights Offer completed on 20 July 2012.

Impact of the Rights Offer on equity

The below table illustrates the impact of the completion of the Rights Offer on share capital and share premium:

	Share capital US\$	Share premium US\$
Balance at 1 January 2012	4,760	300,226,258
Rights Offer – issue of shares	2,846	77,238,246
Rights Offer – costs	–	(2,187,704)
Rights Offer – foreign exchange loss	–	(49,655)
At 31 December 2012	7,606	375,227,145

Rights Offer costs

The costs associated with the Rights Offer can be broken down as follows:

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

Certain Directors held shares in PRL and participated in the Rights Offer. Certain Partners of the Investment Manager also participated in the Rights Offer. The interests of these individuals are set out in Note 21 *Related party transactions*.

9. Investments

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

Investment	Opening at 1 January 2012 US\$	Unrealised fair value gains US\$	Unrealised fair value losses ⁴ US\$	Unrealised foreign exchange gains US\$	Realised foreign exchange gain US\$	Additions and disposals ^{5,6} US\$	Impairment of Fabergé loan ⁴ US\$	Accrued interest & structuring fee US\$	Closing at 31 December 2012 US\$
Listed equity investments									
Gemfields plc	39,435,813	18,255,119	–	1,878,219	–	–	–	–	59,569,151
Jupiter Mines Ltd	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 Ltd	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)	–	–	–
Sedibelo ¹	–	–	–	–	–	–	–	–	–
Platmin Ltd 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 million loan ²	22,436,091	–	–	–	–	(22,942,061)	–	505,970	–
Fabergé –									
US\$50 million loan ^{2,3}	–	–	–	–	–	51,062,172	(1,638,471)	1,175,369	50,599,070
	22,436,091	–	–	–	–	28,120,111	(1,638,471)	1,681,339	50,599,070
Total	338,084,244	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 the Moepi Group, Richtrau (Magazynskraal) and Sedibelo into Sedibelo Platinum Mines for new shares during the year. See Note 5 Realised gain on Sedibelo Platinum Mines transaction for more detail.

2 The Group previously provided a commitment to loan Fabergé up to US\$25,000,000 (excluding interest). At 31 December 2011, Fabergé had drawn down US\$21,500,000. The loan was fully drawn down on 19 April 2012. The loan, including interest, was due for repayment by 31 August 2012. On 15 June 2012, a new loan facility was entered into with Fabergé, the US\$25,000,000 loan was subsumed into the new loan arrangement, see below.

3 The Group entered into a new loan facility with Fabergé on 15 June 2012. The original facility (US\$25,000,000 excluding interest) was replaced by a new facility to loan Fabergé up to US\$50,000,000 (including the original US\$25,000,000, excluding interest).

The key terms of the revised loan facility were as follows:

- A further US\$375,000 structuring fee accrued upon drawdown of the loan.
- The loan earns interest at three month US\$ LIBOR plus 4% until 1 July 2013.
- The balance of the loan, including interest, must be repaid by 31 August 2013.
- The Group would be able to convert the loan into new Fabergé equity shares at US\$35 per share. This conversion would only occur in certain circumstances; if the loan is not repaid by 31 August 2013, or if a transaction or corporate event occurs affecting more than 30% of Fabergé's shares in issue, such as a sale of shares or issue of new shares. The loan has been converted as part of the terms of the Gemfields/Fabergé Merger, see Note 6 Unrealised loss on Gemfields/Fabergé Merger for more detail.

4 The explanations for the unrealised fair value loss on the Group's equity investment in Fabergé and the impairment of the Group's loan to Fabergé are detailed in Note 6 Unrealised loss on Gemfields/Fabergé Merger.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2012

9. Investments (continued)

5 The Group has entered into various acquisitions and disposals during the year, as detailed below:

	Transfer US\$	Additions and disposals ^{6,7} US\$	Sedibelo Platinum Mines – additions and disposals US\$	Gain on Jupiter acquisition US\$	Total US\$
Listed equity investments					
Gemfields plc	–	–	–	–	–
Jupiter Mines Ltd	–	13,320,964	–	2,931,641	16,252,605
	–	13,320,964	–	2,931,641	16,252,605
Unlisted equity investments					
Fabergé Ltd	–	–	–	–	–
Moepi Group (Boynton)	–	–	(13,373,315)	–	(13,373,315)
Richtrau	–	1,855,949	(38,477,293)	–	(36,621,344)
Sedibelo	–	18,522,197	(18,522,197)	–	–
Platmin Ltd	–	–	(54,896,546)	–	(54,896,546)
Sedibelo Platinum Mines	–	–	176,202,162	–	176,202,162
	–	20,378,146	50,932,811	–	71,310,957
Loans and receivables					
Fabergé Ltd US\$25 million loan	(26,067,061)	3,125,000	–	–	(22,942,061)
Fabergé Ltd US\$50 million loan	26,067,061	24,995,111	–	–	51,062,172
	–	28,120,111	–	–	28,120,111
Total	–	61,819,221	50,932,811	2,931,641	115,683,673

6 The additions to equity investments balance in the Consolidated Statement of Cash Flows is US\$33,699,110. This is the sum of additions into Jupiter, Richtrau and Sedibelo.

7 The balance of the Loans extended to investments in the Consolidated Statement of Cash Flows is US\$28,120,111. This is the sum of additions to the Fabergé US\$25 million loan and the Fabergé US\$50 million loan.

9. Investments (continued)

The reconciliation of the Group's Investment Portfolio from 1 January 2011 to 31 December 2011 is as follows:

Investment	Opening at 1 January 2011 US\$	Unrealised fair value gains US\$	Unrealised fair value losses US\$	Unrealised foreign exchange losses US\$	Realised foreign exchange gain on Jupiter forward contract US\$	Net realised loss on acquisition of Jupiter shares and loss on Platmin Note US\$	Additions and disposals US\$	Accrued interest & structuring fee US\$	Platmin reclassi- fication ⁴ US\$	Closing at 31 December 2011 US\$
Listed equity investments										
Platmin Ltd	50,981,604	–	(5,211,360)	(1,317,174)	–	–	9,002,629	–	(53,455,699)	–
Gemfields plc	24,931,480	14,533,179	–	(28,846)	–	–	–	–	–	39,435,813
Jupiter										
Mines Ltd	226,436,117	–	(145,151,262)	(49,059)	429,330	(1,478,098)	5,568,750	–	–	85,755,778
	302,349,201	14,533,179	(150,362,622)	(1,395,079)	429,330	(1,478,098)	14,571,379	–	(53,455,699)	125,191,591
Unlisted equity investments										
Fabergé Ltd	87,006,204	–	–	–	–	–	–	–	–	87,006,204
Moepe Group	13,373,315	–	–	–	–	–	–	–	–	13,373,315
Richtrau	36,621,344	–	–	–	–	–	–	–	–	36,621,344
Platmin Ltd	–	–	–	–	–	–	–	–	53,455,699	53,455,699
	137,000,863	–	–	–	–	–	–	–	53,455,699	190,456,562
Loans and receivables										
Fabergé Ltd ¹	3,386,540	–	–	–	–	–	18,500,000	549,551	–	22,436,091
Platmin Ltd ²	28,478,184	–	–	–	–	–	(28,821,690)	343,506	–	–
	31,864,724	–	–	–	–	–	(10,321,690)	893,057	–	22,436,091
Platmin Note										
Platmin Note ³	9,182,662	–	–	–	–	(180,033)	(9,002,629)	–	–	–
	9,182,662	–	–	–	–	(180,033)	(9,002,629)	–	–	–
Total Investment Portfolio	480,397,450	14,533,179	(150,362,622)	(1,395,079)	429,330	(1,658,131)	(4,752,940)	893,057	–	338,084,244

¹ The Group previously provided a commitment to loan Fabergé up to US\$25,000,000, which could be drawn down until 31 July 2012. At 31 December 2011, Fabergé had drawn down US\$21,500,000. The US\$375,000 structuring fee for the arrangement of the loan accrued at the date of the first drawdown. The loan earned interest at three month US\$ LIBOR plus 4%. A further US\$3,000,000 was drawn down subsequent to 31 December 2011; the outstanding balance of US\$24,500,000 (excluding interest and structuring fee) was due for repayment by 31 August 2012.

² The Group provided a loan to Platmin during 2010. Platmin repaid the outstanding loan of US\$28,821,690 including accrued interest and the structuring fee on 28 February 2011.

³ The Group acquired an indirect interest in a convertible note issued by Platmin (the "Platmin Note") during 2010. The Platmin Note was converted to equity in full on 31 March 2011. The Group realised a loss on conversion of US\$180,033.

⁴ Platmin delisted from AIM, the JSE and the TSX during 2011. Platmin suspended its listing on the JSE on 23 December 2011, and the last JSE trading day was 22 December 2011. Accordingly, the Group's investment in Platmin was reclassified from listed to unlisted equity investments in the "Platmin reclassification" column.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2012

9. Investments (continued)

The valuation methodologies and other details for the Group's investments at 31 December 2012 are detailed below. The JSE requires certain further information to be disclosed on the Group's ten largest investments. Fewer than ten separate investments were held at current and prior balance sheet dates; accordingly the following details are included for each investment in the Investment Portfolio.

Sedibelo Platinum Mines Limited – equity

Nature of investment Equity interest in Sedibelo Platinum Mines, a developing producer of PGMs with interests in the Bushveld Complex in South Africa.

The Consolidation of the three contiguous properties of PPM, Sedibelo and Magazynskraal is described in Note 5 *Realised gain on Sedibelo Platinum Mines transaction*. The completion of the Consolidation gives an implied fair value for the Group's 6.73% indirect interest in Sedibelo Platinum Mines of US\$176,202,162.

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

The Group's interest in Sedibelo Platinum Mines has been valued using the Price of Recent Investment methodology. The Group's interest is denominated in ZAR and has been revalued for the movement in the exchange rate between the date of transaction and the year end. The closing exchange rate was US\$1:ZAR8.4726. The fair value of the Group's interest in Sedibelo Platinum Mines at 31 December 2012 is US\$184,495,452.

Gemfields plc – equity

Nature of investment Equity interest in Gemfields, a leading international coloured gemstone producer, primarily focussed on emeralds. Gemfields is listed on AIM.

The Group owns a see through interest of 32.97% in Gemfields plc at 31 December 2012. The Group's cost of investment is US\$55,198,324 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 31 December 2012 mid price of GBP0.3425 per share, translated at the closing rate of US\$1:GBP0.6177.

Jupiter Mines Limited – equity

Nature of investment Equity interest in Jupiter which is based in Perth, Western Australia and has interests in various assets including a 49.9% interest in the Tshipi manganese joint venture in South Africa. Jupiter is the vehicle for Pallinghurst's Steel Making Materials strategy and is listed on the ASX.

The Group's initial investment into Jupiter was made in May 2008. The Group owned an effective 16.66% interest in Jupiter at 31 December 2012. The Group's cash cost of investment is approximately US\$26 million.

Fair value methodology Listed share price (Jupiter)

The Group's interest in Jupiter is valued at the closing share price of AUD0.0965 per share, translated at the closing rate of US\$1:AUD0.9629.

Fabergé Limited – equity

Nature of investment Equity interest in Fabergé, a private company.

The Group owned an indirect equity interest of 49.09% in Fabergé at 31 December 2012. The Group's cost of investment is US\$60,976,074. The Group's initial investment was made in September 2007. Fabergé is not listed on a recognised stock exchange.

9. Investments (continued)

Fair value methodology	Listed share price (Gemfields)
	<p>The Gemfields/Fabergé Merger was completed on 28 January 2013. The shareholders of Fabergé (including the Group) exchanged their equity interests in Fabergé in exchange for 214 million new shares in Gemfields representing approximately 40% of Gemfields' fully diluted enlarged share capital.</p> <p>The Gemfields/Fabergé Merger had not completed at 31 December 2012, so the Consolidated Balance Sheet continues to reflect the Group's equity interest in Fabergé. However, the terms had been agreed in advance of 31 December 2012 and the transaction completed soon afterwards. The best indicators of value at 31 December 2012 are therefore the terms of this transaction. The number of Gemfields shares receivable was fixed, therefore the Group's equity interest in Fabergé has been valued at the number of Gemfields shares receivable multiplied by the Gemfields share price at 31 December 2012 of GBP0.3425 per share translated at the closing rate, US\$1:GBP0.6177. This valuation is lower than the Group's previous valuation and has resulted in an unrealised loss on the transaction. See Note 6 <i>Unrealised loss on Gemfields/Fabergé Merger</i> for more details.</p>

Fabergé Limited – loan

Nature of investment	Loan interest in Fabergé, a private company.
	<p>The Group has made loans totalling US\$50 million to Fabergé (excluding accrued interest, including structuring fees). The balance of the Group's loan includes capital advances, structuring fees and accrued interest.</p>
Fair value methodology	Listed share price (Gemfields)
	<p>The Gemfields/Fabergé Merger had not completed at 31 December 2012 so the Consolidated Balance Sheet includes the loan to Fabergé. However, the parties had agreed that assuming completion of the Gemfields/Fabergé Merger, the loan would be converted into 1,494,144 Fabergé shares at US\$35 per share, which would subsequently be swapped for 91,184,694 Gemfields shares.</p> <p>The number of Gemfields shares receivable was fixed, therefore the Group's loan interest in Fabergé has also been valued at the number of Gemfields shares receivable multiplied by the Gemfields share price at 31 December 2012 of GBP0.3425 per share translated at the closing rate, US\$1:GBP0.6177. This valuation is lower than the Group's previous valuation and has resulted in an impairment. The balance of the loan prior to impairment, including accrued interest and structuring fees was US\$52,237,540. The balance of the loan at 31 December 2012 post impairment was US\$50,599,070. See Note 6 <i>Unrealised loss on Gemfields/Fabergé Merger</i> for more details.</p>

10. Structuring fee and other income

	2012 US\$	2011 US\$
Fabergé structuring fee	375,000	–
	375,000	–

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2012

11. Investment Manager's benefits

Investment Manager

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

The Partners of the Investment Manager are the following individuals:

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

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

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

The total charge to the Income Statement for the Investment Manager's Benefit during 2012 was US\$5,102,237 (2011: US\$4,627,775).

It is not possible to accurately predict the future annualised Investment Manager's Benefit as the amount fluctuates with the valuation of the Group's investments and would also be affected by any asset acquisitions or disposals. The amount prepaid for the first quarter of 2013 is US\$1,351,843.

Performance Incentive

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

The Directors assess whether a Performance Incentive accrual should be made at the end of each reporting period. The Directors also assess whether the accrual should be accounted for as a current or non-current liability, based on their best assessment of the likely timing of any outflow. No accrual for the Performance Incentive has been made at either 31 December 2012 or 31 December 2011.

The accrual for the Performance Incentive is calculated as follows:

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

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

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

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

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

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

12. Operating expenses

	2012 US\$	2011 US\$
Amounts paid to Auditor	132,571	141,404
Independent Valuer's fees	72,136	62,663
Other legal and professional fees	–	4,624
Directors' fees	100,948	80,000
Administration costs	418,028	415,605
Listing, sponsor and regulatory filing fees	82,905	68,943
	806,588	773,239

13. Finance income

	2012 US\$	2011 US\$
Interest received on bank deposits	281,198	123,218
Interest received on loan to associate	–	13,010
	281,198	136,228

14. Investments in associates

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

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

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2012

14. Investments in associates (continued)

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

Entity	Rox Conduit Limited US\$	Rox Limited US\$	Pallinghurst Kalahari (Mauritius) Limited US\$	Pallinghurst Ivy Lane Capital Limited US\$	Pallinghurst Investor Consortium (Pty) Ltd US\$	Other US\$	Total US\$
2012							
(Loss)/profit for the year	(65,126)	50,822	4,357	(1,785,262)	2,876,323	38,827	1,119,941
<i>Balance sheet:</i>							
Assets	88,052	819,537	–	950,144	–	114,451	1,972,184
Liabilities	(28,237)	–	–	–	–	(7,706)	(35,943)
Net assets	59,815	819,537	–	950,144	–	106,745	1,936,241
2011							
(Loss)/profit for the year	(100,590)	2,595	(109,248)	(2,007,883)	1,872,195	(18,382)	4,105,703
<i>Balance sheet:</i>							
Assets	133,550	768,715	27,031	21,257,603	–	52,294	22,239,193
Liabilities	(8,609)	–	(136,279)	–	(1,020,374)	(6,105)	(1,171,367)
Net assets/(liabilities)	124,941	768,715	(109,248)	21,257,603	(1,020,374)	46,189	21,067,826

During March 2011, a suite of transactions was announced that included the acquisition by the Pallinghurst Co-Investors of a 49.9% stake in Sedibelo, an additional interest in Magazynskraal and interests in various other assets. Funds were contributed to Pallinghurst Ivy Lane Capital Limited ("Ivy Lane", formerly known as Ivy Lane Capital Limited), one of the Group's associates, as consideration.

The Sedibelo suite of transactions completed during May 2012. The Group acquired an indirect interest of 9.26% in Sedibelo and an incremental 1.23% interest in Magazynskraal. The difference between the net assets of Ivy Lane at 31 December 2012 (US\$950,144) and 31 December 2011 (US\$21,257,603) is mostly due to this outflow.

The Group previously held an interest of 18.56% in Pallinghurst Investor Consortium (Pty) Ltd ("PIC Pty"). This interest is below 20%, however the Group was able to exert significant influence over PIC Pty and therefore equity accounted for its interest in PIC Pty. The Group divested of its interest in PIC Pty in return for shares in Sedibelo Platinum Mines during the year. The Group's holdings in other associates are all above 20%.

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

The Group holds interests in two investments, Gemfields and Fabergé, which would usually be equity accounted for as associates, as the Group's interests are each between 20% and 50%. The Group accounts for these investments under IAS39 at fair value as outlined in Note 3 *Accounting policies*. The Group's interest in Fabergé has been vended into Gemfields for new shares subsequent to the year end. See Note 6 *Unrealised loss on Gemfields/Fabergé Merger*.

15. Tax

	2012 US\$	2011 US\$
Current tax	–	–
Deferred tax credit	–	42,113,518
Tax credit	–	42,113,518

The Company is exempt from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 and is charged an annual exemption fee of £600 which is included in operating costs. Where applicable, taxation for other jurisdictions is calculated at the relevant prevailing tax rates.

The tax charge for the year reconciles to the loss per the Consolidated Income Statement as follows:

	2012 US\$	2011 US\$
Loss before tax	(39,048,308)	(114,422,142)
Tax at 0% (2011: 0%)	–	–
Deferred tax credit for the year	–	42,113,518
Tax credit	–	42,113,518

The Group's effective tax rate is zero in most reporting periods and was 0% during 2012. The Group's effective tax rate during 2011 was (36.8%), based on the recognition of a deferred tax credit relating to the reversal of an increase in fair value of the Jupiter investment that had been previously recognised.

No amounts relating to tax have been recognised either in other comprehensive income, or directly in equity.

The Group has not recognised any deferred tax assets in either the current or prior year. Deferred tax assets and liabilities may be offset where the Group has a legally enforceable right to do so. No such offsetting has occurred in the current or prior years.

The Group had unrecognised tax losses of US\$100,297,096 (2011: US\$21,633,206) at the balance sheet date. No deferred tax asset has been recognised in relation to these losses as it is not considered probable that there will be future taxable profits available, in the relevant jurisdictions, for the Group to utilise these losses. These losses may be carried forward indefinitely. Temporary differences relating to the unremitted earnings of overseas subsidiaries and associates are not significant.

16. Trade and other receivables

	2012 US\$	2011 US\$
Prepaid Annual Management Benefit	1,351,843	1,156,944
Other prepayments	27,444	18,856
Interest receivable	–	3,918
Other amounts receivable	14	14
	1,379,301	1,179,732

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2012

17. Trade and other payables

	2012 US\$	2011 US\$
Audit fee accrual	100,715	93,081
Administration costs payable	32,638	79,491
Accrual for Independent Valuer's fee	25,991	31,027
Other payables	–	43
	159,344	203,642

18. Share capital

Authorised share capital

	2012 US\$	2011 US\$
Ten Management Shares of US\$1 each	10	10
999,000,000 Ordinary Shares of US\$0.00001 each	9,990	9,990
	10,000	10,000

Issued and fully paid up

	<i>Number of shares</i>	Share capital US\$	Share premium US\$
Management Shares (unlisted)			
Management Shares of US\$1 each			
Balance at 31 December 2011 and 2012	2	2	–

Ordinary Shares (listed)

Ordinary Shares of US\$0.00001

Balance at 31 December 2011	475,803,860	4,758	300,226,258
Issued during Rights Offer, May–July 2012	284,648,771	2,846	75,000,887
	760,452,631	7,604	375,227,145

Total share capital 31 December 2012	7,606	375,227,145
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Ordinary Shares

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

Management Shares

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

19. Cash outflows from operations

	Notes	2012 US\$	2011 US\$
Net loss for the year		(39,048,308)	(72,308,624)
Realised gain on Sedibelo Platinum Mines transaction	5	(50,932,811)	–
Impairment of Fabergé loan	6	1,638,471	–
Realised loss on Jupiter foreign exchange contract	7	318,880	–
Realised fair value gain on Jupiter shares	7	(3,250,521)	–
Unrealised fair value gains	9	(18,255,119)	(14,533,179)
Unrealised fair value losses	9	119,429,986	150,362,622
Unrealised foreign exchange gains	9	(12,148,997)	–
Unrealised foreign exchange losses	9	–	1,395,079
Net loss on Platmin Note		–	180,033
Realised foreign exchange gains	9	(1,440,847)	–
Realised foreign exchange gain on Jupiter forward contract		–	(429,330)
Realised fair value loss on acquisition of Jupiter shares		–	1,478,098
Accrued interest		(1,681,340)	(893,057)
Foreign exchange gain on cash balances		–	(14,364)
Foreign exchange loss on cash balances		1,237,920	17,984
Finance income	13	(281,198)	(136,228)
Share in (profit)/loss of associates	14	(1,119,941)	4,105,703
(Increase)/decrease in trade and other receivables		(199,569)	33,230
Decrease in trade and other payables		(44,297)	(32,602,092)
Deferred tax credit		–	(42,113,518)
Net cash outflows from operations		(5,777,691)	(5,457,643)

20. Financial instruments and financial risk management

The Group's capital structure

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

The Group's capital mostly consists of equity shares. There are also two Management Shares. The Company's Articles restrict borrowing to 30% of total assets. The Group currently has no borrowing or borrowing facilities and the Directors therefore do not formally monitor the Group's gearing ratio. The Group is not subject to any external capital requirements. No dividends have been paid out to shareholders since incorporation. No changes have been made to the Group's capital management objectives, policies or procedures during either 2012 or 2011.

Significant accounting policies

Details of the Group's significant accounting policies for each class of financial asset, financial liability and equity instrument are disclosed in Note 3 *Accounting policies*. This note discloses the Group's accounting policy for initial recognition and subsequent remeasurement for each class of financial instrument.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2012

20. Financial instruments and financial risk management (continued)

Analysis of financial assets and liabilities

	2012 US\$	2011 US\$
Financial assets		
Cash and cash equivalents	31,975,952	5,274,327
Fair Value Through Profit or Loss		
<i>Investment Portfolio</i>		
Listed investments	97,675,366	125,191,591
Unlisted investments	217,951,327	190,456,562
Loans and receivables		
<i>Investment Portfolio</i>		
Loans and receivables	50,599,070	22,436,091
Other loans and receivables	14	3,932
Financial liabilities		
Other financial liabilities – amortised cost	(159,344)	(203,642)

The methodologies used to determine the fair value of the Group's investments are based on the Valuation Guidelines. The specific methodologies for each investment are disclosed more fully in Note 9 *Investments*. The Directors believe that the fair value of the Group's unlisted equity investment in Sedibelo Platinum Mines approximates to its carrying value; the fair value of Sedibelo Platinum Mines was determined at the date of completion, per Note 5 *Realised gain on Sedibelo Platinum Mines transaction*. No indicators of impairment have occurred in the period following these transactions until 31 December 2012.

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

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

There have been no reclassifications between categories of financial assets during 2012 (2011: no reclassifications).

Financial instruments and risk profile

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

- Market risk (including interest rate risk, foreign exchange rate risk, price risk on the Group's Investment Portfolio, and commodity risk).
- Credit risk.
- Liquidity risk.

The Group does not enter into derivative financial instruments for speculative purposes, and does not trade derivatives. There are currently no open derivative positions within the Group.

20. Financial instruments and financial risk management (continued)

Market risk

The significant market risks affecting the Group are foreign exchange risk, interest rate risk and market price risk (relating to the Investment Portfolio).

The sensitivity analyses disclosed below show the potential impact of possible changes in relevant foreign exchange rates, interest rates and listed/unlisted equity prices on the Group's financial position at the year end. The only relevant assumption that has been made is that all sensitivities impacting the Income Statement also impact equity.

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

Foreign exchange risk

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

IFRS13 considers the foreign exchange exposure relating to non-monetary assets and liabilities to be a component of market price risk not foreign currency risk. However, the Directors monitor the Group's exposure on all foreign currency denominated assets and liabilities. The table below has therefore been analysed between monetary and non-monetary items.

The Group's policy is to hold all cash balances in US\$ at all times, other than when allocated for a specific investment or for specific, material expenses. Cash balances are translated into a currency other than US\$ only when an outflow of cash is imminent, or if required for legal or similar reasons. The Group may occasionally hold balances in currencies other than the US\$ for a material investment which is considered likely but is not yet certain, giving rise to potential foreign exchange risk if the investment does not occur and the balance is translated back into US\$ at a different exchange rate. Alternatively, for specific material cash outflows, on investments or expenses, the Group may choose to enter into an appropriate hedging strategy, such as a forward contract or option, to minimise the Group's foreign exchange exposure. The Group does not usually designate these derivatives as hedges, or apply hedge accounting; gains and losses on both the derivative and the hedged item will usually offset naturally within the Income Statement. The Group entered into a derivative during the year in relation to the Group's acquisition of Jupiter shares, see Note 7 *Realised gain on subscription for Jupiter shares* for more detail. The Group did not hold any other similar derivatives during the year or at 31 December 2012.

Allocation of the Group's financial assets and financial liabilities by currency

The carrying amounts by currency of the Group's financial assets and liabilities are as follows:

Financial assets and liabilities at 31 December 2012:

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

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

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2012

20. Financial instruments and financial risk management (continued)

Financial assets and liabilities at 31 December 2011:

Currency ¹	Investments at FVTPL US\$	Loans and receivables US\$	Cash and cash equivalents US\$	Total financial asset exposure to currency risk US\$	Financial liabilities at amortised cost US\$	Total financial liability exposure to currency risk US\$
US\$	137,000,863	22,439,688	5,209,928	164,650,479	(203,642)	(203,642)
GBP	39,435,813	–	98	39,435,911	–	–
ZAR	53,455,699	335	59,854	53,515,888	–	–
EUR	–	–	4,105	4,105	–	–
AUD	85,755,778	–	342	85,756,120	–	–
Total	315,648,153	22,440,023	5,274,327	343,362,503	(203,642)	(203,642)

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

Foreign exchange sensitivity analysis

The Group's Investment Portfolio is denominated in various currencies, which fluctuate against the US\$. If the US\$ strengthens relative to the various currencies in which the Group's financial assets are held, the Group's assets denominated in currencies other than US\$ would decline in value and vice versa.

The principal non-functional currencies to which the Group is exposed to are the British pound sterling, South African rand and the Australian dollar. Based on the Group's net financial assets and liabilities at 31 December 2012, a weakening of the US\$ against the currencies illustrated in the following table, with all other variables held constant, would have affected result after tax, and equity as follows:

31 December 2012

Currency movement	Loss after tax US\$	Equity US\$
Movement of 4.5% in GBP/US\$	2,680,795	2,680,795
Movement of 5.0% in ZAR/US\$	9,230,267	9,230,267
Movement of 1.80% in EUR/US\$	741	741
Movement of 1.20% in AUD/US\$	457,279	457,279

At 31 December 2011, a weakening of the US\$ against the following currencies, with all other variables held constant, would have affected result after tax, and equity as follows:

31 December 2011

Currency movement	Loss after tax US\$	Equity US\$
Movement of 1.2% in GBP/US\$	473,231	473,231
Movement of 10.3% in ZAR/US\$	5,512,136	5,512,136
Movement of 2.2% in EUR/US\$	90	90
Movement of 1.9% in AUD/US\$	1,629,366	1,629,366

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to interest rate risk on its cash balances and interest bearing loans made to companies within the Investment Portfolio.

The Group's policy is to invest cash at floating rates of interest and to maintain cash reserves in short-term investments (less than one year) in order to maintain liquidity, while achieving a satisfactory return for shareholders. During the current and prior year, all uninvested cash was accessible either on demand, or shortly afterwards.

20. Financial instruments and financial risk management (continued)

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

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

31 December 2012	Less than 1 month US\$	1–6 months US\$	Repayment not anticipated ¹ US\$
Cash and cash equivalents at variable interest rates	31,971,929	4,023	–
Loans and receivables at variable interest rates	–	–	50,599,070
Total	31,971,929	4,023	50,599,070

¹ The Group has entered into a transaction to vend its interest in Fabergé for new Gemfields equity shares. The Group's loan to Fabergé has been converted subsequent to the year end. See Note 6 Unrealised loss on Gemfields/Fabergé Merger for more details.

31 December 2011	Less than 1 month US\$	1–6 months US\$	6 months + US\$
Cash and cash equivalents at variable interest rates	1,397,111	3,877,216	–
Loans and receivables at variable interest rates	–	–	22,440,023
Total	1,397,111	3,877,216	22,440,023

Interest rate risk – sensitivity analysis

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

If interest rates had been 0.5% higher/lower, the Group's closing cash balance had been unchanged throughout the year and all other variables were held constant, the Group's net loss for the year ended 31 December 2012 would have decreased/increased by US\$253,771 (net loss for the year ended 31 December 2011 would have decreased/increased by US\$138,571). This analysis excludes the Group's loan to Fabergé at 31 December 2012 and assumes no further interest would be earned on this loan. The Fabergé loan was converted to equity on 28 January 2013.

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

Price risk

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

Price risk – sensitivity analysis

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

- If the valuations of the Group's unlisted investments had been 25% lower or higher, the impact on the Group's Income Statement would have been US\$54,487,832 (2011: US\$47,614,141).
- If the valuations of the Group's listed investments had been 25% lower or higher, the impact on the Group's Income Statement would have been US\$24,418,841 (2011: US\$31,297,898).

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2012

20. Financial instruments and financial risk management (continued)

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

Other price risk disclosures

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

The Group's unlisted investments are illiquid and there are no regular transactions in these shares. As such the Group may find it difficult to exit these assets at the current valuations as stated in the Consolidated Balance Sheet and may be unable to sell partial stakes easily, as there may be a shortage of willing buyers.

The Group owns significant interests in some of its listed equity investments, plus other Pallinghurst Co-Investors hold further significant interests. This may affect the liquidity of these equities. As such, if the Group wished to fully divest of its interest in any specific investment, it may not be possible to realise the current fair values as recognised in the balance sheet. Conversely, the amounts realised on disposal may be higher than the current balance sheet valuation.

The Directors do not attempt to formally hedge the risk that a forced exit from an investment may result in a lower realised valuation than the carrying amount. However, the Directors believe that investment valuations included in the Consolidated Balance Sheet give a reasonable representation of fair value.

Commodity risk

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

Credit risk

Credit risk is the risk of loss due to a debtor's non-payment or the failure of a counterparty with whom cash balances are held. The Group's credit risk primarily arises on the trade and other receivables and cash balances.

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

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

The Group's exposure to counterparty risk at 31 December 2012 is set out below:

Counterparty	Location	Credit rating (Fitch)	2012 US\$	2011 US\$
Deutsche	Guernsey	A plus	15,999,984	–
HSBC	United Kingdom	AA minus	15,477,925	–
Investec	Guernsey	BBB minus	349,209	5,239,856
Other counterparties	Various	n/a	148,834	34,471
Total			31,975,952	5,274,327

20. Financial instruments and financial risk management (continued)

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

The Group may make loans to investments within the Investment Portfolio, for example, to fund short-term working capital requirements. The Group's sole loan at the balance sheet date is to Fabergé. Per the terms of the Gemfields/Fabergé Merger, this loan has been converted into Fabergé shares which have been vended into Gemfields for new Gemfields equity shares effective 28 January 2013. See Note 6 *Unrealised loss on Gemfields/Fabergé Merger* for more details.

Maximum exposure to credit risk

Financial assets	2012 US\$	2011 US\$
Investment Portfolio		
Loans and receivables	50,599,069 ¹	22,436,091
Current assets		
Cash and cash equivalents	31,975,952	5,274,327
Trade and other receivables	1,379,301	1,179,732
Less prepayments	(1,379,287)	(1,175,800)
	82,575,035	27,714,350

¹ The Group's loan to Fabergé has been converted into new Fabergé equity shares effective 28 January 2013. See Note 6 *Unrealised loss on Gemfields/Fabergé Merger* for more details. There are also other risks associated with the Investment Portfolio, see the Market risk – Price risk section above for more detail.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities.

The Group does not hold any financial liabilities at discounted values. As such, the expected undiscounted cash flow of the Group's financial liabilities at the balance sheet date is as follows:

	2012 US\$	2011 US\$
Financial liabilities expiring in one year or less	159,344	203,642
Total financial liabilities	159,344	203,642

The Group did not hold any derivative liabilities at 31 December 2012 (31 December 2011: nil).

The Group has not utilised any overdrafts since incorporation. The Directors ensure that the Group has sufficient levels of cash for any investment commitments and expenses as they fall due and it is not anticipated that the Group will enter into any borrowing in the future.

Sensitivity analyses representative for the position throughout the year

The sensitivity analyses presented above are based on the financial instruments held at the year end. The sensitivity analyses presented for 31 December 2012 are considered likely to be representative of the financial instruments held and risks to the balance sheet in the immediate future.

The mix of financial instruments is broadly similar at 31 December 2012 compared to 31 December 2011. Nonetheless, users of the Financial Statements should be aware that the Group's risk profile can change over time; for example, if the Group divested of an investment, its exposure to market risks would change. As there is uncertainty as to how the Group's risk profile will change in the future, no further representative sensitivity information has been disclosed as the Directors do not believe that it would be useful.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2012

20. Financial instruments and financial risk management (continued)

Fair value analysis

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

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

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

31 December 2011	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
Financial assets at FVTPL				
Equity investments ²	125,191,591	–	190,456,562	315,648,153
	125,191,591	–	190,456,562	315,648,153

¹ The Group has acquired further Gemfields shares subsequent to the year end, see Note 6 Unrealised loss on Gemfields/Fabergé Merger and Note 25 Events occurring after the end of the year for detail.

² On 23 December 2011, Platmin delisted from the JSE. The investment in Platmin was reclassified from listed to unlisted investments in the balance sheet at 31 December 2011 and was reclassified from Level 1 to Level 3 in this table.

A 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 – equity investments				
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

20. Financial instruments and financial risk management (continued)

The comparative reconciliation of the Group's equity investments, from 1 January 2011 to 31 December 2011 is provided below:

	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
Financial assets at FVTPL – equity investments				
Balance at 1 January 2011	302,349,201	–	137,000,863	439,350,064
Unrealised fair value gains	14,533,179	–	–	14,533,179
Unrealised fair value losses	(150,362,622)	–	–	(150,362,622)
Unrealised foreign exchange losses	(1,395,079)	–	–	(1,395,079)
Realised foreign exchange gain on Jupiter forward contract	429,330	–	–	429,330
Realised fair value loss on acquisition of Jupiter shares	(1,478,098)	–	–	(1,478,098)
Additions	14,571,379	–	–	14,571,379
Platmin reclassification	(53,455,699)	–	53,455,699	–
Balance at 31 December 2011	125,191,591	–	190,456,562	315,648,153

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

21. Related party transactions

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

The Investment Manager and Legis are both related parties of the Group. The Non-Executive Directors each receive a Director's fee of US\$25,000 per annum, *pro rated* as necessary. In addition, certain amounts are payable by the Group to the Investment Manager.

Mr Platt-Ransom and Ms White are directors of Legis and/or certain entities within the Legis group. The Group's relationship with Legis is at arm's length. The Group's expense for services rendered by Legis during 2012 was US\$85,000 (31 December 2011: US\$106,216). Ms White resigned from the Board on 15 March 2013.

The Group completed a Rights Offer during July 2012, see Note 8 *Completion of Rights Offer*. The interests of the Directors in PRL equity shares are set out below:

	Number of shares held 1 January 2012	Interest at 1 January 2012	Rights Offer entitlement – number of shares	Reallocation of Rights Offer shares	Excess Rights Offer shares applied for	Number of shares held 31 December 2012	Interest at 31 December 2012
The Brian Gilbertson							
Discretionary Settlement ¹	13,858,985	2.91%	10,402,684	–	–	24,261,669	3.19%
Arne H. Frandsen	2,425,821	0.51%	1,820,844	(519,205)	–	3,727,460	0.49%
Andrew Willis	1,092,554	0.23%	820,081	519,205	14,214	2,446,054	0.32%
Clive Harris	250,000	0.05%	187,652	–	–	437,652	0.06%
	17,627,360	3.70%	13,231,261	–	14,214	30,872,835	4.06%

¹ A discretionary trust of which Brian Gilbertson is a beneficiary.

Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2012

21. Related party transactions (continued)

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

	Number of shares held 1 January 2012	Interest at 1 January 2012	Rights Offer entitlement and takeover	Number of shares held 31 December 2012	Interest at 31 December 2012
Sean Gilbertson	2,385,190	0.50%	1,790,346	4,175,536	0.55%
Priyank Thapliyal	2,385,190	0.50%	1,790,346	4,175,536	0.55%
	4,770,380	1.00%	3,580,692	8,351,072	1.10%

Dr Christo Wiese was appointed as a Non-Executive Director effective 11 February 2013. Dr Wiese has an indirect beneficial interest in certain PRL shares, see *Shareholder Information* for more details.

There have been no other material changes to these relationships or the Group's related parties since the year end. Transactions entered into with related parties were under terms no more favourable than those with third parties.

22. NAV and HLPS per share

NAV per share

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

	31 December 2012 US\$	31 December 2011 US\$
Net assets	401,357,918	365,402,487
Number of shares in issue	760,452,631	475,803,860
NAV per share	0.53	0.77

HLPS 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, which is therefore equal to Diluted Loss Per Share.

PRL completed its Rights Offer on 20 July 2012 and issued certain new shares on 25 July 2012. Funds relating to the Rights Offer were received from the Pre-placement Participants between 2–15 May 2012 and credited to share capital/share premium on 8 June 2012, the date the Rights Offer became unconditional (subsequent to the receipt of approval of the terms of the Rights Offer from the JSE). These shares were issued on 25 July 2012. For more detail on the Rights Offer, see Note 8 *Completion of Rights Offer*.

The Group's HLPS is as follows:

	31 December 2012 US\$	31 December 2011 US\$
Loss for the year	(39,048,308)	(72,308,624)
Weighted average number of shares in issue	625,490,450	475,803,860
HLPS	(0.06)	(0.15)

23. 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 2011. Since the completion of the Gemfields/Fabergé Merger, it is the intention that Gemfields now undertake this guarantee on Fabergé's behalf and arrangements are being made to transfer the guarantee into Gemfields' name. 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 31 December 2012 or 31 December 2011.

24. Commitments

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

25. Events occurring after the end of the year

Completion of Gemfields/Fabergé Merger

The Gemfields/Fabergé Merger completed on 28 January 2013. The Group valued its interests in Fabergé based on the prevailing Gemfields share price and exchange rate at 31 December 2012. For more details see Note 6 *Unrealised loss on Gemfields/Fabergé Merger*. By the date of completion of the transaction, the Gemfields share price had fallen to GBP0.2688 per share. The Group therefore incurred the following loss on completion of the Gemfields/Fabergé Merger at 28 January 2013:

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)

Fall in valuation of interests in Gemfields

The valuation of the Group's interest in Gemfields has fallen since 31 December 2012. The estimated impact of this non-adjusting event is as follows:

The Gemfields share price on 18 March 2013 was GBP0.3288 and the exchange rate was US\$1:GBP0.6618. The Group had agreed to the terms of the Gemfields/Fabergé Merger prior to 31 December 2012 and the Group's interests in both Gemfields and Fabergé were valued based on the Gemfields share price at that date. See Note 6 *Unrealised loss on Gemfields/Fabergé Merger* for details.

At 18 March 2013, the fair value of the Group's investment in Gemfields was US\$128,605,563. The valuation at this date is US\$15,018,532 lower than the valuation of US\$143,624,095 included in the Consolidated Balance Sheet. This valuation represents the Group's equity investments in Gemfields and Fabergé plus the Group's loan to Fabergé, at their respective year end valuations. This unrealised loss includes the impact of the completion of the Gemfields/Fabergé Merger as disclosed above.

Approval of Annual Report

The Annual Report was approved by the Directors and authorised for issue on 20 March 2013.

Shareholder Information

for the year ended 31 December 2012

Shareholder spread	Number of shareholders	%	Number of shares	%
1 – 1,000 shares	357	10.28	199,553	0.03
1,001 – 10,000 shares	1,595	45.93	7,800,217	1.03
10,001 – 100,000 shares	1,211	34.87	39,249,356	5.16
100,001 – 1,000,000 shares	243	7.00	78,168,433	10.28
1,000,001 shares and over	67	1.93	635,035,072	83.51
	3,473	100	760,452,631	100

Distribution of shareholders

Banks	28	0.81	44,409,576	5.84
Brokers	18	0.52	21,709,085	2.85
Close corporations	66	1.90	4,249,539	0.56
Endowment funds	14	0.40	7,559,796	0.99
Individuals	2,734	78.72	77,192,115	10.15
Insurance companies	7	0.20	90,738,096	11.93
Investment companies	5	0.14	4,466,448	0.59
Mutual funds	31	0.89	127,469,709	16.76
Nominees and trusts	415	11.95	94,717,643	12.46
Other corporations	44	1.27	1,938,057	0.25
Pension funds	18	0.52	33,733,675	4.44
Private companies	86	2.48	180,185,110	23.69
Public companies	7	0.20	72,083,782	9.48
	3,473	100	760,452,631	100

Public/non-public shareholders

Public shareholders	3,465	99.77	489,748,456	64.40
Non-public shareholders	8	0.23	270,704,175	35.60
Holdings of Directors and Partners of the Investment Manager	6	0.17	39,223,907	5.16
Strategic holdings (more than 10%) ¹	2	0.06	231,480,268	30.44
	3,473	100	760,452,631	100

Beneficial shareholders holding 3% or more	Number of shares	%
Radaj 2 (Pty) Ltd ¹	141,886,673	18.66
Solway Finance Limited	89,593,595	11.78
Oasis Asset Management	70,335,532	9.25
Old Mutual Life Assurance Company SA Ltd	67,195,197	8.84
Oasis Crescent Equity Fund	45,950,442	6.04
Hlamogolo Capital (Pty) Ltd	29,399,375	3.87
The Brian Gilbertson Discretionary Settlement ²	24,261,669	3.19

¹ At 31 December 2012, Dr Christo Wiese held indirect beneficial interests in 141,886,673 PRL shares (18.66%) via certain entities including Radaj 2 (Pty) Ltd and Titan Sharedealers (Pty) Ltd. These indirect beneficial interests have been amalgamated above and disclosed under Radaj 2 (Pty) Ltd. Dr Wiese became a Director of PRL on 11 February 2013 and in future reporting periods, his indirect beneficial interests in PRL will be disclosed as a "holding of a Director" rather than as a "strategic holding". Dr Wiese's indirect beneficial interest in PRL has increased since 31 December 2012 and at the date of publication of the Financial Statements is 146,486,673 shares, representing 19.26% of the shares in issue.

² The Brian Gilbertson Discretionary Settlement is a discretionary trust of which Brian Gilbertson is a beneficiary.

Company Information

Directors

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

¹ The Board resolved to appoint Mr Powell as Permanent Alternate to Mr Willis on 15 March 2013. The appointment will become effective subsequent to the completion of certain requisite documentation and filings.

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

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

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

Investment Manager

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

Investment Advisor (London)

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

Legal Advisor (Guernsey)

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

Legal Advisor (Bermuda)

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

Investment Bank and JSE Sponsor

Investec Bank Limited
100 Grayston Drive
Sandton, 2196
South Africa

South African Transfer Secretary

Computershare Investor Services Proprietary Limited
Ground Floor
70 Marshall Street
Johannesburg, 2001
South Africa

Administrator and Company Secretary

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

Registered Office

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

Investment Advisor (South Africa)

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

Legal Advisor (South Africa)

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

BSX Sponsor

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

Auditor

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

Notice of Annual General Meeting

for Pallinghurst Resources Limited (the “Company”)

NOTICE IS HEREBY GIVEN that the sixth Annual General Meeting (“AGM”) of shareholders of the Company will be held at Legis House, 11 New Street, St Peter Port, Guernsey on 16 August 2013 at 11am BST to consider and, if thought fit, pass the following RESOLUTIONS:

Ordinary resolutions:

1. To receive and adopt the Company’s Annual Report and Consolidated Financial Statements for the year ended 31 December 2012 (the “Annual Report”).
2. To reappoint Saffery Champness as Auditors to the Company for the ensuing period and to authorise the Directors to fix their remuneration.
3. To re-elect Dr Christo Wiese as a Director of the Company^a.
4. To re-elect Stuart Platt-Ransom as a Director of the Company^a.
5. To approve the appointments to the Audit Committee of Martin Tolcher (Chair), Clive Harris and Stuart Platt-Ransom^b.

a An abridged curriculum vitae for each of Dr Christo Wiese and Stuart Platt-Ransom can be found within the Annual Report.

b The Audit Committee’s remit and abridged curriculum vitae for Martin Tolcher, Clive Harris and Stuart Platt-Ransom respectively, can be found within the Annual Report.

By order of the Board

Legis Fund Services Limited

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

20 March 2013

Notes

1. A shareholder entitled to attend and vote is entitled to appoint a proxy (or proxies) to attend and to speak and, on a poll, vote instead of him/her. A proxy need not be a shareholder. A shareholder may appoint more than one proxy provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him/her.
2. A Form of Proxy is enclosed. The appointment of a proxy will not prevent a shareholder from subsequently attending the AGM and voting in person.
3. To be effective, a Form of Proxy, and any power of attorney or other authority under which it is signed (or a certified or notarised copy of any such authority) must be completed, signed and either lodged at Computershare Investor Services Proprietary Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001, South Africa (PO Box 61051, Marshalltown, 2107, South Africa) not less than 72 hours before the time for holding the meeting or adjourned meeting, OR lodged at the Company’s registered office PO Box 91, c/o Legis Fund Services Limited, Legis House, 11 New Street, St Peter Port, Guernsey, GY1 3EG, Channel Islands, faxed to +44 1481 712167 or emailed to fund.enquiries@legisgroup.com, not less than 48 hours before the time for holding the meeting.
4. Forms of Proxy submitted for the original meeting will remain valid for any adjourned meeting.
5. Only those members registered in the Register of Shareholders as at 11am BST on 13 August 2013 (or in the event that the AGM is adjourned, on the Register of Shareholders 72 hours before the time of any adjourned meeting) shall be entitled to attend or vote at the AGM or adjourned meeting in respect of the shares registered in their name at that time. Changes to entries on the Register of Shareholders after 11am BST on 13 August 2013 (or, in the event that the AGM is adjourned, on the Register of Shareholders 72 hours before the time of any adjourned meeting) shall be disregarded in determining the rights of any person to attend or vote at the AGM.

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



PALLINGHURST

FORM OF PROXY

PALLINGHURST RESOURCES LIMITED (the "Company")

FOR USE AT THE ANNUAL GENERAL MEETING TO BE HELD ON 16 AUGUST 2013.

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

Of (ADDRESS) _____

being (a) member(s) of the Company appoint the Chairman of the meeting or (see note 1) _____
as my/our proxy and, on a poll, to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at Legis House,
11 New Street, St Peter Port, Guernsey, GY1 2PF, Channel Islands on 16 AUGUST 2013 and any adjournment thereof.

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

Ordinary Resolutions:	For	Against	Abstain
1. To receive and adopt the Company's Annual Report and Consolidated Financial Statements for the year ended 31 December 2012 (the "Annual Report").			
2. To reappoint Saffery Champness as Auditors to the Company for the ensuing period and to authorise the Directors to fix their remuneration.			
3. To re-elect Dr Christo Wiese as a Director of the Company.			
4. To re-elect Stuart Platt-Ransom as a Director of the Company.			
5. To approve the appointments to the Audit Committee of Martin Tolcher (Chair), Clive Harris and Stuart Platt-Ransom.			

An abridged *curriculum vitae* for each of Dr Christo Wiese and Stuart Platt-Ransom can be found within the Annual Report. The Audit Committee's remit and abridged *curriculum vitae* for Martin Tolcher, Clive Harris and Stuart Platt-Ransom respectively, can be found within the Annual Report.

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

Signature _____

Dated this _____ day of _____ 2013

Notes

1. If you so desire you may delete the words "Chairman of the meeting" and insert the name of your own choice of proxy, who need not be a member of the Company. Please initial such alteration.
2. In order to be valid, the proxy form must be lodged at Computershare Investor Services Proprietary Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107, South Africa) not less than 72 hours before the time for holding the meeting or adjourned meeting, OR lodged at the Company's registered office PO Box 91, c/o Legis Fund Services Limited, Legis House, 11 New Street, St Peter Port, Guernsey, GY1 3EG, Channel Islands, faxed to +44 1481 712167 or emailed to fund.enquiries@legisgroup.com, not less than 48 hours before the time for holding the meeting or adjourned meeting.
3. A corporation must execute the proxy under its common seal or under the hand of an officer or attorney duly authorised.
4. In the case of joint holders, the vote of the senior holder shall be accepted to the exclusion of other joint holders, seniority being determined by the order in which the names stand in the register in respect of the joint holding.

