PAN AFRICAN
RESOURCES
PLC

# INTEGRATED ANNUAL REPORT

for the year ended 30 June 2019

**PROFITABLE • SUSTAINABLE • STAKEHOLDERS • GROWTH**

# CONTENTS



## REPORT NAVIGATION

The following tools will assist you throughout the report:

- For further reading on our website at **www.panafricanresources.com**
- For further reading in this report
- Alternative Performance Measures (APMs)

Throughout our integrated annual report, the following icons are used to show connectivity between sections:

**Capitals**

- Financial capital
- Manufactured capital
- Intellectual capital
- Human capital
- Social and relationship capital
- Natural capital

**Material matters**

- Health and safety
- Capital allocation and capital structure
- Economic and social factors not in our control
- Mining operations
- Value-accretive growth
- Environmental, social and governance (ESG) compliance
- Mineral Reserves and Mineral Resources
- Laws and regulations

## DUAL LISTING

on South Africa's Johannesburg Stock Exchange (JSE) and London's Alternative Investment Market (AIM)

## MARKET CAPITALISATION

as at 30 June 2019 of USD295.2 million (2018: USD219.9 million)

## DIVERSIFIED SHAREHOLDER BASE

of major South African and international institutions

## THE GROUP'S BROAD-BASED BLACK ECONOMIC EMPOWERMENT (BBBEE) OWNERSHIP

for purposes of the Mineral and Petroleum Resources Development Act (MPRDA) equates to 26% for Barberton Mines and Evander Mines

## SHARE CODE ON AIM

PAF

## SHARE CODE ON JSE

PAR

# ABOUT THIS REPORT

## INTEGRATED THINKING

Integrated thinking is fundamental in developing our strategy and managing our business. Our strategy ensures that we manage the resources used or affected by our operations to deliver sustainable value to all stakeholders over the short (one year), medium (two to three years) and long term (beyond three years).

Throughout this report, we aim to provide information identified as being of material interest to allow stakeholders the opportunity to make an informed assessment of Pan African Resources' ability to create sustainable value.

## BOUNDARY AND SCOPE

This report provides information relating to Pan African Resources' strategy, business model, material issues, risks, governance, operational and financial performance for the financial year 1 July 2018 to 30 June 2019. This report covers the activities of the Pan African Resources group and our operating subsidiaries located in Mpumalanga, South Africa.

The group's subsidiaries are incorporated in South Africa and their functional currency is the South African rand (rand). The group's business is conducted in rand and the accounting records are maintained in this currency, except precious metal product sales, which are conducted in United States dollars (USD) before conversion into rand. The ongoing review of the results of the operations, conducted by executive management and the board, is also performed in rand.

## REPORTING COMPLIANCE

The following standards, codes, principles and guidelines have been applied or materially complied with in compiling this integrated annual report:

- International Integrated Reporting Council's (IIRC) framework
- AIM Rules of the London Stock Exchange (LSE)
- JSE Listings Requirements
- King IV Report on Corporate Governance for South Africa 2016™* (King IV™)[1]
- Global Reporting Initiative (GRI) Standards
- South African Code for Reporting of Exploration Results, Mineral Resources and Mineral Reserves, 2016 edition (the SAMREC Code)
- International Financial Reporting Standards (IFRS)
- South African Institute of Chartered Accountants (SAICA) Financial Reporting Guidelines
- Companies Act 2006
- Principles of the United Nations Global Compact
- South African guideline for the reporting of ESG parameters within the mining, oil and gas industries (SAMESG Guideline)
- United Nations Sustainable Development Goals (UN SDGs)
- Mining Charter and Social Labour Plan (Mining Charter and SLP).

## MATERIALITY

The report content focuses on matters that materially impact our ability to create and sustain value over the short, medium and long term. The process for determining and prioritising material matters, and our disclosure thereof, is discussed on page 16. Our determination of materiality in integrated reporting is based on the guidelines of the IIRC and the GRI.

## STRATEGIC REPORT

Our strategic report, including the investment case from pages 1 to 97, was reviewed and approved by the board on 18 September 2019.

## ALTERNATIVE PERFORMANCE MEASURES

Throughout the strategic report, we use a range of financial and non-financial measures to assess our performance. Management uses these APMs to monitor the group's financial performance, alongside IFRS measures, as they assist in illustrating the underlying financial performance and position of the group. We have defined and explained the purpose of each of these measures on pages 220 to 225, where more detail is provided, including reconciliations to the equivalent measure under IFRS. These APMs should be considered in addition to, and not as a substitute for, or as superior to, measures of financial performance, financial position or cash flows reported in accordance with IFRS. APMs are not uniformly defined by all companies, including those in the group's industry. Accordingly, APMs may not be comparable with similarly titled measures and disclosures by other companies.

## ASSURANCE

Pan African Resources' external auditor, PricewaterhouseCoopers LLP (PwC), has independently audited the annual financial statements for the year ended 30 June 2019. Their unmodified audit report is set out on pages 134 to 137.

## FORWARD-LOOKING STATEMENTS

Refer to the forward-looking statements on the inside back cover of this report.

## BOARD APPROVAL

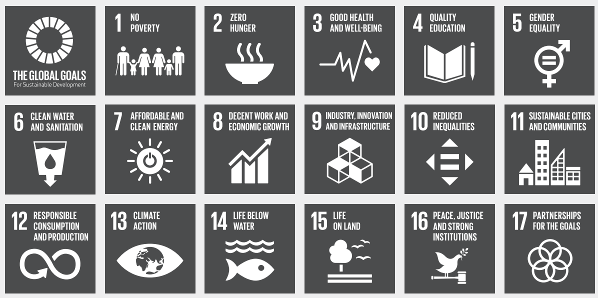
The Pan African Resources board assumes responsibility for the integrity of this integrated annual report. The board has applied its collective mind in the preparation and presentation of the information in this report and is satisfied that the report addresses all material matters and fairly presents the group's performance for the financial year 1 July 2018 to 30 June 2019. The report is an accurate reflection of our strategic commitments for the short, medium and long term.

On the recommendation of the audit and risk committee, the board approved the integrated annual report and the consolidated annual financial statements on 18 September 2019.

| Keith Spencer | Cobus Loots | Deon Louw |
|---|---|---|
| *Chairman* | *Chief executive officer* | *Financial director* |

## UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

The UN SDGs set a long-term agenda to end poverty, protect the planet and ensure prosperity for all by 2030. Pan African Resources is committed to playing its role in the attainment of these goals.




Pan African Resources has identified the following sustainable development goals where we believe we can have the most meaningful impact:


## FEEDBACK

We welcome any feedback stakeholders may have on our integrated annual report. Please contact info@paf.co.za with your feedback.

Online copies of our integrated annual report are available on our website at www.panafricanresources.com.

A limited number of hard copies are available on request from the company secretary, whose details appear on the inside back cover.



[1] *King IV™ Report: http://www.panafricanresources.com/wp-content/uploads/Pan-African-Resources-King-IV-2019.pdf*

# WHO WE ARE

Pan African Resources PLC (Pan African Resources) is a mid-tier African-focused gold producer with a production capacity in excess of 170,000oz of gold per annum. We own and operate a portfolio of high-quality, low-cost operations and projects, which are located in South Africa.

### OUR PURPOSE

To safely extract gold from mineral deposits in a manner that creates sustainable value for our stakeholders.

### OUR VISION

To continue to build and grow a mid-tier gold producer that delivers on its purpose.

### OUR VALUES


### WHAT WE DO

**GROWTH**

We grow our business in a value-accretive manner to benefit all stakeholders and we prioritise:

- organic growth projects within our portfolio
- feasible and production-enhancing projects.

As a business seeking sustainable growth, we continually look for value-accretive opportunities that meet our stringent investment criteria.

**PROFITABILITY**

We mine gold from our underground and surface tailings operations and strive to be the lowest all-in sustaining cost producer of gold in Southern Africa.

**SUSTAINABILITY**

We focus on sustainable, low-cost and safe gold production.

**STAKEHOLDERS**

We adopt an integrated approach to operate sustainably for the benefit of all stakeholders.

**OUR STRATEGIC PILLARS**

# HOW WE CREATED VALUE IN 2019

## GOLD PRODUCED

Gold sold*

171,706oz (2018: 111,879oz)

Revenue*

USD217.4 million (2018: USD145.8 million)

## FOR OUR EMPLOYEES

Total number of employees

2,148 employees (2018: 2,069 employees)

USD50.3 million (2018: USD44.3 million)
in salaries, wages and benefits*

Invested

USD1.0 million (2018: USD1.8 million)
in skills and development training

## FOR OUR COMMUNITIES

Invested

USD1.9 million (2018: USD1.1 million)
in corporate social investment (CSI), local economic development (LED) projects and bursaries

## FOR OUR PROVIDERS OF CAPITAL

Profit after tax

USD38.0 million
(2018: USD122.8 million loss after tax)

Return on shareholder funds

23.0% (2018: loss 57.9%)

Earnings per share

1.97 USD cents per share
(2018: loss of 6.79 USD cents per share)

Headline earnings

USD22.9 million (2018: USD17.9 million)

Net asset value

USD183.6 million (2018: USD147.0 million)

Interest paid to debt funders

USD14.1 million (2018: USD7.0 million)

All-in sustaining costs

USD988/oz (2018: USD1,358/oz)
or R450,564/kg (2018: R561,468/kg)

## FOR THE GOVERNMENT

Paid

USD14.1 million (2018: USD17.4 million)
in South African government taxes (excluding value-added tax (VAT))

## FOR OUR SUPPLIERS

Spent

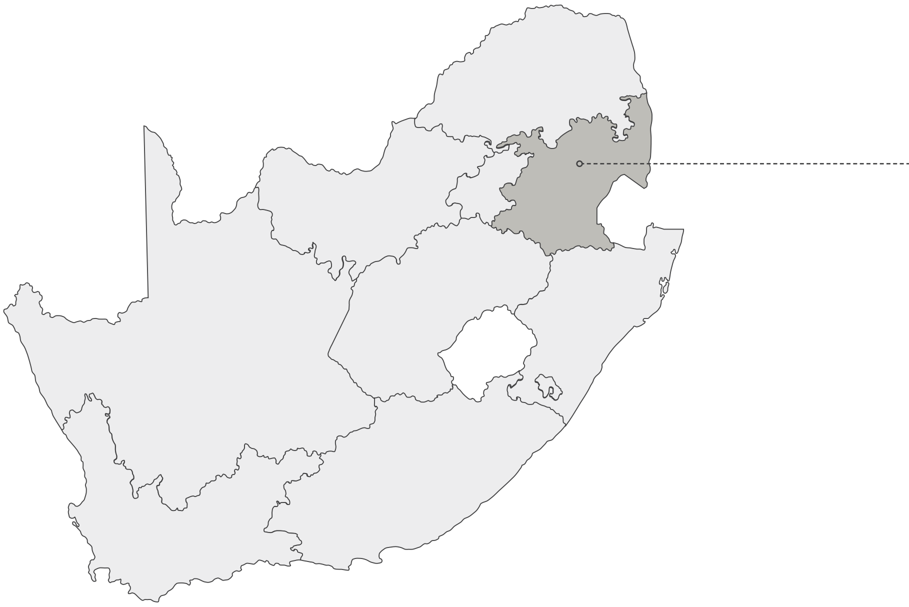
USD137.8 million (2018: USD104.1 million)
in local procurement expenditure

* *Refers to gold sold, revenue or salaries, wages and benefits paid for continuing operations. In the prior financial year, the group reclassified Evander Mines' large-scale underground operations as a discontinued operation.*

*v Evander Mines – Elikhulu and Kinross plants and 7 Shaft infrastructure*

# OUR OPERATING ASSETS AND WHERE WE OPERATE

The group's assets at the end of the financial year include:



**BARBERTON MINES**

Three underground gold mines: Fairview Mine, Sheba Mine and New Consort Mine

Barberton Tailings Retreatment Plant (BTRP)

## BARBERTON MINES

Employees **1,875** | Contractors **620** | Life-of-mine **20 years**

Located in a greenstone belt, this is a low-cost, high-grade operation comprising three underground mines: Fairview, Sheba and New Consort.

| | |
|---|---|
| Production (tonnes milled) | 293,264 (2018: 237,831) |
| Produced (oz/annum) | 75,356 (2018: 73,125) |
| Capacity (oz/annum) | 110,000 |
| Tonnage (capacity per annum) | 432,000 |
| Sustaining capital | USD9.9 million (2018: USD8.7 million) |
| Acquired | 74% from Metorex in 2007 and then the remaining 26% from PAR Gold Proprietary Limited (PAR Gold) in 2009 |
| Mineral Resources | 12.1Mt @ 7.85g/t (3.1Moz) |
| Mineral Reserves | 8.0Mt @ 5.65g/t (1.4Moz) |
| Recovered grade | 8.0g/t (2018: 9.6g/t) |
| Cash cost | USD1,046/oz (2018: USD1,053/oz) |

## BARBERTON TAILINGS RETREATMENT PLANT

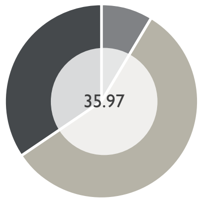
Employees **75** | Contractors **–** | Life-of-mine **9 years**

Located at Barberton Mines, the R325.7 million BTRP commenced construction in April 2012, was completed on schedule and achieved its inaugural gold pour in June 2013.

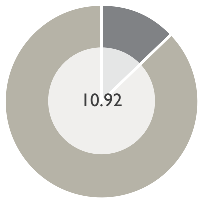
| | |
|---|---|
| Production (tonnes milled) | 1,114,923 (2018: 858,967) |
| Produced (oz/annum) | 24,007 (2018: 17,504) |
| Capacity (oz/annum) | 25,000 |
| Tonnage (capacity per annum) | 1,200,000 |
| Sustaining capital | – |
| Developed | Steady-state production commenced in 2013 |
| Mineral Resources | 21.6Mt @ 1.28g/t (0.9Moz) |
| Mineral Reserves | 9.9Mt @ 1.66g/t (0.5Moz) |
| Recovered grade | 0.7g/t (2018: 0.6g/t) |
| Cash cost | USD552/oz (2018: USD691/oz) |


| EVANDER MINES |
|---|
| Elikhulu Tailings Retreatment Plant (Elikhulu) |
| 8 Shaft pillar mining |

Group Mineral Resources (Moz)




Group Mineral Reserves (Moz)




*Refer to the abridged Mineral Resources and Mineral Reserves report on pages 56 to 75 for a detailed report.*

## ELIKHULU TAILINGS RETREATMENT PLANT

Employees **91** | Contractors **287** | Life-of-mine **13 years**

Elikhulu exploits historically generated gold tailings deposited in the Kinross, Leslie/Bracken and Winkelhaak tailings storage facilities (TSFs).

| | |
|---|---|
| Production (tonnes milled) | 10,848,209 |
| Produced (oz/annum) | 46,201 |
| Capacity (oz/annum) | 75,000 |
| Tonnage (capacity per annum) | 14,400,000 |
| Sustaining capital | – |
| Developed | Inaugural gold pour achieved on 16 August 2018 |
| Mineral Resources | 203.6Mt @ 0.29g/t (1.9Moz) |
| Mineral Reserves | 170.6Mt @ 0.27g/t (1.5Moz) |
| Recovered grade | Tailings: 0.13g/t |
| Cash cost | USD555/oz |

## EVANDER MINES' 8 SHAFT PILLAR MINING

Employees **90** | Contractors **586** | Life-of-mine **3 years**

Evander Mines' 8 Shaft pillar mining is expected to contribute 20,000oz to 30,000oz per annum for three years, with first gold produced in August 2019.

| | |
|---|---|
| Production (tonnes milled) | 113,000 planned |
| Produced (oz/annum) | 30,000 at steady state |
| Capacity (oz/annum) | 40,000 |
| Tonnage (capacity per annum) | 138,000 |
| Sustaining capital | R18 million over the project's life |
| Developed | Primary pillar development completed in February 2019 and initial mining commenced in July 2019 |
| Mineral Resources | 17.3Mt @ 11.53g/t (6.4Moz) |
| Mineral Reserves | 0.4Mt @ 8.54g/t (0.1Moz) |
| Recovered grade | 8.60g/t planned over the life-of-mine |
| Cash cost | Below USD1,000/oz |

# BUSINESS MODEL

High-grade mining | Long-life mining operations | Cash flow generative in any commodity cycle | Excellent safety record | Profitable mining

## INPUTS

We use our capital resources to realise our purpose: To extract gold from mineral deposits in a manner that creates sustainable value for our stakeholders

### FINANCIAL CAPITAL

Our financial capital includes equity, cash generated from our operating activities and our debt facilities

To drive sustainable cash flows and create value for our stakeholders, we have a disciplined approach to financial capital management

### MANUFACTURED CAPITAL

Our manufactured capital includes our underground mining infrastructure at Barberton Mines and Evander Mines, our two surface tailings operations (Elikhulu and BTRP) and our Biological Oxidation (BIOX®) plant in Barberton

Through our mining and prospecting rights we have access to Mineral Reserves and Mineral Resources. These orebodies are a key and critical resource to the group

### INTELLECTUAL CAPITAL

We invest in our employees and our intellectual capital through developing our management expertise and training our employees. We have a unique talent mix and more than 130 years of mining experience on the Barberton Greenstone Belt orebodies. This is currently the only Greenstone gold complex actively being mined on a large scale in South Africa

### HUMAN CAPITAL

Our people are fundamental to the sustainability of our business and are key enablers in the execution of our strategy. To achieve our strategic objectives, we focus on ensuring that we have the necessary skills, culture and employees in place

### SOCIAL AND RELATIONSHIP CAPITAL

Our licence to operate depends on the quality of our relationships with our various stakeholders. Building and maintaining relationships based on trust, mutual respect and credibility is integral to our growth, value creation and long-term sustainability

### NATURAL CAPITAL

We require natural capital such as water, air, land and fuel for energy to operate our manufactured capital

We rank among South Africa's lowest-cost gold producers, with all-in sustaining costs per ounce improving to USD988/oz (2018: USD1,358/oz)

We have used our competitive advantage of agility and flexibility to strategically position ourselves as a relatively low-cost, long-life gold producer – 46.5% of the group's production is from low-cost surface tailings operations

We pride ourselves on a track record of designing, building and commissioning tailings retreatment plants on time and on budget

### GROWTH

- Evander Mines
  - 8 Shaft pillar mining
  - Egoli project
- Barberton Mines
  - Royal Sheba project
  - New Consort exploration project
  - Sub-vertical shaft project at Fairview
  - Project Dibanisa

**GOVERNANCE >>** Pan African Resources is committed to the highest standards of governance, ethics and integrity.

## VALUE PROPOSITION

Pan African Resources is committed to producing low-cost ounces and optimising safety and mining efficiencies, while minimising environmental impacts and investing in local communities.
Key value contributors are:

## BUSINESS ACTIVITIES

Through carefully executing our business activities, we have positioned Pan African Resources as a relatively low-cost, long-life gold producer, with employee health and safety as an operational imperative


## WHAT DIFFERENTIATES US

- Our active management of gold mining operations to ensure a focus on reducing and managing operational costs
- Our competitive portfolio of underground and tailings operations
- Our focus on sustainable and safe gold production
- Our ability to meet and exceed our production guidance of 170,000oz
- We expect to produce approximately 185,000oz for the 2020 financial year

## OUR STRATEGIC PILLARS

We strategically execute our business activities to align with our vision:
To continue to build and grow a mid-tier gold producer that delivers on its purpose

### PROFITABILITY

- Long-life profitability
- High-grade orebodies
- Low-cost mining operations

### SUSTAINABILITY

- Long-life orebodies
- Environmentally compliant
- Job creation
- Fully funded environmental fund

### STAKEHOLDERS

- Providers of capital
- Investors
- Shareholders
- Finance institutions
- Employees
- Unions
- Suppliers
- Communities
- Government and regulatory bodies
- Customers
- Listing exchanges

Our board has a balance of knowledge, skills, experience, diversity and independence to objectively and effectively discharge its governance role and responsibilities.

Rand hedge | Organic growth projects | Experienced management team | 170,000oz of gold sold per annum (2020: production guidance – 185,000oz)

## OUR OPERATING ENVIRONMENT

Our operating environment impacts us through:
- Economic factors
- Political factors
- Social factors
- Legislative factors

We impact our operating environment through our contribution to:
- The economy
- Society
- Our employees
- The environment

## OUR REVENUE

Our revenue is impacted by:
- Gold price
- Gold production volume
- ZAR:USD exchange rate

## OUTCOMES

The use of our capital resources to position Pan African Resources as a low-cost, long-life gold producer, with employee safety at the operational forefront

### FINANCIAL CAPITAL

We focus on managing our operational costs, achieving our production targets and optimising the performance and stability of our mining operations. We seek to improve the long-term outcomes of our activities while meeting the short-term expectations of our stakeholders

### MANUFACTURED CAPITAL

The pursuit of excellence in mining operations underpins cost-effectiveness and safety performance

### INTELLECTUAL CAPITAL

Investments into technology, processes and our employees ensure sustainability and competitive advantage

### HUMAN CAPITAL

A safer working environment through the expansion of tailings operations, with competencies and values built around safety, operational excellence and innovation

### SOCIAL AND RELATIONSHIP CAPITAL

Investment in stakeholder engagement and socio-economic development builds trust and secures our social licence to operate

### NATURAL CAPITAL

Reducing our environmental footprint as tailings retreatment initiatives are expanded. Responsible extraction is supported by our environmental management programme and rehabilitation strategy

## MANAGING OUR RISKS

Pan African Resources has an established risk management philosophy. Our understanding of our identified risks informs our strategy and our prioritisation of our material matters

Our top risks include:
- Interruption to stable electricity supply
- Illegal mining and heightened criminal activity
- Regulatory changes

## OUR MATERIAL MATTERS

Material matters are a summation of our key risks and opportunities that have the potential to impact our ability to create sustainable value for all stakeholders over the short, medium and long term:
- Health and safety
- Capital allocation and capital structure

The group complies in all material respects with all applicable legal acts and regulations.

<< GOVERNANCE

## OUR COSTS

To maintain and sustain operations, our cost of production includes:

- Salaries and wages
- Electricity
- Mining
- Processing and metallurgy
- Engineering and technical services
- Administration and other
- Security

To expand our operation, our costs include:

- Expansionary capital
- Exploration costs

- Reduced working time impacting productivity
- Health and safety incidents
- Financial sustainability in a volatile environment
- Tailings dam or mine shaft failure, fire or flooding
- Operational execution
- Governance and regulatory compliance
- Strategic capital allocation
- Environmental damage
- Declining Mineral Resource and Mineral Reserve base

- Economic and social factors not in our control
- Mining operations
- Value-accretive growth
- ESG compliance
- Mineral Reserves and Mineral Resources
- Laws and regulations

<< GOVERNANCE

## EXPLORE

On-mine growth projects contribute to our Mineral Resources, which potentially extend the life of our underground mining operations

## DEVELOP

Successful development of our orebodies and execution of our capital projects improves our costs and production profile and increases the economic life of our operations

## MINE

We extract gold-bearing ore through underground mining and vamping

We re-mine gold-bearing tailings through hydro mining. Gold is extracted from the concentrate after being processed through our plants at Elikhulu and BTRP

Third-party gold-bearing ore is processed on a toll treatment agreement at our Evander Mines' Kinross plant. We also treated, on a trial basis, third-party gold-bearing ore at the New Consort Mine plant in the 2019 financial year

## PROCESS

Refractory gold-bearing ore is treated by our BIOX® plant at Barberton Mines. Specialised bacteria break down insoluble sulphide minerals, which expose the gold for efficient extraction. The BIOX® concentrate is sent to the cyanide circuit at Fairview Mine for chemical processing where gold doré is produced

Non-refractory gold-bearing ore undergoes physical and chemical processing at our Fairview, Consort, Sheba, BTRP, Elikhulu or Kinross plants into gold doré

Gold doré is transported to Rand Refinery Limited (Rand Refinery) where it is refined into gold bullion

## SALES

Gold sales transactions are entered into with authorised bullion banks and other credible parties. Our customers and gold investors include the gold bullion export market, Rand Refinery, Gold Exchange Traded Funds (ETFs), and the makers of Krugerrands and gold jewellery

## END OF LIFE

The group's rehabilitation liability is fully funded. Our rehabilitation funds have been invested in a Cenviro Solutions insurance investment product underwritten by Centriq Insurance Company Limited. Our funds are invested in interest-bearing accounts and equity investments:

- To prepare for the inevitable closure of our mines as the orebodies are exhausted, social and economic stability requires consultation with affected communities during the life-of-mine
- Ongoing community consultations contribute to developing initiatives through our mine SLPs to prepare for post-closure economic sustainability
- At the end of the life-of-mine, we responsibly and safely manage the closure of our mines to ensure minimal disruption to our natural resources post mine closure

# HOW WE SUSTAIN VALUE

| INPUTS | OUTPUTS | BALANCING OUR CAPITALS |
|---|---|---|
| The six capital resources embedded in our business activities to create and preserve value | Our outputs result from and support our vision of growing a sustainable gold producing business in Africa | Capital stocks are traded, depleted, grown or combined as strategy is executed. For example, creating manufactured capital through infrastructure development decreases financial capital during that period |

COMMERCIAL ACTIVITIES

## FINANCIAL CAPITAL

| Inputs | | Outputs | |
|---|---|---|---|
| Shareholder equity | **USD183.6 million** (2018: USD147.0 million) | Revenue | **USD217.4 million** (2018: USD145.8 million) |
| | | South African government taxes paid (excluding VAT) | **USD14.1 million** (2018: USD17.4 million) |
| | | Paid to suppliers | **USD137.8 million** (2018: USD104.1 million) |
| | | Dividend | **USD3.4 million** (2018: nil) |
| Cash generated by/(utilised in operating) activities | **USD37.7 million** (2018: USD13.4 million utilised in operating activities) | Profit after taxation | **USD38.0 million** (2018: USD122.8 million loss after tax) |
| Debt facilities | **R1 billion revolving credit facility (RCF)** (2018: R1 billion) or **USD71.0 million** (2018: USD72.9 million) | Interest payments to debt funders | **USD14.1 million** (2018: USD7.0 million) |
| | **R1 billion** term loan facility for the Elikhulu plant (2018: R1 billion) or **USD71.0 million** (2018: USD72.9 million) | Net debt | **USD129.9 million** (2018: USD118.0 million) |
| | **R140 million** in general banking facilities (GBP) (2018: R140 million) or **USD9.9 million** (2018: USD10.2 million) | | |

Balancing our capitals:

- Managing long-term strategy against short-term stakeholder expectations is an ongoing trade-off. Investment decisions made today for the group's long-term sustainability may take months or years to bear fruit
- The group has no control over the gold price, or the ZAR:USD exchange rate received on our gold sales. We mitigate their impact through strict cost management, strategic currency and commodity price hedging and disciplined financial capital management
- Increased debt resulted in increased payments to debt funders
- USD37.7 million (2018: USD97.8 million) was invested in the construction of Elikhulu, which has restored the profitability of Evander's operations

## MANUFACTURED CAPITAL

| Inputs | | Outputs | |
|---|---|---|---|
| Mineral Reserves | **Gold 10.92Moz** (2018: 11.22Moz) | Gold production | **172,442oz per annum** (2018: 160,444oz per annum) |
| Mineral Resources | **Gold 35.97Moz** (2018: 33.30Moz) | | **All-in sustaining cost USD988/oz** (2018 USD1,358/oz) |
| Investment in infrastructure | **USD56.7 million** (2018: USD128.4 million) | | **Tonnes milled and processed increased to 13,392,400 tonnes** (2018: 3,551,280 tonnes) |
| Low-cost producer | | | |
| Mining flexibility at high-grade Fairview 272 and 358 mining platforms | | | |
| Life-of-mine | | | |
| Barberton Mines | 20 years | | |
| BTRP | 9 years | | |
| Elikhulu | 13 years | | |
| Evander Mines' 8 Shaft pillar mining | 3 years | | |

Balancing our capitals:

- Safety performance and cost effectiveness underpins excellence in operational performance
- Elikhulu was commissioned ahead of schedule
- BTRP production increased to 24,007oz (2018: 17,504oz) following our investment into the BTRP regrind mill
- Incorporated Evander Tailings Retreatment Plant (ETRP) throughput capacity of 0.2 million tonnes per month into Elikhulu's processing capacity

**INPUTS** — The six capital resources embedded in our business activities to create and preserve value

**OUTPUTS** — Our outputs result from and support our vision of growing a sustainable gold producing business in Africa

**BALANCING OUR CAPITALS** — Capital stocks are traded, depleted, grown or combined as strategy is executed. For example, creating manufactured capital through infrastructure development decreases financial capital during that period

**SOCIAL AND ENVIRONMENTAL ACTIVITIES**

## INTELLECTUAL CAPITAL

| Inputs | Outputs | Balancing our capitals |
|---|---|---|
| Mining and prospecting rights | | Investing in technology and processes underpins the group's sustainability and competitive advantage<br>We are growing our tailings processing expertise due to financial capital allocations to manufacturing capital that funded Elikhulu and the BTRP regrind mill |
| Technical know-how | | |
| Key personnel for managing the BIOX® process | Maximised resource utilisation | |
| Management and the board's combined expertise | Effective and efficient technology at Elikhulu | |
| Expansion and integration of technologies at our operations | | |
| Ethical and effective leadership | | |

## HUMAN CAPITAL

| Inputs | | Outputs | | Balancing our capitals |
|---|---|---|---|---|
| Employees' skills and experience | **2,148 employees** (2018: 2,069 employees) | Zero fatalities | **Improved total injury frequency rate to 10.71 per million man hours** (2018: 12.71 per million man hours) | Tailings retreatment is not as labour intensive, with less risk of injury, compared to underground mining<br>Safety performance improved significantly<br>Employee earnings are a major source of income for local communities, which strengthens our social and relationship capital<br>A three-year wage agreement at Barberton Mines, concluded during September 2018 without industrial action, allows for human capital stability |
| Skilled and experienced board | | Skills development and training | **USD1.0 million** (2018: USD1.8 million) | |
| Labour stability | | Employee remuneration | **USD50.3 million** (2018: USD44.3 million) | |
| Investment in skills development and training | | Women employed at our mines | **223 women** (2018: 200 women) | |

## SOCIAL AND RELATIONSHIP CAPITAL

| Inputs | Outputs | | Balancing our capitals |
|---|---|---|---|
| Social licence to operate<br>Investing in our communities – SLP investment | CSI, LED projects and bursaries | **USD1.9 million** (2018: USD1.1 million) | Continually improving stakeholder engagement<br>Investing in socio-economic development reduces short-term financial capital yet secures our social licence to operate<br>Investing in social and relationship capital enables stable long-term operations and financial investments |
| Ongoing stakeholder engagement with a focus on community engagement | Stakeholder relations | Regular union meetings, fulltime community liaison officers appointed | |

## NATURAL CAPITAL

| Inputs | Outputs | | Balancing our capitals |
|---|---|---|---|
| Stewardship of our Mineral Reserves and Mineral Resources | Energy consumption | **1,228,501GJ** (2018: 1,397,695GJ) | We extract Mineral Resources through responsible mining techniques while mitigating the environmental impacts of mining through land rehabilitation<br>Our environmental footprint reduces as tailings retreatment initiatives are expanded<br>Rehabilitation programmes increase social and relationship capital through local supplier development and job creation<br>As tailings dams are rehabilitated, land becomes available for agricultural use and human settlements |
| Complying with applicable environmental legislation and regulations | Water consumption | **13,369m³** (2018: 16,675m³) | |
| | Carbon emissions | **0.03 $CO_2$ e/t milled** (2018: 0.12 $CO_2$ e/t milled) | |
| | | Independent rehabilitation closure cost assessments conducted at all operations | |

[1] *Employee remuneration for continuing operations.*

# CHAIRMAN'S STATEMENT

The year under review was a defining one for Pan African Resources. The board and executive management delivered a number of initiatives to ensure that the group is positioned as a sustainable, profitable and relatively low-cost gold producer.

A particular highlight in the past year was the successful commissioning of the Elikhulu Tailings Retreatment Plant, ahead of schedule. We expect that Elikhulu will bring significant benefits to all our stakeholders through producing safe, profitable ounces over the project's life.

Barberton Mines delivered a good performance during the year, and we will continue to invest in this asset to ensure the ongoing sustainability of what has been Pan African Resources' flagship operation for many years.

Most industry analysts refer to South African deep-level mining, in its current form, as a 'sunset industry', with, inter alia, challenges such as ever-increasing costs, uncertain regulation and labour unrest. Pan African Resources has, however, worked hard to differentiate itself from the rest of the industry. We have attractive margins, with a lower cost of production than most of our peers. We also now source approximately half of our overall gold production from lower-risk surface operations.

Our group's leadership team has worked tirelessly to reposition the business and place it on a firm footing for future growth. In the past years, these efforts included the cessation of large-scale underground operations at Evander Mines' 8 Shaft and the construction of Elikhulu. On behalf of the board, I commend the executive team for completing a complex turnaround of our business with such expediency.

## SAFETY

The safety of our employees and contractors is of paramount importance to Pan African Resources. Mining operations present many risks to our people's health and safety. We will continue to work towards an environment of zero harm.

During June 2019, Barberton Mines achieved 2 million fatality-free shifts, and I wish to again congratulate the Barberton employees and management on this accomplishment.

## OPERATING ENVIRONMENT

Gold is traditionally viewed as a safe-haven investment in times of economic and political uncertainty. Despite the increased prevalence of cryptocurrencies and other alternative investments, gold has retained its appeal, as evidenced by the recent rally in gold prices. The highly volatile world economy and changing world order, the continued US and China trade conflict, geopolitical uncertainty and an expected reduction in US interest rates are contributing factors that should support USD gold prices in the coming year.

Mining operations are frequently the highest profile nodes of economic activity in their areas of operation. They are expected to provide jobs and assist in contributing to socio-economic development in their immediate surrounding communities, in response to South Africa's persistently low economic growth rate and high level of unemployment.

Despite all our community and local economic development programmes, our operations are, at times, targeted by parties seeking financial or political gain, with these parties using illegal road closures and community protests as leverage. The result of these actions is lost production days, which adversely impacts cash flows, reduces taxes and royalties payable to the fiscus, and ultimately, negatively impacts the prospects of our mining operations and stakeholders.

The socio-economic challenges in Southern Africa have also resulted in illegal mining becoming an increasing risk to the licenced gold mining industry and to our operations. Illegal mining contributes to a breakdown of law and order and increases our security and other costs. We continue to convey to all in authority that illegal mining disrupts communities and impedes the social compact that enables mining operations to function optimally for the benefit of all stakeholders.

South Africa's Mining Charter III came into effect on 1 March 2019, after almost three years of deliberations. The revised Mining Charter III brought a degree of much-needed regulatory certainty

*Barberton Mines – hoppers carrying ore at Fairview 11 Level adit*

to our industry, however, there remain certain contentious and ambiguous issues within it, and Pan African Resources will, through appropriate channels, continue to contribute towards constructive debate on the Mining Charter III with government.

## LONG-TERM SUSTAINABILITY

Pan African Resources recognises and welcomes increased scrutiny on ESG-centred issues by the investment community. We are proud of our commitment to the sustainable operation of our business and we have set standards that routinely go beyond compliance. We are equally cognisant of commercial obligations and, therefore, sustainable cash flow generation must practically remain our key priority.

We fully acknowledge and take responsibility for our role in a symbiotic relationship between shareholders, other stakeholders and also with the natural environment. These relationships afford us the opportunities and landscape to conduct our mining activities. Without these mutually beneficial relationships, our business mission of creating wealth on a sustainable basis would not be possible.

## ETHICS, LEADERSHIP AND CORPORATE GOVERNANCE

After year-end, we further strengthened the Pan African Resources board with the appointment of two new independent non-executive directors. We welcome Yvonne Themba and Charles Needham to the board and look forward to their contributions. During the year under review, Rowan Smith resigned from the board to pursue other interests, and I take this opportunity to thank him for his invaluable insights and service to the group during his tenure.

The board and remuneration committee mandated an independent remuneration expert to review the group's remuneration framework and policies, consult shareholders and recommend improvements, where necessary. More detail on this work is provided in the current year's remuneration report on pages 112 to 125.

After year-end, the board's sub-committees were also re-constituted to ensure compliance with best practice and further improve the functioning of these committees. Further detail on these committees is outlined in our corporate governance report on page 107.

Pan African Resources is reviewing its ESG activities for compliance with required standards, including South Africa's King IV™ Report on Corporate Governance. This exercise includes reviewing all board charters, an independent IFRS review on annual financial statements and disclosures and an assessment of the appropriateness of all material service providers. During the year, the board ratified the appointment of PwC as external auditor (subject to approval by the shareholders at the next annual general meeting) and Questco as JSE sponsor, following deliberations and interactions on these appointments.

## OUTLOOK

The financial and operating results for the past year demonstrate that the board and executive team successfully delivered on what we set out to do at the start of the year.

Our team is now focused on safely delivering on the increased production guidance for the 2020 financial year.

## APPRECIATION

Pan African Resources has emerged from a challenging two years that tested the mettle of our people. I wish to extend my gratitude to my fellow board members for your counsel and efforts during this period, and also extend my thanks to management and employees of our group for their continued commitment and dedication to Pan African Resources.

Keith Spencer
*Chairman*
18 September 2019

# CHIEF EXECUTIVE OFFICER'S STATEMENT

It is appropriate to start this review with heartfelt thanks to the management and employees of Pan African Resources for their work and commitment during the 2019 financial year. Our positive results reflect the efforts of the team to implement our strategy as we capitalise on opportunities in our portfolio and invest in future growth.

**The past year is best characterised as a period where our group delivered on several clearly predefined objectives, with the following highlights:**

### Safety

The group materially improved on all safety statistics, as detailed later in this review. The milestone achievement of 2 million fatality-free shifts at Barberton Mines during June 2019 is worth noting.

### Commissioning Elikhulu

Elikhulu was safely completed and successfully commissioned, despite the challenges associated with delivering a project of this magnitude and complexity. It is now providing incremental low-cost ounces to the group's production.

### Barberton Mines

A return to form by the underground operations and BTRP, having collectively produced approximately 100,000oz for the year, resulted in an increase of 9.6% from 2018. This improved performance was, inter alia, due to improved underground mining flexibility at Fairview Mine's high-grade 272 and 358 platforms, and also to higher gold production from BTRP, following the successful commissioning of the BTRP regrind mill during May 2018.

### Repositioning of the group in terms of cost of production

The curtailment of expensive and difficult large-scale underground operations at Evander Mines' 8 Shaft, the commissioning of Elikhulu and increased production from Barberton Mines resulted in our all-in sustaining costs reducing materially from USD1,358/oz to USD988/oz, an improvement of 27.2%. The group's combined underground and tailings operations are internationally cost competitive and we now rank among South Africa's lowest-cost gold producers.

## OUR WORLD AND OPERATING ENVIRONMENT

Globally, investor appetite for mining companies and mining projects has declined in recent years. I believe the reduced interest can be partly attributed to an increased focus on 'green' investing and a fixation with new sectors perceived to provide exceptional short-term growth, such as cannabis and blockchain technology. In addition to these exogenous headwinds, the mining industry will have to continue to demonstrate superior returns and disciplined capital allocation to maintain and improve investor interest in our sector, in a manner that is responsible towards all stakeholders and the environments within which we operate.

Currently, all our operations are in South Africa. We frequently promote the country as a mining investment destination with key merits, which include the following:

- Access to relatively stable grid electricity and water, technical expertise and infrastructure
- Access to a skilled workforce and contractors
- World-class constitution and legal frameworks, with well-established financial, banking and tax regimes
- A rand cost base that provides margin leverage in times of local currency weakness.

Operating in South Africa is, however, becoming increasingly challenging, and it would be remiss not to highlight the following:

- South Africa's Mining Charter III, which came into effect during the current year and regulates aspects such as local ownership and procurement, was a material improvement on previous iterations. It still, however, contains problematic and ambiguous provisions and risks creating unreasonable expectations from communities and other stakeholders situated near mining operations
- The financial and operational woes of the South African electricity utility, Eskom, are adversely impacting mining operations. For the South African economy to grow and be competitive, it requires access to a reliable and stable electricity supply at a reasonable cost

v *Elikhulu plant*

- Above-inflation cost increases continue to erode operating margins and impact global competitiveness, particularly in higher-cost, deep-level mining operations. Unions representing mine employees have to balance perceived short-term gains with the economic reality that above-inflationary pay increases without commensurate increases in employee performance are unsustainable
- Lack of economic growth, employment and economic opportunities in South Africa, together with population growth, are creating a dire situation for business and mining operations, particularly in rural areas. The mining sector is expected to contribute an ever-increasing percentage of the wealth generated by our operations to local development and community initiatives. Government is also increasingly expecting business to fulfil basic service delivery functions. Lack of economic progress leads to an increase in illegal mining, lawlessness and other social ills that adversely impact mining operations. In this regard, it is worthwhile elaborating further on the risks of illegal mining, as this matter poses a serious threat to our business.

The rise of illegal mining and community unrest has resulted in the group's security costs nearly doubling to USD7.2 million (2018: USD4.2 million). Illegal mining is not only about impoverished people placing their lives at risk by accessing old and abandoned workings for a living. It has morphed swiftly into a continent-wide criminal network that traffics illegal gold, endangered species and humans to unscrupulous buyers.

Illegal mining adversely affects our gold production and poses a risk to the safety and security of our employees, both underground and in their communities. We have expanded our security team, introduced a new integrated security strategy, that includes the increased use of modern technology, and adopted a multi-faceted approach to better identify and counter criminality.

We can, in the normal course, protect our operations at a cost, but illegal mining and its effect of unsettling communities and adversely impacting mining economies is beyond the scope of mining houses to resolve on their own. All resource-rich African countries are being impacted by illegal mining activities and an effective push-back requires policy, resources and coordination at government and inter-government levels.

In my view, it is not the role of business to involve itself in politics. We must, however, speak out when government policies or other factors threaten our ability to operate sustainably and benefit our legitimate stakeholders. In the past year, we have done so when criminal elements threatened our people or our assets. We have also increased our efforts to counter the impact of illegal mining and illegal stoppages on our operations and will continue to do so.

## SAFETY PERFORMANCE IN THE YEAR UNDER REVIEW

As mentioned earlier in this review, I am particularly pleased with the group's safety performance over the past year. Safe mining is a non-negotiable for Pan African Resources. All large-scale mining operations, however, have inherent safety risks that must be diligently managed. In part, the fact that we now source a material portion of gold production from lower-risk surface operations has assisted our safety performance in the past year. A notable milestone was Fairview Mine, one of our Barberton underground operations, reaching 1 million fatality-free shifts on 15 July 2018. In addition, Barberton Mines, for the first time, achieved 2 million fatality-free shifts during June 2019. We commend our employees for achieving this exceptional safety milestone. The group's lost-time injury frequency rate (LTIFR) improved significantly to 1.62 (2018: 3.73) per million man hours and the reportable injury frequency rate (RIFR) improved to 0.51 (2018: 1.08) per million man hours.

We will endeavour to further improve our safety performance in the year ahead.

## ENVIRONMENT, SOCIAL AND GOVERNANCE

In conducting our business activities, we are mindful of the impact we have on host communities and the environment – our social and natural capital. Contributing to communities and demonstrating responsible environmental stewardship are critical to acquiring and

# CHIEF EXECUTIVE OFFICER'S STATEMENT continued

The board is pleased to propose a final dividend of R50 million (USD3.4 million). Reinstituting dividends demonstrates the progress our group has made in the last year.

Processing capacity at Evander Mines increased to

1.2 million tonnes per month

Evander Mines' 8 Shaft pillar expected to contribute

±20,000 to 30,000oz per annum at less than USD1,000/oz

Barberton Mines improved gold production by

9.6% to 99,393oz

(2018: 90,629oz)

BTRP increased its production by

37.2% to 24,007oz

(2018: 17,504oz)

maintaining our social licence to operate and a vital element to maintaining investor confidence. We continue to consider ESG factors as a key focus area for our business. For further information on ESG compliance refer to page 23.

## TAILINGS STORAGE FACILITIES

We continuously review the integrity of our tailings storage facilities and during the year appointed an independent specialist to review all our tailings facilities for compliance with the requisite safety and legislative requirements. The review focused on operational practices, geotechnical stability, facility risk and management processes. It specifically assessed the level of compliance of each tailings dam against its design intent, operating and maintenance manual and code of practice requirements and, where relevant, international best practice.

We are committed to working with our stakeholders to ensure verifiable best-practice standards are developed, implemented and maintained. We have provided additional disclosure on our website relating to our tailings storage facilities. This was requested by the Church of England Pensions Board and the Swedish Council on Ethics for the AP Funds, backed by the UN-supported Principles for Responsible Investment.

## RISKS

We endeavour to identify and manage material risks to our business and operations. We have disclosed details of said risks together with mitigating actions on pages 29 to 35 of this integrated annual report.

## PERFORMANCE: LEVERAGING THE TURNAROUND

The effective execution of the group's ambitious repositioning programme was made possible by our can-do leadership culture. Pan African Resources' executive team is lean, motivated and steeped in our strategy, with each individual empowered and entrusted to timeously deliver on clear objectives. Our culture of entrepreneurship and agility in responding to unfolding situations enabled this expeditious internal transformation.

Despite challenging operating conditions, all operations have improved their gold production in the year under review.

### Evander Mines

Elikhulu was successfully commissioned during September 2018, ahead of schedule. During October 2018, the plant attained steady-state production with a throughput of 1 million tonnes per month. The incorporation of the ETRP's throughput capacity into Elikhulu was completed in December 2018, which increased the plant's processing capacity to 1.2 million tonnes per month.

We commenced developing Evander Mines' 8 Shaft pillar, which is expected to contribute an additional 20,000oz to 30,000oz per annum for three years, at an all-in sustaining cost of less than USD1,000/oz over the life of the project.

Following Eskom's recent load shedding and the above-inflation increase in electricity prices, we are investigating the merits of alternative power sources at Evander Mines and have initiated a feasibility study into the merits of a solar-powered plant at the mine.

With Evander Mines' operations now having returned to profitability, we are assessing the merits of the Egoli project to further extend the life of this mine and provide further value-accretive growth from our own portfolio of mineral assets.

### Barberton Mines

As previously highlighted, our Barberton operation reversed its recent production declines to improve gold production by 9.6% to 99,363oz (2018: 90,629oz). Barberton Mines' underground operations are benefitting from increased mining flexibility due to, inter alia, both the high-grade 272 and 358 platforms being available at the Fairview Mine operation. BTRP increased its production by 37.2% to 24,007oz (2018: 17,504oz), following the May 2018 commissioning of the regrind mill, which improved throughput and recoveries.

We are presently charting the long-term future of Barberton Mines through work on the Royal Sheba project and further investigation into Project Dibanisa, which would link the Sheba Mine to Fairview Mine's infrastructure, saving costs and freeing up the Sheba Mine infrastructure for the Royal Sheba project. We have also embarked on a strategic review in order to reduce production costs and optimise our Barberton asset. Additional information on these projects can be found in the operational section on pages 50 and 51.

## STRATEGY

To fulfil the group strategy, our mining operations must be profitable and sustainable in order to generate value growth for our stakeholders. When benchmarked against this strategy in the past year, the group performed as follows:

### Profitability

Pan African Resources recorded a commendable production performance for the 2019 financial year. Group production increased by 7.5% to 172,442oz (2018: 160,444oz). With Elikhulu now operating at design capacity, and supported by the improved production from Barberton Mines, we were able to exceed our production guidance of 170,000oz for the 2019 financial year. This improved performance saw continuing operations' profits increase to USD38.0 million (2018: USD15.6 million).

### Sustainability

The repositioning of the underlying businesses over the past year as a sustainable, safe, low-cost and long-life gold producer demonstrates the executive team's ability to deal with operational challenges.

The key value differentiators in the gold mining sector are production costs, execution risk and the ability to mine safely. Surface operations are intrinsically safer than underground operations, with greater production predictability and cash flow certainty. Similarly, the operational consistency of our low-cost and innovative BIOX® and tailings retreatment processes provide more consistent gold production and cash flows that contribute to creating sustainable stakeholder value.

South African mining is highly regulated, with onerous claims from the government in the form of royalties and taxes to fund in-country social development. While we acknowledge the historical and social context that binds our operations to their nearby communities, it needs to be recognised that shareholders only receive a few cents in every rand earned after we have paid taxes, salaries, operating expenses, community social contributions and rehabilitation fund contributions. Our ongoing commercial sustainability relies on balancing the interests of all stakeholders, so that our mines remain an attractive investment proposition and can continue to generate wealth for all stakeholders.

If regulators are tempted to extract additional revenue from the sector, or government loses control of community stability near mines, mining in South Africa may cease to be commercially sustainable or fail to attract further investment.

### Growth

The group's growth hinges on selecting our best accessible Mineral Resources for mining and processing in a cost-effective manner. Maintaining a sustainable growth path for Barberton and Evander Mines depends on circumspect alignment of our financial, intellectual and infrastructural resources with identified mining and retreatment opportunities.

Having taken the tough decision to refocus our mining model on low-cost, high-value and accretive ounces, rather than production volume, the group's Barberton and Evander operations are now positioned for sustainable growth.

The group continues to evaluate acquisition opportunities, particularly in other African jurisdictions, in accordance with our rigorous capital allocation criteria.

### Stakeholders

Our stakeholders are those directly influenced by the positive or negative impacts from our mining operations and the value we create from these operations.

Shareholders invest equity capital in Pan African Resources with the expectation of receiving a market-related return from their investments. Our broader stakeholder universe includes shareholders, debt funders, our employees, communities, regulators and other parties with a legitimate interest in the outcomes of our mining operations and the value we create.

Pan African Resources operates in the mature South African gold mining sector, with depleting ore reserves, and steadily rising labour, utility and processing costs. Even so, strategically and technically astute miners can find pockets of orebodies that can be profitably mined for years into the future. I am convinced that Pan African Resources is one of these gold producers.

Successfully meeting all stakeholder expectations in the current environment is a challenge. Nevertheless, I am confident that the group's restructured and fundamentally realigned business model can deliver into all legitimate expectations.

## OUTLOOK AND PROSPECTS

Pan African Resources has prioritised creating value from the sustainable mining operating model we implemented last year. Our key focus areas for the next financial year are:

- continuing to improve our safety performance and ESG compliance across all operations
- delivering on our gold production guidance of approximately 185,000oz (2018: 170,000oz) comprising of 100,000oz from Barberton Mines' operations and 85,000oz from Evander Mines' operations
- successfully delivering on capital projects that will maintain and increase gold production in years to come
- reducing senior debt to allow for improved funding flexibility and liquidity
- successfully mining the Evander Mines' 8 Shaft pillar.

We will also continue driving value-accretive growth opportunities such as the Royal Sheba project and the sub-vertical shaft at Barberton Mines, as well as Evander Mines' Egoli project.

We have quality pipelines of gold Mineral Resources (35.97Moz) and Mineral Reserves (10.92Moz). We access these assets through careful planning and low-cost mining methodologies. Our thoughtful, ethical and robust approach to tackling issues enables agile mining and generates more predictable production results, cash flows and returns. For a detailed breakdown of the group's Mineral Resources and Mineral Reserves, refer to this report on pages 56 to 75.

We have a strong foundation on which to capitalise. Our challenge now is to continue building and differentiating Pan African Resources as the mid-tier, African-focused gold producer of choice.

## APPRECIATION

I would like to thank my fellow board members for their guidance, support and insight during the past financial year, and our employees for their continued work and commitment. Pan African Resources is well positioned for low-cost, safe and sustainable gold mining in the future.

**Cobus Loots**
*Chief executive officer*

18 September 2019

# MATERIAL MATTERS

Pan African Resources applies integrated thinking and a pragmatic approach in defining material matters, which forms an integral part of our strategic planning activities. We define material matters as those areas with the potential to substantially impact our performance or ability to create value in the short, medium and long term.

## OUR PROCESS

Pan African Resources conducted an in-depth and externally facilitated materiality assessment in March 2019 to determine the matters most material to the group. The following process was followed:

- Through market research, consultation with the board and the executive management team, and an understanding of the group's stakeholders, we identified matters that may have a financial, reputational, operational, environmental, social, strategic or regulatory impact on the group
- The identified matters were collated, analysed and measured against our risk register, as determined by the group's risk management process
- Material matters were identified according to their ability to impact the group's performance or create and sustain value over the short, medium and long term.

We track our performance against these material matters through key performance indicators (KPIs), which are also linked to our remuneration policy and framework.

### HEALTH AND SAFETY

Consistently high health and safety standards are fundamental to retaining the support of regulators, investors and employees in our mining activities. Achieving zero harm is the ultimate aim of responsible miners

### CAPITAL ALLOCATION AND CAPITAL STRUCTURE

Through a disciplined approach to financial capital management and capital allocation, we carefully deploy and manage our capital for a sustainable business, which creates value for all our stakeholders. We continuously consider mechanisms to improve our capital structure

### ECONOMIC AND SOCIAL FACTORS NOT IN OUR CONTROL

Pan African Resources has little or no control over changes in global economic and market conditions, the South African political environment and socio-economic conditions. Changes in these factors can lead to volatile commodity prices and currency exchange rates, security concerns and a lack of government action and service delivery, including electricity supply, which all impact on our business

### MINING OPERATIONS

As a mid-tier gold mining company, we have used our competitive advantage of being agile and flexible to strategically position ourselves as a relatively low-cost, long-life gold producer

We constantly manage our gold mining operations to ensure a focus on improving underground mining flexibility at Barberton Mines, reducing and managing operational costs, achieving operational targets and optimising the performance of our tailings operations

### VALUE-ACCRETIVE GROWTH

Pan African Resources has an attractive pipeline of near- to medium-term value-accretive internal growth projects, which we advance in a considered manner to create sustainable stakeholder value over the medium to long term

We evaluate acquisition opportunities, particularly in other African jurisdictions, in accordance with our rigorous capital allocation criteria

### ESG COMPLIANCE

To support the long-term sustainability of our business, we are committed to and focused on how we manage and report on our ESG compliance

### MINERAL RESERVES AND MINERAL RESOURCES

The group's Mineral Reserves and Mineral Resources underpin the enterprise value of Pan African Resources and enable us to deliver on our relatively low-cost, long-life gold producing strategy

Exploration and the development of organic projects are essential to the sustainability of Pan African Resources. It enables Mineral Reserve replacement to sustain the life-of-mine of our continuing operations

### LAWS AND REGULATIONS

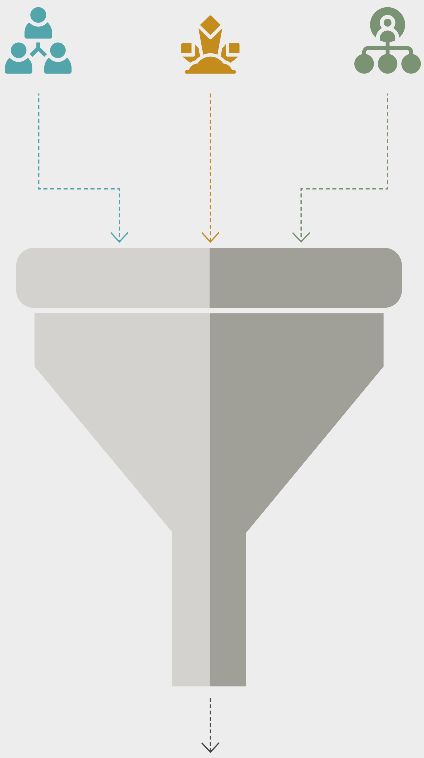
South African mines are subject to a number of laws and regulations. We monitor compliance to all legal requirements on an ongoing basis, however, certain Mining Charter III provisions are ambiguous or controversial in their interpretation and practical application

# STRATEGY

Our business strategy is to identify and execute into organic and acquisitive growth opportunities which will create sustainable stakeholder value by focusing on:

| SAFE OPERATING ENVIRONMENT | VALUE-ACCRETIVE CAPITAL ALLOCATIONS | ACCEPTABLE EXECUTION RISK | LOW-COST PRODUCTION |
|---|---|---|---|

## THE KEY ENABLERS OF OUR STRATEGY ARE:



**PEOPLE**
Fostering relationships through integrity and honesty

**RESOURCES**
Quality orebodies and infrastructure enables sustainable value creation

**ENTREPRENEURIAL CULTURE AND INNOVATION**
Through leadership, control, planning and action, our culture enables us to create sustainable value for stakeholders by capitalising on organic and acquisitive growth opportunities

**SUSTAINABLE STAKEHOLDER VALUE**

## OUR SHORT-, MEDIUM- AND LONG-TERM STRATEGY

To fulfil our purpose, we have considered our material matters and the long-term trends in the mining industry that impact Pan African Resources, such as scarce natural resources, a politically and regulatory challenging environment, lack of capital investment into the industry, escalating costs and socio-economic and infrastructure challenges.

Material matters are a summation of key risks and opportunities that have the potential to impact our ability to create sustainable value for all stakeholders over the short, medium and long term. Our strategy considers our material matters through an integrated approach.

# SCORECARD BY MATERIAL MATTER

Our performance is measured against our material matters using KPIs linked to our remuneration policy and framework.

## HEALTH AND SAFETY

**Achievements to date**

- Pan African Resources materially improved its safety performance in the current financial year. The group's safety risk reduced following the cessation of large-scale underground operations at Evander Mines and the commissioning of Elikhulu, a lower-risk surface operation
- The group experienced no fatalities in the 2019 financial year (2018: no fatalities)
- Total reportable injury frequency (TRIFR) and LTIFR for the group improved to 10.71 (2018: 12.71) per million man hours and 1.62 (2018: 3.73) per million man hours, respectively
- RIFR for the group also improved to 0.51 (2018: 1.08) per million man hours
- We continually introduce new training initiatives to maintain and further improve our safety standards
- Barberton Mines achieved 2 million fatality-free shifts during June 2019
- We have independently reviewed our safety standards and policies

**KPI**

- Improvement in the performance of our year-on-year safety rates

**Long-term objective**

- We are committed to and focused on ensuring the safety of all our employees, while continually working towards a zero-harm environment

**Why this KPI is important**

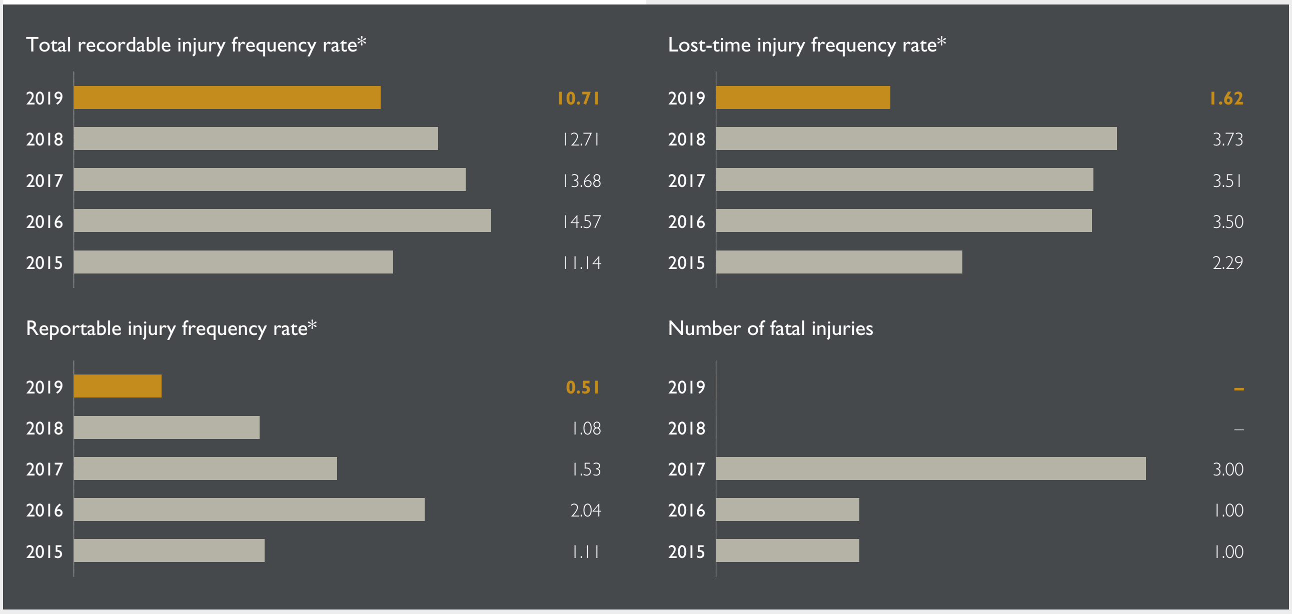
- Promoting and providing our employees with a safe working and operating environment is key to the well-being of our employees and the sustainability of our operations

**Short- to medium-term focus**

- Improving year-on-year safety rates for:
  - total recordable injuries
  - lost-time injuries
  - reportable injuries
- Maintaining a record of zero fatalities at our operations

**Related risks**

- Regulatory changes
- Health and safety incidents
- Tailings dam or mine shaft failure, fire or flooding




* Per million man hours.

## CAPITAL ALLOCATION AND CAPITAL STRUCTURE

### Achievements to date

- The group successfully commissioned Elikhulu ahead of schedule during September 2018
- Incorporation of ETRP's throughput capacity of 0.2 million tonnes per month into Elikhulu's processing capacity was completed in December 2018
- The group's operational sustaining capital and expansion capital spend declined to USD9.9 million (2018: USD22.4 million) and USD46.7 million (2018: USD105.9 million), respectively
- Net debt increased to USD129.9 million (2018: USD118.0 million), largely due to the capital costs associated with the construction of Elikhulu
- Restructuring the group's existing RCF and the extension of its repayment profile to June 2022, with effect from 3 June 2019
- Cash generated by operating activities increased to USD37.7 million (2018: USD13.4 million utilised in operating activities). This improvement can be attributed to Barberton Mines' improved production, the cessation of Evander Mines' unprofitable large-scale underground operations, the production contribution from Elikhulu, and a 7.3% increase in the received rand gold price to R577,573/kg (2018: R538,100/kg)
- Subsequent to the financial year-end, the group entered into a gold loan for 20,000oz on 15 July 2019 with Rand Merchant Bank, a division of FirstRand Bank Limited (RMB) in exchange for an upfront cash receipt of R394 million (USD28.3 million)
- Reinstituting dividend payments to shareholders

### KPIs

- Organic growth through the commissioning of Elikhulu
- Incorporation of ETRP throughput into Elikhulu

### Why these KPIs are important

- Commissioning Elikhulu was critical in returning Evander Mines to profitability and delivering into the strategy of repositioning the group as a relatively low-cost, long-life gold producer
- Incorporating ETRP into Elikhulu allowed the group to leverage plant efficiencies and benefit from economies of scale

### Related risks

- Strategic capital allocation
- Financial sustainability in a volatile environment
- Governance and regulatory compliance

### Long-term objectives

- Disciplined capital allocation remains a priority in assessing the merits of any capital expenditure programme or acquisition
- All capital allocation decisions are subject to rigorous analysis and predefined risk-adjusted return parameters to ensure the required return is generated
- Our investment criteria is to earn a minimum return of 15% per annum on capital deployed, after adjusting for project-specific and sovereign risks
- To ensure returns are robust through the commodity cycle, we endeavour to invest only in projects that fall into the lower half of the cost curve and where the execution risk is within our capability

### Short- to medium-term focus

- Strengthening the group's financial position by reducing debt and, in so doing, reducing financial risk and enhancing returns to shareholders
- Resuming dividend payments to shareholders when appropriate to do so
- Growing dividend distributions in line with our dividend policy

# SCORECARD BY MATERIAL MATTER continued

## ECONOMIC AND SOCIAL FACTORS NOT IN OUR CONTROL

### Achievements to date

- Barberton Mines successfully concluded a three-year wage agreement during September 2018
- No legal industrial action was recorded in the period, however, there were 20 lost production days in the current financial year following community unrest
- Implementation of a new security strategy to meet increasing security threats

### KPIs

- Achieving a group production guidance of 170,000oz for the 2019 financial year
- Achieving all-in sustaining costs of below USD1,000/oz for the group

### Why these KPIs are important

- Delivering on our production and cost guidance improves investor confidence and demonstrates the group's ability to produce gold consistently, profitably and meet market expectations

### Related risks

- Illegal mining and heightened criminal activity
- Reduced working time impacting productivity
- Regulatory changes
- Financial stability in a volatile environment

### Long-term objectives

- Executing the new group security strategy over a three-year period (from 2019 to 2022)
- Engaging with stakeholders at our mining operations to ensure the allocation of local economic development (LED) and CSI expenditure is appropriately planned and executed

### Short- to medium-term focus

- Delivering the new security strategy to ensure our mining operations are impacted less by illegal mining and social unrest
- Engaging with government in relation to the lack of service delivery and policy uncertainty, which adversely impacts our employees and communities
- Focusing on ensuring compliance with SLP and LED obligations
- Ensuring communities and stakeholders surrounding our mining operations benefit from the LED and CSI spend in order to promote a collaborative approach to ensuring sustainable production from our mines
- We are price takers when selling our product and have no control over the prices or exchange rates that we receive. The group's risk management philosophy is to hedge specific exposures arising from operational, capital investment and transactional flows. Financial hedges are generally limited to short-dated instruments and a maximum of 25% of the group's annual production, unless additional hedge limits are specifically approved by the Pan African Resources board

## MINING OPERATIONS

### Achievements to date

- Exceeding the group's production guidance of 170,000oz for the 2019 financial year resulted in the group's gold production increasing by 7.5% to 172,442oz (2018: 160,444)
- Commissioning of Elikhulu improved the group's gold production profile and reduced its combined cost structures
- Incorporation of ETRP's throughput capacity of 0.2 million tonnes per month into Elikhulu was successfully completed in December 2018
- Operational margins improved following the commissioning of Elikhulu in September 2018 and the BRTP's regrind mill in May 2018
- Barberton Mines produced 99,363oz (2018: 90,629oz) during the current financial year
- Barberton Mines increased its underground mining flexibility at the Fairview Mine through combined mining from both the high-grade 272 and 358 platforms
- Evander Mines' continuing surface operations, together with mining and vamping of remnant high-grade stopes, produced 73,079oz (2018: 69,815oz)
- Completion of the feasibility study into the merits of mining the Evander Mines' 8 Shaft pillar and high-grade areas in proximity to the pillar resulted in the development and equipping of this area. First gold was produced in August 2019
- The group's all-in sustaining cost improved to USD988/oz (2018: USD1,358/oz)
- Increased exploration at Barberton Mines (USD2.0 million) related to the Royal Sheba project, which included exploration, drilling and ongoing optimisation costs on the project

### KPIs

- Achieving a group production guidance of 170,000oz for the 2019 financial year
- Achieving all-in sustaining costs of below USD1,000/oz for the group

### Why these KPIs are important

- Delivering on our production and cost guidance improves investor confidence and demonstrates the group's ability to produce gold consistently, profitably and meet market expectations

### Related risks

- Reduced working time, impacting productivity
- Health and safety incidents
- Interruption to stable electricity supply
- Illegal mining and heightened criminal activity
- Regulatory changes
- Tailings dam or mine shaft failure, fire or flooding
- Operational execution
- Environmental damage
- Declining Mineral Resource and Mineral Reserve base

### Long-term objective

- Create sustainable stakeholder value by optimising extraction efficiencies in our mining activities in a cost-effective and safe way

### Short- to medium-term focus

- Improve production through maximising Barberton Mines' plant capacity by making use of both high-grade and low-grade ore sources
- Deliver quality ounces consistent with our production guidance
- Optimise the performance of Elikhulu for improved production and sustainability
- Assess mining optimisation options to unlock production constraints and reduce costs at our operations
- Development of a new platform at Barberton Mines' Fairview shaft, supported by a sub-vertical shaft. This is expected to enhance mining flexibility and efficiencies, enabling the mining of a consistent head grade
- Increase development rates at Barberton Mines to sustain the replacement of Fairview's high-grade platforms
- Expand production in current mining areas to achieve the production guidance of approximately 185,000oz for the 2020 financial year
- Deliver first gold from the Evander Mines' 8 Shaft pillar and nearby high-grade areas early in the 2020 financial year

# SCORECARD BY MATERIAL MATTER continued

## VALUE-ACCRETIVE GROWTH

### Achievements to date

- Barberton Mines' Royal Sheba project
  - The Royal Sheba project's feasibility concluded that (as a result of the Sheba Valley's challenging topography) mining the near-surface resource, using an opencast mining method, would result in higher-than-anticipated capital expenditure. As such, it was determined that this project would not meet the group's capital allocation criteria if mined this way
  - The emphasis is now on assessing the merits of using an underground sub-level open-stoping mining method by developing haulages from the current surface adits into the orebody. General authorisation in terms of Section 39 of the National Water Act 36 of 1998 was obtained during May 2019, which allows the group to upgrade the Royal Sheba project's adit and bridge
- Barberton Mines' New Consort exploration project
  - During the 2019 financial year, we intersected a footwall lens (orebody), sited approximately 80m into the footwall of the New Consort Main Maiden Reef (MMR). Underground drilling is underway to delineate the new orebody
  - The down-dip extension of the 14 Level MMR is expected to be developed and accessed during the 2020 financial year
- Barberton Mines' sub-vertical shaft project at Fairview
  - The Fairview sub-vertical shaft project is expected to relieve pressure on the 3 Decline shaft, as men and material will be conveyed via the sub-vertical shaft
  - Developing top and bottom access for the sub-vertical shaft is progressing according to plan
- Evander Mines' 8 Shaft pillar mining
  - Evander Mines' 8 Shaft pillar has been equipped for production, with first gold produced in August 2019
  - This operation will replace the remnant underground mining and vamping activities. It is expected to contribute 20,000oz to 30,000oz per annum for the next three years
- Evander Mines' Egoli project
  - This promising orebody's feasibility study has been completed and optimisation studies are being finalised. The development options for this orebody will be finalised during the 2020 financial year
  - The group is currently reviewing the merits of expediting the Egoli project and is assessing funding options in this regard

### KPIs

- 15% annual incremental increase in production
- Elikhulu being commissioned on schedule, within budget and with the plant's performance being materially consistent with the bankable feasibility study and market guidance

### Why these KPIs are important

- Increasing our annual production improves investor confidence and stakeholder value. It demonstrates the group's growth potential, stability and profitability
- Increasing flexibility at Barberton Mines is critical to ensuring Barberton Mines consistently produces in excess of 100,000oz per annum
- Increasing production at Evander Mines through the 8 Shaft pillar project to enable a production profile of 85,000oz for the 2020 financial year

### Related risks

- Regulatory changes and socio-political instability
- Financial stability in a volatile environment
- Strategic capital allocation
- Declining Mineral Resource and Mineral Reserve base

### Long-term objective

- As a business seeking sustainable growth opportunities, we continually look for value-accretive opportunities that meet our stringent investment criteria

8 DECENT WORK AND ECONOMIC GROWTH

### Short- to medium-term focus

- Execute into earnings and cash flow accretive growth projects with a focus on organic projects
- The group is currently focusing on the following projects to improve its production profile over the short to medium term:
  - Barberton Mines' Royal Sheba project
  - Barberton Mines' sub-vertical shaft
  - Barberton Mines' New Consort exploration project
  - Evander Mines' 8 Shaft pillar mining
  - Evander Mines' Egoli project
- The group will evaluate acquisition opportunities, particularly in other African jurisdictions, in accordance with its rigorous capital allocation criteria
- Increase production by approximately 30,000oz per annum over the three-year life of Evander Mines' 8 Shaft pillar mining operation
- Promote organic growth from in-house available resources at reduced costs and implementation times

## ESG COMPLIANCE

**Achievements to date**

- Established a people-focused ethos supporting a stable employee base
- External review of mine closure costs to confirm adequate resources for funding rehabilitation liabilities
- In Barberton, we launched clean-up campaigns of abandoned historic mining sites and are collaborating with the local tourism authority to develop sites for geo-tourism
- Our Elikhulu plant, BTRP and the BIOX® gold processing plants contribute to a consistent reduction in the overall environmental impact of our operations
- Regular engagement with local communities, which has enabled constructive and transparent relationships with these stakeholders
- The group invested USD1.9 million (2018: USD1.1 million) in our CSI and LED projects, which included 26 bursaries for mining and related fields of study
- We prioritised skills and development training, investing USD1.0 million (2018: USD1.8 million) during the period, which has declined from the prior financial year following the cessation of large-scale underground operations at Evander Mines
- The group paid USD14.1 million (2018: USD17.4 million) (excluding VAT) in South African government taxes in the current financial year. Refer to page 110 for the group's disclosure of payments made to government

**KPI**

- No material reportable matters associated to compliance

**Long-term objective**

- Improve how we manage and report on environmental, social and governance compliance across all operations within the group

4 QUALITY EDUCATION
11 SUSTAINABLE CITIES AND COMMUNITIES

**Why this KPI is important**

- Being committed to and focused on ESG compliance enables and supports the long-term sustainability of the group

**Short- to medium-term focus**

- The group is committed to zero harm and compliance with environmental regulations

**Related risks**

- Governance and regulatory compliance
- Reduced working time impacting productivity
- Environmental damage
- Regulatory changes
- Health and safety incidents
- Illegal mining and heightened criminal activity
- Tailings dam or mine shaft failure, fire or flooding

# SCORECARD BY MATERIAL MATTER continued

## MINERAL RESERVES AND MINERAL RESOURCES

**Achievements to date**
- Royal Sheba project's orebody delineation and Mineral Resource conversion was conducted post the near-surface exploration programme
- New Consort MMR and deep footwall drilling and modelling highlighted prospective areas that could add to the Mineral Resource base
- De-risking the Elikhulu mine plan was achieved through grade control drilling, modelling and Mineral Resource conversion of the Kinross tailings dam in Evander
- Mineral Resource conversion and de-risking of the BTRP life-of-mine through drilling, modelling, estimation and metallurgical test work on the Segalla and Camelot tailings dams in Barberton
- An 8% year-on-year increase in the Mineral Resource base of 335.8Mt at 3.33g/t for 35.97Moz (2018: 331.2Mt at 3.13g/t for 33.30Moz)
- Effective management and optimisation of Mineral Reserves during the 2019 financial year to achieve the group's forecast production guidance of 170,000oz

**KPIs**
- Achieving a group production guidance of 170,000oz for the 2019 financial year
- Achieving all-in sustaining costs of below USD1,000/oz for the group
- 15% annual incremental increase in production

**Long-term objective**
- Grow Mineral Resources and Mineral Reserves through brownfield exploration and value-accretive acquisitions

**Why these KPIs are important**
- Increasing our annual production improves investor confidence and stakeholder value. It demonstrates the group's growth potential, stability and profitability
- Mineral Resources and Mineral Reserves are key components of the group's sustainability

**Short- to medium-term focus**
- Explore near-surface targets around existing operations. Convert down-dip Mineral Resources of underground orebodies into Mineral Reserves, with a focus on high-margin orebodies

**Related risks**
- Declining Mineral Resource and Mineral Reserve base

## LAWS AND REGULATIONS

**Achievements to date**
- An independent safety expert was appointed to review/audit the operational safety systems to ensure compliance. Through the review, these systems were found to be compliant
- Post year-end, board sub-committees were re-constituted, to ensure compliance with best practice and further improve their functioning
- Pan African Resources is reviewing its ESG activities for compliance with required standards, including King IV™
- Safety standards and procedures are in place and are subject to independent compliance reviews
- An independent review of the group's TSFs was conducted to ensure legislative compliance and structural integrity. The independent review concluded that the active TSFs are operated and managed with the necessary control and oversight, by independently appointed professional engineers. The review highlighted current risks and shortcomings associated with the tailings dams which are being addressed by specialised contractors and professional engineers. A follow-up audit will be conducted in February 2020 to monitor the reduction in the risks associated with the issues identified in the initial audit
- The group's adherence to regulatory guidelines has been subject to an independent compliance review. These reviews are still ongoing

**KPI**
- No material reportable matters associated to compliance

**Long-term objective**
- Compliance with all applicable legal acts and regulations which govern the operations of the group

**Why this KPI is important**
- Being committed to and focused on ESG compliance enables and supports the long-term sustainability of the group

**Short- to medium-term focus**
- Focusing on ensuring compliance with SLP and LED obligations
- Engaging with industry representative bodies and regulators to influence proposed legislation
- Seeking independent legal advice on proposed regulatory changes to manage the potential consequences thereof

**Related risks**
- Regulatory changes
- Governance and regulatory compliance

# OPERATING ENVIRONMENT

## HOW OUR OPERATING ENVIRONMENT IMPACTS US

### Economic factors

South Africa's economy experienced a shock contraction of 3.2% in Q1 2019, but reversed this trend by growing at 3.1% in Q2 2019. While the country avoided a recession in 2019, the economic outlook and debt levels remain subdued.

Following three consecutive quarters of negative growth, the country's mining industry rebounded in Q2 2019 with an improvement of 14.4% which contributed 1% towards GDP growth. Gold is currently trading at its highest level in six years.

In early June 2019, the International Monetary Fund stated that South Africa's growth outlook depended on the pace of reforming long-standing structural constraints and that delayed reforms would demotivate investors, inhibit growth and continue reducing per-capita income.

One of South Africa's biggest economic problems is to keep Eskom, the national power utility, financially stable and functional until its operational problems can be addressed, and it becomes sustainable as the country's primary power generator. Healthy GDP growth is not possible until consistent and affordable power is guaranteed.

At the same time, input costs are rising, particularly the cost of mining at depth, salaries and wages, capital expenditure and electricity.

Gold's supply and demand fundamentals, however, support the belief that the gold price should continue to improve over the next few years, despite periods of short-term volatility driven by market sentiment and geopolitical developments. Pan African Resources is well positioned to weather a lower gold price and capitalise on a future upside when it occurs.

### Political factors

South Africa's May 2019 national general election, which saw President Cyril Ramaphosa elected as president, albeit with the ruling African National Congress (ANC) seeing reduced support, created the conditions during which the country retained its investment-grade rating from Moody's. Macroeconomic stability, however, remains a risk with an increasing fiscal deficit, rising public debt, inefficient state-owned enterprises and slipping global competitiveness.

Internal contestation within the ANC, between factions aligned to President Ramaphosa and those aligned to former President Jacob Zuma, also weigh on business and investor confidence and adversely impact the value of the rand.

*< Barberton Mines – loco operator at Fairview*

# OUR OPERATING ENVIRONMENT continued

### Social factors

The extractive sector must pay attention to its social licence to operate, given the nature of its activities. Miners face heightened stakeholder expectations on a wide range of fronts. Communities are protesting for economic opportunities and improved local service delivery, while government pushes for transformation and employment creation. Labour unions mobilise for higher wages.

Formal sector unemployment rates remain extremely high across South Africa. Mining companies are often the main providers of employment in rural areas, which creates high community expectations. In recent years, the protests and strikes by those dissatisfied with the slow transformation and a lack of service delivery have rapidly grown in number in South Africa. These have sometimes led to violent clashes with the authorities and disrupted production due to employees being unable to get to work.

Artisanal mining provides a living for many impoverished people in resource-rich developing countries. This sector is typically unregulated, with formal miners having to compete with illegal miners for their own resources. Government tends to deal erratically with illegal miners, and some companies that have taken strong action to protect their operations have been accused of human rights abuses.

To navigate these complex dynamics and avoid or minimise conflicts with host communities, miners must maximise positive impacts, minimise negative impacts and ensure continuous engagement with host community stakeholders. A strong social licence to operate is vital for long-term sustainable value creation for all stakeholders.

### Legislative factors

Mining is among the most regulated industries in South Africa. Changes in labour legislation, employment equity legislation, as well as the reform of the environmental regulatory system, create a dynamic context for mining legislation's evolution. Minerals and mining policy, which is necessarily broad in its scope, needs to be coordinated with other policies that fall within the remit of other forums.

We have seen a move towards greater industry consultation and certainty in the local regulatory environment. The revised Mining Charter III was released in June 2018 and approved in September 2018, with full effect from March 2019. Although an improvement on the previous charter, certain elements of the revised charter remain concerning. The carbon tax implementation is on track, but there is a lack of clarity on the draft National Climate Change Bill and its practical implementation.

## HOW WE IMPACT OUR OPERATING ENVIRONMENT

### Economy

Mining and its related supply industries are critical to South Africa's socio-economic development. The sector accounts for roughly one-third of the market capitalisation of the JSE and traditionally attracts foreign investment to the country. Pan African Resources makes a significant contribution to economic activity in the regions where it operates through job creation, local supplier development, socio-economic contributions and foreign exchange earnings.

After employees, the National Treasury is the second-largest beneficiary of the value created by the mining sector, at 24% in 2018. Although direct company taxes vary with profitability, the state gains more consistency from royalties and employee taxes. More than half of the government's tax revenue goes to social protection services ranging from social grants, free and subsidised housing to the provision of clean water, electricity and education. These benefit from mining industry taxes.

Pan African Resources makes a sizeable contribution to South Africa's economy each year. In this financial year, the group paid USD14.1 million (2018: USD17.4 million) in South African government taxes (excluding VAT).

### Society

The industry has a strong record of transformation, exceeding the requirements of the 2010 Mining Charter by a large margin. This included procurement and staff demographics at all levels of the business.

Community investments, such as building houses, schools and clinics, upgrading local infrastructure, and providing child and adult education learnerships, accounted for 2%, or R3.5 billion of the mining industry's expenditure in 2018.

Pan African Resources is a primary employer in the Barberton and Evander regions of South Africa. The financial and social investment flows we sustain are crucial to the well-being of communities near our operations. During the review period, the group invested USD1.9 million (2018: USD1.1 million) in CSI, LED projects and bursaries.

### Employees

Skilled employees are essential to the sustainability of the gold mining industry. Training and development in the industry focuses on developing the scarce skills needed at mines and improving the employability of local residents.

South Africa's chronically high unemployment rate is a national crisis, making every job valuable. The group's difficult and unavoidable restructuring in 2017/18 created a sustainable mining environment for our 2,148 current employees, with a solid foundation for launching new projects and creating additional jobs.

During this period, the group's employees received USD50.3 million (2018: USD44.3 million) in salaries, wages and benefits.

### Environment

Our activities associated with the exploration, extraction and processing of Mineral Resources result in the unavoidable disturbance of land, the consumption of resources, generation of waste and atmospheric and water pollutants. Pan African Resources invests in innovation and skills training to build an even greater understanding of the conservation of our natural environment.

Our gold tailings reclamation projects not only extract the additional economic value from these tailings but also provide an opportunity to process the tailings with up-to-date technology. This delivers a less toxic, more stable footprint, while making large areas of land available for productive use.

# KEY RELATIONSHIPS

Pan African Resources' licence to operate depends on the quality of our relationships with our various stakeholders. Building and maintaining relationships based on trust, mutual respect and credibility is integral to our growth, value creation and long-term sustainability.

Our stakeholders have been identified as one of our four strategic pillars and stakeholder interaction is based on our values. Stakeholder views are carefully considered when reviewing and refining our strategy, so that they have realistic perceptions and expectations regarding our business operations, decisions and performance. Refer to page 1 for the value we created for our stakeholders in 2019.

## STAKEHOLDER ENGAGEMENT APPROACH

Stakeholder engagement is important to the group as it fosters transparent communication channels to share information and proactively resolve concerns, while balancing the expectations of shareholders and other stakeholders. Authentic interactivity is essential for shaping our strategy, managing risks, identifying opportunities and safeguarding our reputation.

Stakeholder engagement takes place at our corporate office and at all operations. The chief executive officer shoulders responsibility for stakeholder engagement at corporate office level and is supported by the financial director in dealings with investors and analysts. The human resources executive interacts with labour unions and employees, while operational management engage with the Department of Mineral Resources (DMR) on health and safety issues and with local communities through the local government structures (municipalities), media and community engagement forums. Stakeholder engagement at an operational level is handled by the general and human resources managers. The board engages with shareholders at the annual general meeting (AGM) and on an ad hoc basis, when required.

Concerns raised operationally are governed by the management committee and at board level. The safety, health, environment, quality and community (SHEQC) committee oversees stakeholder concerns.

In determining and prioritising our stakeholders we consider, inter alia, the following factors:

- How the stakeholder impacts our business from a strategic and reputational perspective
- The risk we are exposed to should the group not actively engage with the stakeholder
- The opportunities realised in actively engaging with the stakeholder
- What impact the stakeholder has on our operational performance
- How the stakeholder informs our material issues
- Corporate and social responsibility towards specific stakeholders.

An overview of our key stakeholder groups, their interests and concerns, and how we engage with them is provided in the following table:

| Stakeholder group | Why engaging these stakeholders is prioritised | How we engage | Our stakeholders' key interests | How feedback informs strategy | Link to material matter |
|---|---|---|---|---|---|
| **Providers of capital, investors, shareholders and financial institutions** | Our providers of capital are essential for business growth. Transparent communication is essential to aligning expectations and understanding potential risks and material matters | • Results presentations and roadshows<br>• Site visits<br>• Regulatory communications<br>• Ad hoc one-on-one meetings with the investor community<br>• Interim and full-year results announcements<br>• Integrated annual report<br>• Communication with financiers regarding the group's capital structure and compliance with existing debt agreements<br>• Media releases<br>• AGMs<br>• Pan African Resources' website | • Safe mining<br>• Return on investment<br>• Financial performance<br>• Operational performance<br>• Union relationships<br>• Accreditations and regulatory compliance<br>• Mineral Resources and Mineral Reserves reporting<br>• Sustainability of the business<br>• Environmental compliance | • Poll results, feedback from presentations and one-on-one meetings<br>• Discussion at executive and management level | |

# KEY RELATIONSHIPS continued

| Stakeholder group | Why engaging these stakeholders is prioritised | How we engage | Our stakeholders' key interests | How feedback informs strategy | Link to material matter |
|---|---|---|---|---|---|
| **Employees** | Our employees enable the group to execute its strategy and are fundamental to our business sustainability | ◗ Bargaining council forums<br>◗ Shaft committees<br>◗ Health and safety structures<br>◗ Supervisory and disciplinary structures<br>◗ Social media<br>◗ Publicity and posters<br>◗ Policy and procedure documents<br>◗ One-on-one supervision<br>◗ Contract negotiations<br>◗ Performance assessments<br>◗ Future forum meetings | ◗ Safety<br>◗ Transformation<br>◗ Job security<br>◗ Reward and incentives<br>◗ Holistic and occupational health<br>◗ Skills development and training<br>◗ Environmental exposure | ◗ Discussion at operational, executive and board level | |
| **Unions** | Proactive relationships with trade unions and employee representatives support harmonious working relationships in the workplace, which underpin meeting production targets | ◗ Employee committees<br>◗ Branch committees<br>◗ Shaft committees<br>◗ Mine committees<br>◗ Mine future forums | ◗ Health and safety<br>◗ Transformation<br>◗ Job security<br>◗ Fair remuneration and reward | ◗ Discussions between unions and management occur on the mines and the outcomes are conveyed to the corporate office<br>◗ Discussion at operational, executive and board level | |
| **Suppliers** | Suppliers enable us to deliver safely into our production guidance | ◗ One-on-one meetings<br>◗ Tender and procurement processes | ◗ Group financial performance<br>◗ Payment track record<br>◗ Growth project pipeline<br>◗ Loyalty | ◗ Discussion at operational and executive management level | |
| **Communities** | Ongoing engagement with our communities is vitally important and directly influences our social licence to operate | ◗ Community meetings and forums<br>◗ Media<br>◗ Corporate social investment initiatives | ◗ Job creation<br>◗ CSI<br>◗ Environmental conservation/protection<br>◗ Local procurement opportunities<br>◗ Local supplier development | ◗ Discussion at the SHEQC committee, the executive committee (Exco) and board level | |
| **Government and regulatory bodies** | Government issues mining and prospecting rights, develop policies and implement regulations. We are committed to working with government at a national, regional and local level to establish sound and transparent relationships | ◗ Regular communication with government departments: DMR, Labour, Water Affairs, Environment, Education and Public Works | ◗ Transformation<br>◗ Mining Charter compliance<br>◗ Job creation<br>◗ Safe mining<br>◗ Profitable mining<br>◗ Environmentally responsible mining | ◗ Discussion at executive management and board level | |
| **Customers** | Our direct customers must be assured that they will always receive their purchased gold as specified | ◗ One-on-one meetings with the refinery | ◗ Quality<br>◗ Timeous delivery<br>◗ Price<br>◗ Volume | ◗ Discussion at executive management and board level | |
| **Listing exchanges** | Listing on reputable exchanges helps attract the capital and investors that Pan African Resources requires. Being listed provides frameworks for structuring the group's corporate governance and interactions with stakeholders | ◗ Sponsor (JSE) and nominated adviser (AIM) review and oversight<br>◗ Panel review of reported information | ◗ Compliance with listings requirements | | |

# RISKS

Pan African Resources operates in South Africa, with high-grade, long-life and cash-generative mining operations. The group's assets can be differentiated from the majority of South Africa's mature gold mining industry, which is characterised by diminishing orebodies, falling grades and high costs.

To remain profitable and sustainable, the group evaluates all actual and potential risks that may impact stakeholders or threaten our viability. The magnitude of impact, the likelihood and the velocity of occurrence of our identified risks informs the identification and prioritisation of material matters, discussed on page 16.

We continually reinforce the message that managing risk is the responsibility of everyone at Pan African Resources.

## RISK MANAGEMENT APPROACH AND PROCESS

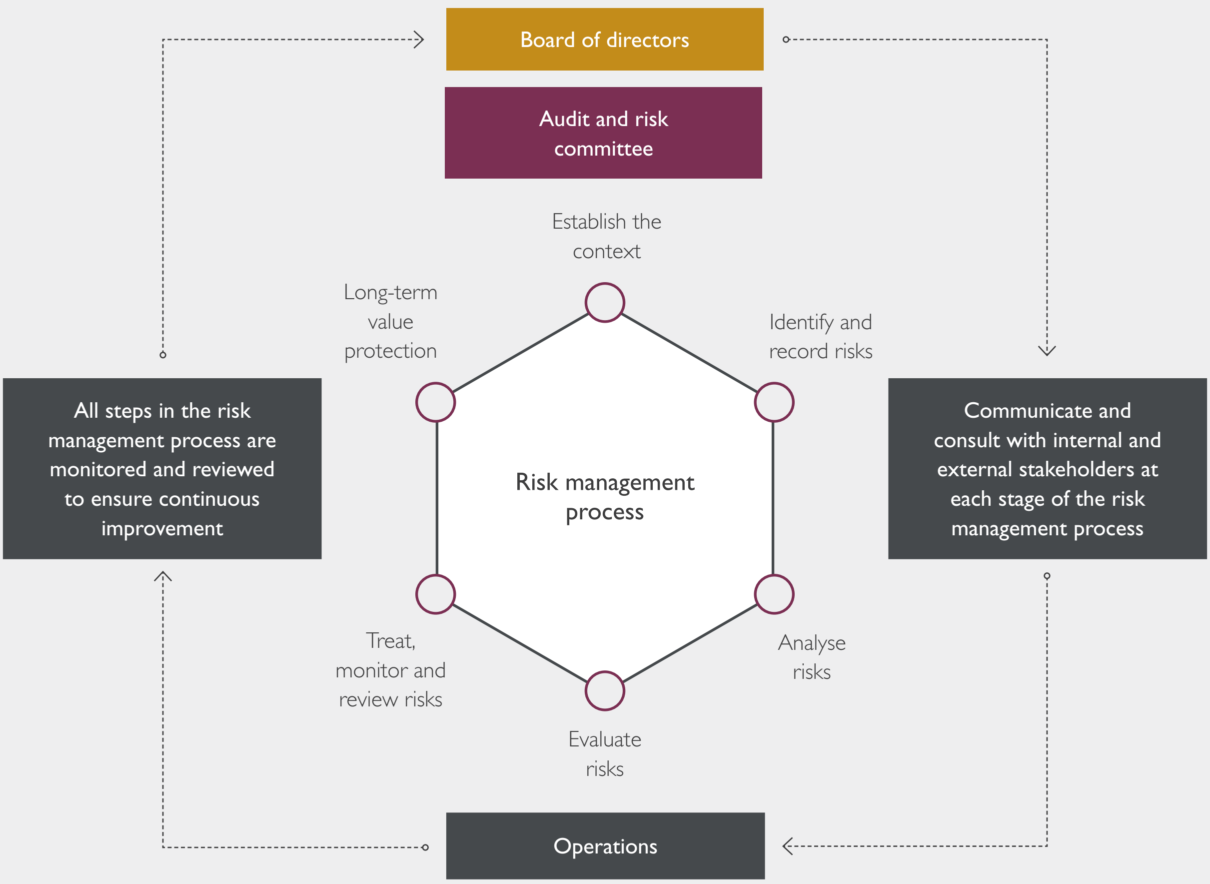
Pan African Resources has an established risk management philosophy. The tone, risk management culture and risk appetite are set and overseen by the board. Risk appetite levels are aligned with board-approved strategic objectives.

The group's risk management process is informed by the external environment, specific regulatory requirements and internal financial, operational and strategic processes. The board and audit and risk committee oversee the risk management process, while management at operational levels implement day-to-day compliance with our risk management process. Risk awareness and a safety culture is embedded in day-to-day operations.

Our identified risks are benchmarked against risks noted by our mining peers to ascertain if these risks are industry-wide.

## BOARD RISK GOVERNANCE

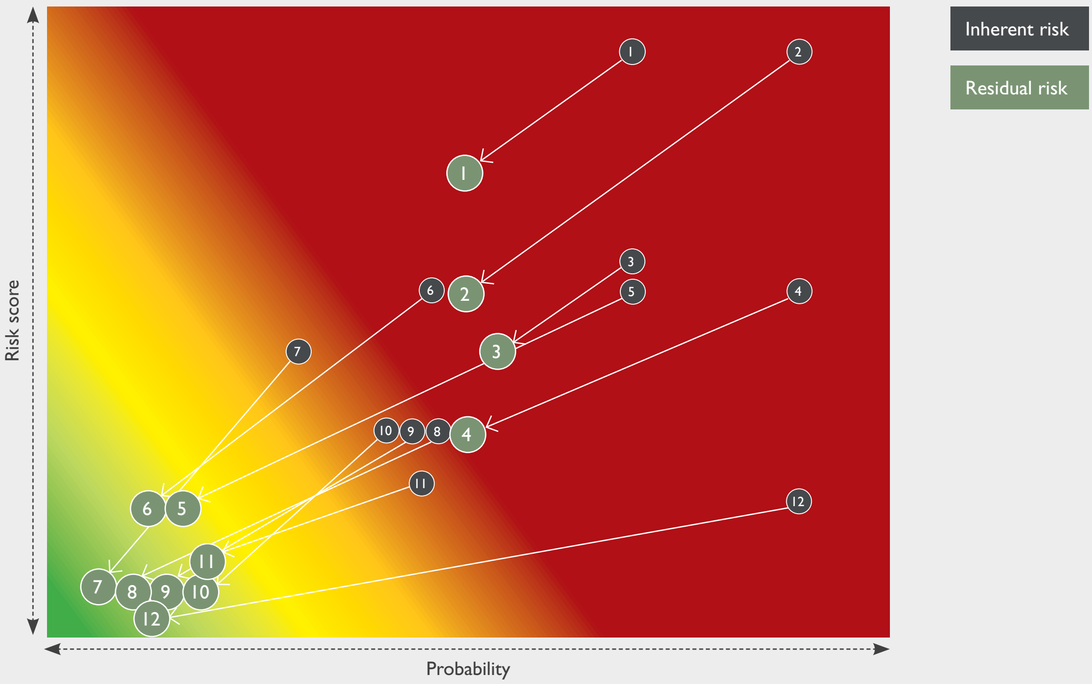
The board oversees the group's risk management process and is guided by the audit and risk committee, its own experience, internal risk assessments and reviews of risk reports. The standing SHEQC committee oversees and provides feedback to the board on safety, health and environmental aspects. Each year, the board reviews the group's risk appetite for ongoing relevance in relation to the group's strategy. The board also ensures that risk management programmes are operating effectively and monitors the implementation of risk mitigating strategies against key risk indicators.



# RISKS continued

To ensure risks are monitored continuously and amended as necessary, each risk is assigned to a risk owner. Risks and their respective owners are recorded in the group's risk register. The group's risk register is reviewed quarterly by the audit and risk committee.

## Group risk matrix




| Risk ranking[1] | Summary of key risks | Internal versus external |
|---|---|---|
| 1 | Interruption to stable electricity supply | External |
| 2 | Illegal mining and heightened criminal activity | External/internal |
| 3 | Regulatory changes | External |
| 4 | Reduced working time impacting productivity | External/internal |
| 5 | Health and safety incidents | Internal |
| 6 | Financial sustainability in a volatile environment | External/internal |
| 7 | Tailings dam or mine shaft failure, fire or flooding | Internal |
| 8 | Operational execution | Internal |
| 9 | Governance and regulatory compliance | Internal |
| 10 | Strategic capital allocation | Internal |
| 11 | Environmental damage | Internal |
| 12 | Declining Mineral Resource and Mineral Reserve base | Internal |

[1] *The risk assessment approach followed by Pan African Resources' management is a collective effort. The assessment of the risks faced by the group may be subjective. Through mitigating actions, inherent risks are reduced to an acceptable residual risk level. The heat map reflects the extent to which inherent risks have been reduced through mitigating actions.*

## PAN AFRICAN RESOURCES' TOP STRATEGIC RISKS

### 1 INTERRUPTION TO STABLE ELECTRICITY SUPPLY

- Mining operations are dependent on Eskom for electricity supply and distribution
- Extended electricity supply interruptions threaten the safety of employees and contractors, especially at underground operations, and may damage electrical equipment
- Heightened risk of increased production cost and reduced profit margin
- It also heightened the risk of the group not achieving its production targets

Mitigating actions

- To reduce reliance on Eskom for electricity, the group is assessing the merits of a solar-powered plant for the Elikhulu plant at Evander Mines
- To proactively manage electricity curtailments, the group regularly engages with Eskom. Such engagement also enables the group to maintain good relations with the power utility
- Critical safety and engineering equipment is supported by alternative power sources that are regularly serviced and maintained

Links to material matters

Capitals impacted

### 2 ILLEGAL MINING AND HEIGHTENED CRIMINAL ACTIVITY

- Illegal mining threatens the safety of employees and contractors at underground and surface operations
- It also heightens the risk of the group not achieving its production objectives, affects the life-of-mine and reduces available reserves
- Theft of mining assets has increased, along with a deteriorating socio-economic environment
- The prevalence of criminal mining activities on the group's operations leads to employees also becoming involved in criminal activities

Mitigating actions

- The group has enhanced its security measures in response to illegal mining and other criminal activities. These measures include:
  - elevating our security management role by appointing a senior executive to oversee the group's security strategy
  - upgraded access control at all operations
  - use of technological applications to impede illegal mining and criminal activities and to improve the responsiveness of security resources
  - improved coordination with all law enforcement entities to strengthen crime prevention strategies in and around mining operations
  - appointment of dedicated security managers to mining operations, all reporting to the security senior executive
  - development of information management systems and processes to improve information management within the security function
- Integrated with our multi-faceted security strategy are our community development initiatives, which are aimed at the socio-economic upliftment of the communities surrounding our operations

Links to material matters

Capitals impacted

### 3 REGULATORY CHANGES

- The risk that regulatory changes may lead to an uncertain investment environment which may impede the group's ability to raise capital for its funding requirements and growth aspirations

Mitigating actions

- The group is engaging with industry representative bodies and regulators to influence proposed legislation
- To proactively manage proposed regulatory changes and the consequences thereof, the group is seeking independent legal advice
- The group's adherence to regulatory guidelines has been subject to an independent compliance review

Links to material matters

Capitals impacted

# RISKS continued

## 4 REDUCED WORKING TIME IMPACTING PRODUCTIVITY

- In South Africa, strikes and service delivery protests are increasing due to a lack of services, a sense of disempowerment and unemployment which is compounded by the lack of investment and economic growth
- The resulting community unrest increases the risk of production stoppages. This is a particular concern at Barberton Mines due to communities located in close proximity to mining operations
- Political and social stability – or the lack thereof – influences investor confidence in our group
- Risk of reduced working time is further influenced by:
  - excessive travelling distances to underground workplaces
  - stoppages following environmental or safety-related incidents
  - external factors, including natural disasters
  - power supply interruptions

**Mitigating actions**

- We have intensified engagement with communities surrounding all mining operations to understand their concerns and deal with material issues effectively. Through community engagement, we are able to share information about our mining operations and our contribution to the region
- A community liaison manager was appointed in 2018 at Barberton Mines and an additional manager was appointed in 2019 at Evander Mines to address community concerns and manage expectations
- Job creation programmes have been introduced and continue to be rolled out to alleviate local unemployment
- The operations adhere to SLP and CSI initiatives that contribute to local economic development

Links to material matters

Capitals impacted

## 5 HEALTH AND SAFETY INCIDENTS

- We value the health and safety of all our employees and strive for a zero-harm environment
- Mining operations are inherently dangerous and present health and safety risks to our employees, which may have a direct impact on the group's operational performance and strategic objectives
- Safety incidents can potentially halt production, affect our reputation, lead to litigation and decrease the group's overall value

**Mitigating actions**

- Safety standards and procedures are in place and are subject to independent compliance reviews
- We have appointed relevant technical and engineering experts to ensure compliance with safety standards
- Daily, monthly and quarterly health and safety compliance inspections are conducted by operational health and safety representatives
- Training for emergencies has been conducted, with appointed emergency service providers present at each operational site
- We continually introduce new safety initiatives and awareness programmes

Links to material matters

Capitals impacted

## 6 FINANCIAL SUSTAINABILITY IN A VOLATILE ENVIRONMENT

- The group's ability to access, service and repay debt is directly dependent on its ability to generate cash flows
- Failure to meet operational objectives may negatively impact on the group's ability to service and redeem debt
- Cash flow generation is affected by volatility in macroeconomic variables such as exchange rates and commodity prices
- Excessive debt in the group's capital structure may adversely impact the group's financial sustainability and restrict the group's ability to fund its capital development programmes
- Access to debt and equity sources of capital is critical to sustain generic or acquisitive growth
- Mineral Resources and Mineral Reserves are valued based on economic and technical assumptions and the prevailing investment environment at a point in time and should these assumptions or the investment environment change, the carrying value of these Mineral Resources and Mineral Reserves may be subject to a downward adjustment

**Mitigating actions**

- The group's centralised treasury function at Pan African Resources Funding Company Proprietary Limited (Funding Company) manages all group funding requirements and risk management initiatives
- The ability to dispose of non-strategic assets including MC Mining shares and Pan African Resources shares held by PAR Gold and access to alternative sources of liquidity such as prepaid gold loans
- Daily monitoring of working capital and monthly reviews of capital expenditure, cash flow generation and group debt levels
- Regular reviews and monitoring of operational and financial performance
- Financial risk management through strategic currency and commodity price hedging, when appropriate and within predetermined limitations, to decrease volatility in cash flow management
- Hedging strategies are aligned to the group's financial risk management policies to ensure that derivative risk remains within board-approved limits
- Capital structure management by raising equity and debt timeously and within prudent limits
- Maintaining good relationships with shareholders and bankers through regular engagement
- Ability to restructure the group's term facilities to better match cash flow generation and debt redemption
- Mineral Resources and Mineral Reserves are independently valued and subject to annual impairment assessments
- The board assesses the appropriateness of the group's capital structure to fund new organic projects in the context of the prevailing economic environment and long-term funding requirements of the group

| Links to material matters | Capital impacted |
|---|---|

## 7 TAILINGS DAM OR MINE SHAFT FAILURE, FIRE OR FLOODING

- Tailings dam or mine shaft failure could result from:
  - inadequate maintenance or corrosion
  - seismic activity, flooding or fire
  - overtopping of the tailings storage facility (TSF), significant movement of outer slope or high phreatic (saturated water level) surface pore pressures
- The majority of the group's TSFs are located in close proximity to residential areas

**Mitigating actions**

- Third-party independent contractors have been appointed to design, build and operate the TSFs within the group
- Tailings and dam management is overseen by an appointed competent person at each of the group's TSF sites to ensure compliance with legislation, DMR requirements and the group's internal code of practice
- Quarterly inspections and meetings are held between mine management, third-party TSF operators and competent persons tasked with monitoring and compliance
- An independent specialist reviews the group's TSFs to ensure that compliance with the latest legislative requirements. The review was performed during the 2019 financial year
- Active management of engineering risk registers for all operations
- Ongoing expenditure on capital and maintenance of infrastructure to proactively address infrastructure concerns
- The allocation and prioritisation of sustainable capital expenditure is based on the group's risk assessment

| Links to material matters | Capitals impacted |
|---|---|

# RISKS continued

## 8 OPERATIONAL EXECUTION

- Not achieving operational objectives negatively impacts operational and financial results and investor confidence in our group
- Operational disruption also arises from safety-related incidents, community protest action and industrial action

Mitigating actions

- Daily production reviews to monitor that actual production is aligned with planned production
- Short-, medium- and long-term production planning processes are in place
- In the current year, Barberton Mines improved mining flexibility by increasing processing capacity at both the Sheba and Consort plants
- We are assessing the merits of connecting 38 Level (Sheba) and 23 Level (Fairview) at Barberton Mines to accommodate cross-tramming between Sheba Mine and Fairview Mine (Project Dibanisa)
- Improved infrastructural capacity at Barberton Mines:
  - Top and bottom access to the sub-vertical shaft was completed in the current financial year. In the next financial year, we will focus on excavations that will house the shaft infrastructure
  - Sheba headgear was replaced during December 2018. The winder replacement project at Sheba Mine has commenced with completion expected in the 2021 financial year

Link to material matter

Capitals impacted

## 9 GOVERNANCE AND REGULATORY COMPLIANCE

- The group is exposed to a number of legislative, governance and accounting standards which increase business complexity and compliance risk

Mitigating actions

- The group engages regularly with its regulators, JSE sponsors and the nominated adviser appointed in accordance with the LSE's AIM Rules for Companies (Nomad) to ensure corporate law and listing compliance
- Comprehensive and detailed training is provided to employees on monitoring and compliance with laws and regulations
- Independent reviews of accounting IFRS disclosures, taxation compliance, mineral rights and other legislative compliance
- The group's adherence to regulatory guidelines has been subject to an independent compliance review

Links to material matters

Capitals impacted

## 10 STRATEGIC CAPITAL ALLOCATION

- The risk of investment which results in sub-optimal returns and adversely impacts on stakeholder value creation
- The risk that an uncertain investment environment may impede the group's ability to raise external capital funding

Mitigating actions

- All capital allocation decisions are subject to rigorous analysis and predefined risk-adjusted return parameters
- Potential investments that do not earn a minimum return of 15% per annum on equity, after adjusting for project-specific and sovereign risks, are declined
- In addition to the return requirement, any capital investment is assessed for execution risk to ensure that it falls within the group's resources and execution capability

Links to material matters

Capitals impacted

## 11 ENVIRONMENTAL DAMAGE

- Risk of environmental damage and the consequential reputational and financial impact
- Barberton Mines is in close proximity to a world heritage site and its mining right falls within a nature reserve

Mitigating actions

- The environmental impact of our mining operations is closely monitored and managed in accordance with environmental management plans, with annual reports submitted to the DMR
- Rehabilitation liabilities are fully funded, which enables the group to mitigate the environmental effects of mining
- Continuous monitoring by means of environmental damage detection systems
- The group works closely with nature conservation authorities to minimise the adverse impact of our mining operations on the environment
- Specific action plans are in place to deal with flooding and spillage incidents
- Monitoring the rate of rise of active TSFs, together with the monitoring of the structural integrity of the TSFs by independent advisers
- The design of the TSF provides for a flood plain in the event of a breach of its integrity
- Regular environmental campaigns are hosted to reinforce environmental awareness
- Residue pipelines are patrolled to mitigate the risk of damage due to theft and sabotage. Throughput and pressure of these pipelines are monitored to mitigate the risk and impact of spillages

| Links to material matters | Capitals impacted |
|---|---|

## 12 DECLINING MINERAL RESOURCE AND MINERAL RESERVE BASE

- Maintaining a reserve and resources pipeline is necessary to sustain future production, secure capital funding and is vital for the long-term sustainability of the group
- While the group undertakes drilling and exploration to establish such a pipeline, the risk is that such exploration may not contribute to an increased reserve base
- Economic factors such as inflationary or greater increases and volatile commodity prices impact the cut-off grade employed to report the Mineral Resource and Mineral Reserve that are economically extractable. Due to year-on-year changes in the global market, and continuous influx of geological data from the operations, estimates of the Mineral Resource and, subsequently, the Mineral Reserve, may change

Mitigating actions

- Accessing, ranking and advancing organic growth and exploration projects
- Identifying acquisition opportunities that meet the group's investment criteria
- Mineral Reserves and, where considered appropriate, Mineral Resources are incorporated in projected cash flows, based on Mineral Reserves and Mineral Resource statements in accordance with the SAMREC Code for South African properties and exploration and evaluation work undertaken by appropriately qualified persons. Mineral Resources are included where management has a high degree of confidence in their economic extraction, despite additional evaluation still being required prior to meeting the required confidence to convert to Mineral Reserves

| Links to material matters | Capitals impacted |
|---|---|

# ALL-IN SUSTAINING COSTS: MEASURING THE COST OF GOLD

A successful and sustainable mining operation requires an effective balance between income and expenses, which in mining, demands an understanding of the relationship between operational expenses and yields.

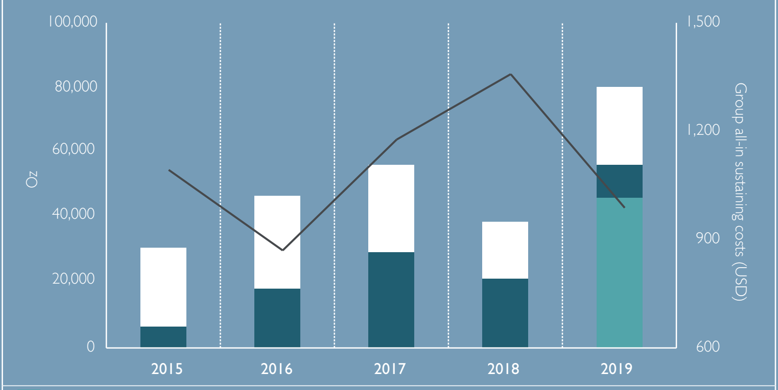
This is why a unique metric was developed for prospective mining investors to gain clear insights into the overall expenses incurred by mines in delivering their production outputs.

All-in sustaining costs is a globally recognised benchmark of a mine's operating efficiency. This measure takes into account all relevant operational and capital production costs, from production and procurement overheads to exploration and development investment. This calculation delivers an overall USD cost per ounce of gold produced by the mine.

## PAN AFRICAN RESOURCES SHOWS ITS COST-SAVINGS METTLE

In recent years, Pan African Resources has succeeded in steadily increasing its gold production levels while simultaneously reducing its all-in sustaining costs. This measure shows the group's cost-effectiveness in comparison to our global peers and competitors. It also substantiates our focus on tailings operations to lower our cost of production for more attractive margins.

Group gold production from surface sources




| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Elikhulu | – | – | – | – | 46,201 |
| ETRP | 6,523 | 18,151 | 29,473 | 21,25 | 9,999 |
| BTRP | 24,283 | 28,591 | 26,745 | 17,504 | 24,007 |
| Group all-in sustaining costs | 1,093 | 870 | 1,177 | 1,358 | 988 |

*Barberton Mines – gold pour* >

## INCREASING PRODUCTION WHILE LOWERING THE COSTS

Elikhulu treats historically generated gold tailings deposits located at Evander Mines. Elikhulu has contributed more than 25% to the group's total production for the current financial year and has contributed to lowering the group's all-in sustaining costs to USD988/oz (2018: USD1,358/oz).

## TRANSFORMING REHABILITATION LIABILITIES INTO COST-EFFICIENT, SUSTAINABLE REVENUE

Pan African Resources has a track record of designing, building and commissioning tailings retreatment plants to reduce costs and increase production.

Pan African Resources is now one of the lowest-cost gold producers in South Africa and is internationally competitive from an all-in sustaining costs perspective.

# FINANCIAL DIRECTOR'S REVIEW

Our improved financial performance validates the successful execution of our repositioning strategy, following the commissioning of Elikhulu and Barberton Mines' improved production performance of approximately 100,000oz per annum. Pan African Resources is committed to creating value by applying stringent investment and capital allocation criteria to its capital allocation decisions ensuring sustainable value creation for the benefit of all our stakeholders.

The group has changed its presentation currency from GBP to USD for the 30 June 2019 financial year to assist in making the group's results more comparable to its peer group. For additional information regarding the amendment, refer to note 43 on page 213 of the annual financial statements.

## KEY FEATURES FOR THE GROUP

- Profit after taxation from the group's continuing operations improved significantly to USD38.0 million (2018: USD15.6 million), resulting in the earnings per share (EPS) increasing to 1.97 USD cents per share (2018: loss 6.79 USD cents per share). EPS was also impacted by the reversal of USD17.9 million of the impairment charge made in the 2018 financial year related to the previously impaired 8 Shaft, 7 Shaft and Kinross plant infrastructure
- Headline earnings* improved to USD22.9 million (2018: USD17.9 million), resulting in the headline earnings per share (HEPS*) increasing to 1.19 USD cents per share (2018: 0.99 USD cents per share)
- The loss of USD138.4 million from discontinued operations in the prior financial year was due to the impairment charges and operating losses recognised after the cessation of large-scale underground operations at Evander Mines
- Total all-in sustaining costs per kilogramme* decreased to USD988/oz (2018: USD1,358/oz), due to an improved operational performance at Barberton Mines, the inclusion of Elikhulu's gold production and the cessation of Evander Mines' high-cost, large-scale underground operations
- Elikhulu was commissioned during September 2018, ahead of schedule and contributed an additional 45,465oz in gold sold and adjusted earnings before interest, taxes, depreciation and amortisation (EBITDA)* of USD31.1 million**

** Refer to APMs on pages 220 to 225.*
*** Calculated by converting at the average USD: ZAR exchange rate of ZAR14.19:USD1*

Elikhulu Plant – process water dam in foreground

- Net debt* increased to USD129.9 million (2018: USD118.0 million), as the group's debt facilities were utilised to complete Elikhulu. The group's RCF facility was restructured in June 2019 to provide for improved flexibility and liquidity
- Subsequent to the financial year-end, in light of the strong prevailing rand gold price and the opportunity it presented to lock in an attractive cash margin and reduce interest costs, the group entered into a gold loan for 20,000oz with RMB at an effective rand gold price of R633,344/kg on 15 July 2019. In exchange for an upfront cash receipt of R394 million (USD28.3 million), the group will deliver 12 monthly instalments of 1,666.67oz to RMB, commencing on 31 July 2019, in settlement of the gold loan
- The group recognised an impairment reversal of USD17.9 million in Evander Mines due to the commencement of Evander Mines' 8 Shaft pillar project. Refer to Evander Mines' performance and operational review on pages 52 and 53 for more information. These assets will be depreciated over the three-year life of the project.

Pan African Resources aspires to pay a regular dividend to its shareholders.

In balancing this cash return to shareholders with the group's strategy of organic and acquisitive growth, Pan African Resources believes that a target payout ratio of 40% of net cash generated from operating activities – after allowing for the cash flow impact of sustaining capital, contractual debt repayments and the cash flow impact of once-off items – is appropriate.

# FINANCIAL DIRECTOR'S REVIEW continued

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2019

| Consolidated | | | Consolidated | |
|---|---|---|---|---|
| Audited 30 June 2019 USD thousand | Restated (note 1) Audited 30 June 2018 USD thousand | | Unaudited 30 June 2019 R million | Restated (note 1) Unaudited 30 June 2018 R million |
| | | **Continuing operations** | | |
| **217,374.6** | 145,828.8 | Revenue | **3,084.5** | 1,873.9 |
| **304.4** | 146.0 | Other revenue | **4.3** | 1.9 |
| **217,679.0** | 145,974.8 | **Revenue and other revenue** | **3,088.8** | 1,875.8 |
| **(152,980.0)** | (107,139.9) | Cost of production (note 2) | **(2,170.8)** | (1,376.7) |
| **(16,227.8)** | (6,625.5) | Mining depreciation and amortisation | **(230.3)** | (85.1) |
| **48,471.2** | 32,209.4 | **Operating profit** | **687.7** | 414.0 |
| **(7,562.3)** | (5,903.1) | Other expenses | **(107.3)** | (75.9) |
| **17,853.5** | (10,763.4) | Impairment reversal/(cost) | **251.4** | (136.6) |
| **(354.1)** | (557.8) | Royalty costs | **(5.0)** | (7.2) |
| **58,408.3** | 14,985.1 | **Net income before finance income and finance costs** | **826.8** | 194.3 |
| **849.7** | 2,003.6 | Finance income | **12.1** | 25.7 |
| **(13,041.8)** | (4,225.3) | Finance costs | **(185.1)** | (54.3) |
| **46,216.2** | 12,763.4 | **Profit for the year from continuing operations** | **653.8** | 165.7 |
| **(8,174.0)** | 2,826.0 | Taxation | **(116.0)** | 36.3 |
| **38,042.2** | 15,589.4 | **Profit after taxation** | **537.8** | 202.0 |
| | | **Discontinued operations** | | |
| **–** | (138,405.0) | Loss after taxation from discontinued operations | **–** | (1,758.9) |
| **38,042.2** | (122,815.6) | **Profit/(loss) for the year** | **537.8** | (1,556.9) |
| **1.97** | (6.79) | Earnings/(loss) per share (cents) | **27.89** | (86.03) |
| **1.97** | (6.79) | Diluted earnings/(loss) per share (cents) | **27.89** | (86.03) |
| **1,928.3** | 1,809.7 | Weighted average number of shares in issue | **1,928.3** | 1,809.7 |
| **1,928.3** | 1,809.7 | Diluted average number of shares in issue | **1,928.3** | 1,809.7 |

*Note 1: The group changed its presentation currency for its 2019 financial results from GBP to USD. This change in presentation currency represents a voluntary change in an accounting policy in terms of IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors. A change in presentation currency requires the restatement of comparatives. Refer to note 43 in the annual financial statements.*

*Note 2: Realisation costs have been restated in the prior financial year. Refer to note 5 and 44 in the annual financial statements.*

### Taxation charge

The taxation charge of the group's continuing operations increased to a debit of USD8.2 million (2018: USD2.8 million credit) due to:

- An increase in the deferred tax expense to USD5.3 million (2018: USD4.9 million credit) mainly due to a reduction in the gold mining deferred taxation rates
- An increase in the current taxation charge to USD2.9 million (2018: USD2.1 million) as a result of an increase in revenue.

### Discontinued operations

In the prior financial year (2018), the group's discontinued operations comprised:

- Evander Mines' large-scale underground operations
- Phoenix Platinum Proprietary Limited (Phoenix Platinum)
- Losses from discontinued operations were USD138.4 million, which included an impairment charge of USD129.5 million and retrenchment costs of USD12.5 million.

### Revenue

- Revenue from continuing operations improved year-on-year by 49.1% predominantly due to an increase of 53.5% in gold sold from continuing operations to 171,706oz (2018: 111,879oz) and Elikhulu contributing USD58.0 million for the current financial year.

### Cost of production

The group's cost of production for continuing operations increased by 42.9% to USD153.0 million (2018: USD107.1 million). The increase mainly relates to:

- Elikhulu, commissioned in September 2018, which contributed an additional USD25.4 million in production costs
- Remnant underground mining and vamping activities, which contributed an additional USD29.7 million.

The group's total cost of production consists mainly of:

- Salaries and wages (representing 30.3% of the total gold cost of production) which increased by 11.5% to USD46.4 million (2018: USD41.6 million)
- Mining and processing costs (representing 41.1% of the total gold cost of production) which increased by 74.4% to USD62.8 million (2018: USD36.0 million)
- Electricity costs (representing 12.0% of the gold cost of production) which increased by 77.7% to USD18.3 million (2018: USD10.3 million)
- Engineering and technical costs (representing 7.4% of the total gold cost of production), which increased by 56.9% to USD11.3 million (2018: USD7.2 million)
- Security costs (representing 4.7% of the total gold cost of production) which increased by 71.4% to USD7.2 million (2018: USD4.2 million).

### Mining depreciation and amortisation

The group's mining depreciation and amortisation costs for continuing operations increased by 144.9% to USD16.2 million (2018: USD6.6 million). The depreciation charge is based on the available units of production (tonnes) over the life of the operations and the depreciation charge increased proportionately with the increase in production. Newly commissioned Elikhulu contributed an additional USD8.9 million in depreciation for the year.

### Other expenditure

Other expenditure increased to USD7.6 million (2018: USD5.9 million) predominantly due to an increase in the group's cash-settled share option costs to USD2.4 million (2018: USD0.9 million income) in the current financial year.

### Impairment reversal

In the prior financial year, following the cessation of large-scale underground operations at Evander Mines in May 2018, a total impairment charge of USD140.3 million was recognised of which USD129.5 million was recognised in discontinued operations, and USD10.8 million relating to the ETRP, was recognised as part of continuing operations.

A reversal of an impairment of USD17.9 million was recognised in the current financial year following the commencement of Evander Mines' 8 Shaft pillar project. The reversal of impairment relates specifically to the property, plant and equipment and mineral rights and other intangible assets previously impaired at Evander Mines in the prior financial year, which will be utilised by Evander Mines' 8 Shaft pillar project and depreciated over the project's three-year life-of-mine.

### Finance income and costs

Finance income decreased to USD0.8 million (2018: USD2.0 million) following a decrease in interest earned on the group's rehabilitation funds.

Finance costs increased to USD13.0 million (2018: USD4.2 million) due to an increase in net debt as a result of the construction spend on Elikhulu.

### Earnings per share

The combined operations EPS in USD increased to earnings of 1.97 cents per share (2018: loss of 6.79 cents per share). The combined operations HEPS* in USD increased to 1.19 cents per share (2018: 0.99 cents per share).

The EPS and HEPS* are calculated by applying the group's weighted average number of shares in issue to the attributable and headline earnings*. The weighted average number of shares in issue increased by 6.6% to 1,928.3 million shares (2018: 1,809.7 million shares).

* *Refer to APMs on pages 220 to 225.*

# FINANCIAL DIRECTOR'S REVIEW continued

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2019

| Consolidated | | | | Consolidated | | |
|---|---|---|---|---|---|---|
| Audited 30 June 2019 USD thousand | Restated (note 1) Audited 30 June 2018 USD thousand | Restated (note 1) Audited 30 June 2017 USD thousand | | Unaudited 30 June 2019 R million | Unaudited 30 June 2018 R million | Unaudited 30 June 2017 R million |
| | | | **ASSETS** | | | |
| **363,165.3** | 317,773.9 | 354,878.5 | **Non-current assets** | **5,113.4** | 4,360.0 | 4,631.1 |
| **305,354.7** | 254,246.7 | 292,007.6 | Property, plant and equipment and mineral rights | **4,299.4** | 3,488.3 | 3,810.7 |
| **655.2** | 41.7 | 94.1 | Other intangible assets | **9.2** | 0.6 | 1.2 |
| **2,141.1** | 8,186.4 | 991.0 | Deferred taxation | **30.1** | 112.3 | 12.9 |
| **614.5** | 748.2 | 889.5 | Long-term inventory | **8.7** | 10.3 | 11.6 |
| **1,021.9** | 1,746.6 | 3,295.0 | Long-term receivables | **14.4** | 24.0 | 43.0 |
| **21,554.8** | 22,120.4 | 23,256.1 | Goodwill (note 2) | **303.5** | 303.5 | 303.5 |
| **6,802.0** | 4,133.9 | 9,776.5 | Investments | **95.8** | 56.7 | 127.6 |
| **25,021.1** | 26,550.0 | 24,568.7 | Rehabilitation funds | **352.3** | 364.3 | 320.6 |
| **29,964.4** | 26,513.8 | 38,088.1 | **Current assets** | **421.9** | 363.8 | 497.0 |
| **5,708.5** | 3,561.3 | 6,559.7 | Inventories | **80.4** | 48.9 | 85.6 |
| **1,888.6** | 910.6 | 1,388.6 | Current taxation asset | **26.6** | 12.5 | 18.1 |
| **15,101.3** | 19,578.4 | 17,862.1 | Trade and other receivables | **212.6** | 268.6 | 233.1 |
| **1,924.8** | 1,252.2 | – | Current portion of long-term receivables | **27.1** | 17.2 | – |
| **–** | 289.5 | – | Derivative financial asset | **–** | 4.0 | – |
| **5,341.2** | 921.8 | 12,277.7 | Cash and cash equivalents | **75.2** | 12.6 | 160.2 |
| **–** | – | 7,291.5 | Non-current assets held for sale | **–** | – | 95.2 |
| **393,129.7** | 344,287.7 | 400,258.1 | **Total assets** | **5,535.3** | 4,723.8 | 5,223.3 |
| | | | **EQUITY AND LIABILITIES** | | | |
| | | | **Capital and reserves** | | | |
| **38,150.6** | 38,150.6 | 38,150.6 | Share capital | **318.8** | 318.8 | 318.8 |
| **235,063.2** | 235,063.2 | 235,063.2 | Share premium | **2,261.4** | 2,261.4 | 2,261.4 |
| **(138,857.1)** | (135,154.2) | (129,633.9) | Translation reserve | **–** | – | – |
| **2,624.7** | 2,624.7 | 2,016.4 | Share option reserve | **24.6** | 24.6 | 17.2 |
| **112,984.2** | 74,942.0 | 208,414.1 | Retained earnings | **699.3** | 161.4 | 1,867.1 |
| **(18,121.7)** | (18,121.7) | (18,121.7) | Realisation of equity reserve | **(140.6)** | (140.6) | (140.6) |
| **(24,871.4)** | 24.871.4 | (36,815.7) | Treasury capital reserve | **(399.2)** | (399.2) | (548.6) |
| **(21,637.4)** | (21,637.4) | (21,637.4) | Merger reserve | **(154.7)** | (154.7) | (154.7) |
| **(1,753.2)** | (4,008.2) | – | Other reserves | **(24.7)** | (55.0) | – |
| **183.581.9** | 146,987.6 | 277,435.6 | Equity attributable to owners of the parent | **2,584.9** | 2,016.7 | 3,620.6 |
| **183.581.9** | 146,987.6 | 277,435.6 | **Total equity** | **2,584.9** | 2,016.7 | 3,620.6 |
| **145,693.3** | 152,905.5 | 81,736.7 | **Non-current liabilities** | **2,051.3** | 2,097.9 | 1,066.7 |
| **15,781.3** | 19,929.5 | 15,147.5 | Long-term provisions | **222.2** | 273.4 | 197.7 |
| **109,617.7** | 112,827.4 | 13,828.5 | Long-term liabilities – financial institutions | **1,543.4** | 1,548.0 | 180.5 |
| **1,727.2** | 1,237.4 | 2,144.2 | Long-term liabilities – other | **24.3** | 17.0 | 28.0 |
| **18,567.1** | 18,911.2 | 50,616.5 | Deferred taxation | **261.4** | 259.5 | 660.5 |
| **63,854.5** | 44,394.6 | 40,614.3 | **Current liabilities** | **899.1** | 609.2 | 529.8 |
| **35,921.3** | 36,815.3 | 35,163.2 | Trade and other payables | **505.8** | 505.1 | 458.7 |
| **917.7** | – | – | Derivative financial liabilities | **12.9** | – | – |
| **24,147.7** | 6,426.2 | 1,587.2 | Current portion of long-term liabilities – financial institutions | **340.0** | 88.2 | 20.7 |
| **2,390.9** | 391.1 | 3,800.6 | Current portion of long-term liabilities – other | **33.7** | 5.4 | 49.6 |
| **476.9** | 762.0 | 63.3 | Current taxation liability | **6.7** | 10.5 | 0.8 |
| **–** | – | 471.5 | Liabilities directly associated with assets held for sale | **–** | – | 6.2 |
| **393,129.7** | 344,287.7 | 400,258.1 | **Total equity and liabilities** | **5,535.3** | 4,723.8 | 5,223.3 |

*Note 1: The group changed its presentation currency for its 2019 financial results from GBP to USD. This change in presentation currency represents a voluntary change in an accounting policy in terms of IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors. A change in presentation currency requires the restatement of comparatives. Refer to note 43 in the annual financial statements.*

*Note 2: Goodwill has been restated in the prior financial year. Refer to note 44 in the annual financial statements.*

## Assets

### Property, plant and equipment and mineral rights

The movement in property, plant and equipment and mineral rights comprised capital expenditure for the year of USD56.7 million (2018: USD128.4 million), a depreciation charge of USD16.1 million (2018: USD14.9 million) and an impairment reversal of USD17.8 million (2018: impairment charge USD138.6 million).

### Deferred taxation

Deferred taxation decreased to USD2.1 million (2018: USD8.2 million) as a result of:

- The utilisation of assessed losses at Evander Mines following the successful commissioning of Elikhulu in September 2018
- A reduction in the gold mining deferred taxation rates.

### Investments

Investments increased to USD6.8 million (2018: USD4.1 million) following an increase in the fair value of shares held in MC Mining.

### Inventories

Inventories increased to USD5.7 million (2018: USD3.6 million) due to increased consumable stock on hand to support Elikhulu.

### Trade and other receivables

Trade and other receivables decreased to USD15.1 million (2018: USD19.6 million) as a result of:

- A decrease in the VAT receivable year-on-year following the commissioning of Elikhulu.

### Cash and cash equivalents

Cash and cash equivalents increased to USD5.3 million (2018: USD0.9 million) and total debt facilities increased to USD135.2 million (2018: USD118.9 million) resulting in an increase in net debt to USD129.9 million (2018: USD118.0 million). Net debt increased as the group's debt facilities were utilised to complete Elikhulu's construction in the current financial year.

## Capital and reserves

Capital and reserves increased to USD183.6 million (2018: USD147.0 million) as a result of:

- An increase in the group's retained earnings of USD38.0 million resulting from profit after taxation
- A fair value gain adjustment through other comprehensive income of USD2.3 million (2018: USD4.0 million).

## Liabilities

### Long-term provisions

Long-term provisions decreased to USD15.8 million (2018: USD19.9 million) following the acceleration of certain rehabilitation projects at Evander Mines.

### Liabilities – financial institutions

Liabilities – financial institutions increased USD133.8 million (2018: USD119.3) as a result of:

- The non-current portion of the RCF decreased to USD52.8 million (2018: USD56.7 million). USD9.9 million was classified as a current liability
- The non-current portion of the Elikhulu term loan facility increasing to USD56.9 million (2018: USD56.1 million). The facility was utilised to complete the construction of Elikhulu
- The current portion of the Elikhulu term loan facility increasing to USD14.2 million (2018: nil).

### Liabilities – other

Liabilities – other increased to USD4.1 million (2018: USD1.6 million), predominantly due to an increase in the cash-settled share option liability which increased to USD3.7 million (2018: USD1.5 million) of which USD2.3 million (2018: USD0.3 million) was classified as a current liability in the current financial year.

# FINANCIAL DIRECTOR'S REVIEW continued

## CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2019

| Consolidated | | | Consolidated | |
|---|---|---|---|---|
| Audited 30 June 2019 USD thousand | Restated (note 1) Audited 30 June 2018 USD thousand | | Unaudited 30 June 2019 R million | Restated (note 1) Unaudited 30 June 2018 R million |
| | | **Cash flow from operating activities** | | |
| 56,889.0 | 5,344.7 | Net cash generated by/(utilised in) operating activities before dividend, taxation, royalties, and net finance costs and income | 815.9 | 63.7 |
| – | (11,030.0) | Net dividend paid (note 2) | – | (148.9) |
| (3,847.0) | (2,384.0) | Income taxation paid (note 3) | (54.1) | (31.6) |
| (649.9) | 749.8 | Royalties (paid)/refund (note 3) | (9.3) | 8.3 |
| (15,014.8) | (7,103.4) | Finance costs paid (note 3) | (214.7) | (91.3) |
| 329.4 | 1,027.6 | Finance income received | 4.7 | 13.2 |
| **37,706.7** | (13,395.3) | **Net cash generated by/(utilised in) operating activities** | **542.5** | (186.6) |
| | | **Cash flow from investing activities** | | |
| (55,115.7) | (124,698.6) | Additions to property, plant and equipment and mineral rights | (782.1) | (1,601.4) |
| (16.3) | (23.3) | Additions to other intangible assets | (0.2) | (0.3) |
| 286.0 | (517.9) | Repayments/(advances) of long-term loans receivable | 4.1 | (6.5) |
| 2,585.4 | (2,038.9) | Rehabilitation funds withdrawal/(contributions) | 36.7 | (26.2) |
| – | 6,317.9 | Proceeds from disposal of investment | – | 89.0 |
| 466.3 | 1.2 | Proceeds from disposals of property plant and equipment and mineral rights | 6.6 | – |
| **(51,794.3)** | (120,959.6) | **Net cash utilised in investing activities** | **(734.9)** | (1,545.4) |
| | | **Cash flow from financing activities** | | |
| 21,494.0 | 119,455.3 | Borrowings raised | 305.0 | 1,535.0 |
| (3,523.6) | (7,782.1) | Borrowings repaid | (50.0) | (100.0) |
| – | 11,944.3 | Proceeds from disposal of treasury shares | – | 149.4 |
| **17,970.4** | 123,617.5 | **Net cash generated by financing activities** | **255.0** | 1,584.4 |
| **3,882.8** | (10,737.4) | **Net increase/(decrease) in cash and cash equivalents** | **62.6** | (147.6) |
| 921.8 | 12,277.7 | Cash and cash equivalents at the beginning of the year | 12.6 | 160.2 |
| 536.6 | (618.5) | Effect of foreign exchange rate changes | – | – |
| **5,341.2** | 921.8 | **Cash and cash equivalents at the end of the year** | **75.2** | 12.6 |

*Note 1: The group changed its presentation currency for its 2019 financial results from GBP to USD. This change in presentation currency represents a voluntary change in an accounting policy in terms of IAS 8:* Accounting Policies, Changes in Accounting Estimates and Errors. *A change in presentation currency requires the restatement of comparatives. Refer to note 43 in the annual financial statements.*

*Note 2: Net dividend paid represents the total dividend paid less the reciprocal dividend received from PAR Gold. Refer to the dividend note 11 and the related parties note 40 in the annual financial statements.*

*Note 3: The income taxes, royalties and finance costs paid and received have been disclosed in the face of the statement of cash flows in the current and prior financial year.*

### Net cash generated by/(utilised in) operating activities

Cash generated by/(utilised in) from operations improved to USD37.7 million (2018: USD13.4 million). The cash generated by operations was supported by Barberton Mines' improved operational performance and the commissioning of Elikhulu. In the prior financial year, the group paid a net dividend of USD11.0 million.

### Net cash utilised in investing activities

The cash outflows from investing activities decreased to USD51.8 million (2018: USD121.0 million), largely due to:

- Capital expenditure incurred of USD55.1 million (2018: USD124.7 million) of which USD37.7 million (2018: USD97.8 million) was in relation to the construction of Elikhulu
- In the prior financial year, the group received cash from the disposal of Phoenix Platinum of USD6.3 million.

### Net cash generated by financing activities

Net cash generated by financing activities decreased to USD18.0 million (2018: USD123.6 million), largely due to the lower utilisation of the group's debt facilities for the construction of Elikhulu.

## FINANCIAL RISK MANAGEMENT

The group manages its financial risk by means of a centralised treasury function housed in Funding Company, a wholly owned subsidiary of Pan African Resources, with the objective of centrally managing all aspects of the group's financial risk. The group's philosophy is to hedge only specific exposures arising from specific operational risks, capital investments and transactional flows. The group limits hedging to short-dated hedges and a maximum of 25% of the group's annual production, unless additional exposure is specifically approved by the board.

The group is exposed to a number of macroeconomic risks. The rand gold price is one of the major risks that directly impacts the group's financial results. To manage this risk during periods of peak debt, a number of zero cost collar derivatives structures were entered into to reduce the negative cash flow impact of a potential decline in the rand gold price. As at 30 June 2019, the group held the following derivative positions:

| Remaining term | Volume (oz) | Put (R/kg) | Call (R/kg) |
|---|---|---|---|
| 1 July 2019 – 31 December 2019 | 25,000 | 594,000 | 666,008 |
| 1 January 2020 – 30 June 2020 | 20,000 | 615,000 | 740,287 |

These derivatives secure an average gold price of R594,000/kg on 25,000oz and limited the group's participation in gold price movements to an average price of R666,008/kg for the first half of the 2020 financial year. The second half of the 2020 financial year is secured by an average gold price of R615,000/kg on 20,000oz and limits our participation in gold price movements to an average price of R740,287/kg.

### Net debt*

Total debt facilities utilised as at 30 June 2019 increased to USD135.2 million (2018: USD118.9 million), and cash holdings increased to USD5.3 million (2018: USD0.9 million), resulting in an increase in net debt to USD129.9 million (2018: USD118.0 million). Net debt* increased as the group's debt facilities were utilised to construct Elikhulu.

Summary of utilised debt facilities:

| | Financial instruments | | RCF | | Elikhulu term loan facility | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 30 June 2019 USD million | 30 June 2018 USD million | 30 June 2019 USD million | 30 June 2018 USD million | 30 June 2019 USD million | 30 June 2018 USD million | 30 June 2019 USD million | 30 June 2018 USD million |
| Non-current portion | – | – | **35.4** | 56.7 | **56.9** | 56.1 | **92.3** | 112.8 |
| Current portion | **0.9** | (0.3) | **27.8** | 6.4 | **14.2** | – | **42.9** | 6.1 |
| Total | **0.9** | (0.3) | **63.2** | 63.1 | **71.1** | 56.1 | **135.2** | 118.9 |

**Note:** the amounts above exclude IFRS 9 accounting adjustments of USD0.6 million (2018: nil). Financial instruments have been included in net debt as defined in the group's debt facility agreement.

* *Refer to APMs on pages 220 to 225.*

# FINANCIAL DIRECTOR'S REVIEW continued

## Revolving credit facility and term debt facility

We have restructured the group's R1 billion RCF that provides the group with access to a RCF to fund working capital requirements. The term facility, which was used to fund the capital expenditure of Elikhulu, was unaffected by the restructuring of the RCF. As a consequence of the restructure, the covenants of the group's term facilities (RCF and Elikhulu term loan facility) were renegotiated.

The group's covenants have improved year-on-year as summarised below:

| | Measurement | 30 June 2019 | 30 June 2018 |
|---|---|---|---|
| Net debt to equity ratio* | Must be less than 1:1 | **0.7** | 0.8 |
| Net debt to net adjusted EBITDA ratio* | At the following measurement dates, must be less than:<br>30 June 2020 2.5:1<br>30 June 2021 2:1<br>30 June 2022 1.5:1 | **2.2** | 3.6 |
| Interest cover ratio* | At the following measurement dates, must be greater than:<br>30 June 2020 4:1<br>30 June 2021 4.5:1<br>30 June 2022 5:1 | **4.1** | 4.6 |
| Debt service cover ratio* | Must be greater than 1.3 times | **1.4** | 4.1 |

The group's restructured R1 billion RCF is provided by a consortium of South African banks and has a tenure to June 2022. The facility bears interest at the one-month Johannesburg Inter-bank Acceptance Rate (JIBAR) rate plus a margin of 3.3% from 3 June 2019 (2018: JIBAR plus a margin of 3.0%). The increased interest rate is due to the restructure of the group's term facility.

The restructured RCF became effective on 3 June 2019 and will amortise as follows:

| Amortisation profile | RCF available balance R million | Repayments R million |
|---|---|---|
| Up to 15 April 2020 | 1,000 | 250 |
| 15 June 2020 | 750 | 25 |
| 15 December 2020 | 725 | 25 |
| 15 June 2021 | 700 | 50 |
| 15 September 2021 | 650 | 50 |
| 15 December 2021 | 600 | 50 |
| 15 March 2022 | 550 | 50 |
| 15 June 2022 | 500 | 500 |

The repayment profile of Elikhulu's term debt facility comprises quarterly, equal principal instalments of R50 million each, commencing in September 2019. The facility bears interest at a three-month JIBAR rate plus a margin of 3.8% (2018: 3.8%).

* *Refer to APMs on pages 220 to 225.*

### Working capital and debt management

The group manages its debt levels within prudent limits approved by the board and based on the recommendations of the audit and risk committee, after taking into account the variability of group cash flow generation, capital expenditure programmes and the board's aspiration to declaring an attractive dividend.

### Capital allocation discipline

The board is conscious of the aspirations of our stakeholders for sustainable value creation. As a result, all capital allocation decisions are subject to rigorous analysis and predefined risk-adjusted return parameters to ensure this objective is fulfilled. Of paramount importance in all such capital allocation decisions is the group's ability to successfully execute on investment opportunities and realise the required risk-adjusted return over the investment horizon. The attractive returns currently being earned on the capital invested in BTRP and Elikhulu bear testimony to our success in this regard.

Our investment criterion is to earn a minimum return of 15% per annum, after adjusting for project-specific and sovereign risks. Furthermore, to ensure our returns are robust, we endeavour to invest only in projects that fall into the lower half of the cost curve and where the execution risk is within our capability.

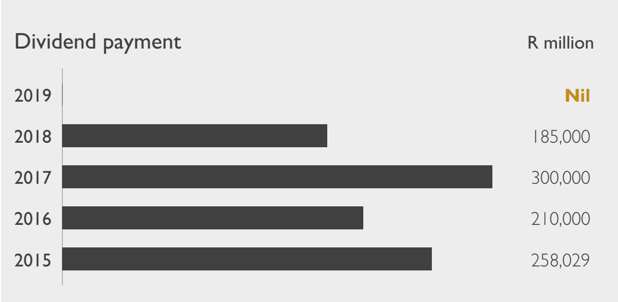
## DIVIDENDS

### Proposed dividend for the financial year ended 30 June 2019

The board has analysed the group performance and proposed a final dividend of R50 million or approximately USD3.4 million, equating to 2.2375 ZAR cents per share or approximately 0.12660 pence per share (0.15169 USD cents per share) at prevailing exchange rates. This dividend remains subject to approval at the annual general meeting on 28 November 2019.

## DIVIDEND POLICY

Pan African Resources aspires to pay a regular dividend to its shareholders. In balancing this cash return to shareholders with the group's strategy of organic and acquisitive growth, Pan African Resources believes a target payout ratio of 40% of net cash generated from operating activities – after allowing for the cash flow impact of sustaining capital, contractual debt repayments and the cash flow impact of once-off items – is appropriate. This measure aligns dividend distributions with the cash-generation potential of the business. In proposing a dividend, the board will also consider the company's financial position, future prospects, satisfactory solvency and liquidity assessments and other factors deemed relevant at the time. The board also allows itself flexibility to deviate from the above policy, when deemed appropriate.




## GOING CONCERN

Refer to the directors' report on page 129 where going concern is further discussed.

## LOOKING AHEAD

Our focus for the 2020 financial year is:

- Reducing operational cost and managing cash flow generation
- Strengthening the group's financial position by reducing senior debt and, in so doing, reducing financial risk and enhancing returns to shareholders
- Reviewing of our procurement processes and strategy
- Increasing returns to shareholders following the reinstituted dividend.

**Deon Louw**
*Financial director*

18 September 2019

# FIVE-YEAR REVIEW

| | Unit | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|
| **Operating performance** | | | | | | |
| Gold mining tonnes milled | (t) | **311,606** | 509,955 | 507,699 | 676,664 | 908,958 |
| Gold tailings processed | (t) | **13,392,400** | 3,551,280 | 3,143,414 | 2,801,021 | 1,618,794 |
| Overall recovered grade | (g/t) | **0.4** | 1.4 | 1.5 | 1.8 | 2.2 |
| Gold sold | (oz) | **171,706** | 160,444 | 173,285 | 204,928 | 175,857 |
| Gold spot price received | (USD/oz) | **1,266** | 1,301 | 1,242 | 1,164 | 1,212 |
| Total gold mining cash costs | (USD/oz) | **891** | 1,162 | 986 | 725 | 949 |
| Coal sold | (t) | **–** | – | 670,210 | 136,102 | – |
| PGE 6E sold | (oz) | **–** | 2,541[1] | 8,709 | 8,339 | 10,245 |

[1] *PGE sold up to the date of disposal of Phoenix Platinum (7 November 2017).*

| | 2019 | | 2018 | | 2017 | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | R million | USD million | R million | USD million | R million | USD million | R million | USD million | R million | USD million |
| **Statement of profit or loss** | | | | | | | | | | |
| Revenue and other revenue | **3,088.9** | **217.7** | 1,875.8 | 146.0 | 2,158.2 | 158.8 | 3,460.1 | 238.6 | 2,539.4 | 221.8 |
| Cost of production | **(2,170.8)** | **(153.0)** | (1,376.7) | (107.1) | (1,301.4) | (95.8) | (2,155.5) | (148.7) | (1,987.4) | (173.6) |
| Operating profit | **687.8** | **48.5** | 413.9 | 32.2 | 744.4 | 54.8 | 1,066.6 | 73.6 | 353.4 | 30.9 |
| **Total operations** | | | | | | | | | | |
| Adjusted EBITDA* | **805.7** | **56.8** | 416.0 | 32.4 | 816.0 | 60.0 | 963.5 | 66.4 | 512.1 | 44.7 |
| Impairment reversal/(cost) | **251.4** | **17.9** | (1,781.1) | (140.3) | (100.9) | (7.4) | – | – | (1.0) | (0.1) |
| Profit/(loss) after taxation | **537.9** | **38.0** | (1,556.9) | (122.8) | 309.9 | 22.8 | 547.0 | 37.7 | 210.2 | 18.4 |
| Headline earnings* | **322.6** | **22.9** | 229.1 | 17.8 | 315.6 | 23.2 | 547.1 | 37.7 | 213.6 | 18.7 |
| Dividends | **–** | **–** | (185.0) | (13.2) | (300.0) | (21.3) | (210.0) | (14.6) | (258.0) | (23.5) |
| **Statement of financial position** | | | | | | | | | | |
| Non-current assets | **5,113.4** | **363.2** | 4,359.9 | 317.8 | 4,631.2 | 354.9 | 4,450.9 | 303.2 | 4,147.1 | 358.5 |
| Current assets[1] | **421.9** | **30.0** | 363.8 | 26.5 | 497.0 | 38.1 | 434.2 | 29.6 | 332.3 | 27.3 |
| Assets held for sale | **–** | **–** | – | – | 95.2 | 7.3 | 1.3 | 0.1 | – | – |
| Total equity | **2,584.8** | **183.6** | 2,016.7 | 147.0 | 3,620.5 | 277.4 | 2,874.4 | 194.4 | 2,738.5 | 242.7 |
| Non-current liabilities | **2,051.4** | **145.7** | 2,097.9 | 152.9 | 1,066.7 | 81.7 | 1,372.4 | 93.5 | 1,309.5 | 107.7 |
| Current liabilities | **899.1** | **63.9** | 609.1 | 44.4 | 530.0 | 40.6 | 639.6 | 43.6 | 431.4 | 35.5 |
| Liabilities directly associated with assets held for sale | **–** | **–** | – | – | 6.2 | 0.5 | – | – | – | – |
| **Statement of cash flows** | | | | | | | | | | |
| Net cash generated from/(utilised in) operating activities[2] | **542.5** | **37.7** | 186.5 | 13.4 | 48.4 | 3.6 | 581.4 | 40.1 | 95.7 | 8.4 |
| Capital expenditure[2] | **782.3** | **55.1** | 1,601.7 | (124.7) | 613.1 | 45.1 | 302.0 | 20.8 | 352.0 | 30.7 |
| Net movements in cash and cash equivalents[2] | **62.6** | **3.9** | (147.6) | (10.7) | 108.5 | 8.0 | (11.7) | (0.8) | (36.9) | (3.2) |

[1] *Current assets as at 30 June 2016 excluded non-current assets held for sale of R1.3 million (USD0.1 million).*

[2] *2017, 2016, 2015 net cash generated from/(utilised in) operating activities, capital expenditure and net movements in cash and cash equivalents have been translated at the average ZAR:USD exchange rate prevailing for the respective financial year.*

* *Refer to APMs on pages 220 to 225.*

| | Unit | 2019 R | 2019 USD | 2018 R | 2018 USD | 2017 R | 2017 USD | 2016 R | 2016 USD | 2015 R | 2015 USD |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Key ratios** | | | | | | | | | | | |
| Return on shareholders' funds* | (%) | **23.4** | 23.0 | (55.2) | (57.9) | 9.5 | 9.2 | 19.5 | 16.4 | 7.7 | 7.6 |
| Net debt: equity ratio* | (ratio) | **0.71** | 0.71 | 0.81 | 0.80 | 0.12 | 0.02 | 0.11 | 0.11 | 0.12 | 0.11 |
| Net debt: net adjusted EBITDA* | (ratio) | **2.22** | 2.24 | 3.89 | 3.65 | 0.08 | 0.09 | 0.35 | 0.35 | 0.63 | 0.59 |
| Interest cover | (ratio) | **4.10** | 4.1 | 4.61 | 4.61 | 19.32 | 19.32 | 34.30 | 34.73 | 22.38 | 22.38 |
| Debt service cover* | (ratio) | **1.41** | 1.36 | 3.73 | 4.1 | 9.08 | 9.24 | – | – | – | – |
| Current ratio* | (ratio) | **0.5** | 0.5 | 0.6 | 0.6 | 0.9 | 0.9 | 0.7 | 0.7 | 0.8 | 0.8 |
| **Statistics** | | | | | | | | | | | |
| Shares in issue (million) | (number) | **2,234.7** | | 2,234.7 | | 2,234.7 | | 1,943.2 | | 1,831.5 | |
| Weighted average number of shares in issue | (number) | **1,928.3** | | 1,809.7 | | 1,564.3 | | 1,811.4 | | 1,830.4 | |
| Earnings per share | (cents) | **27.89** | **1.97** | (86.03) | (6.79) | 19.81 | 1.46 | 30.20 | 2.08 | 11.48 | 1.00 |
| Headline earnings per share[3]* | (cents) | **16.80** | **1.19** | 12.66 | 0.99 | 20.17 | 1.48 | 30.20 | 2.08 | 11.67 | 1.02 |
| Net asset value per share* | (cents) | **134.05** | **9.52** | 104.58 | 7.62 | 201.33 | 15.43 | 190.76 | 14.44 | 149.52 | 13.25 |
| Dividends per share | (cents) | – | – | 8.28 | 0.60 | 15.44 | 1.10 | 11.47 | 0.80 | 14.10 | 1.29 |

[3] *2017, 2016 and 2015 headline earnings have been translated at the average ZAR:USD exchange rate prevailing for the respective financial year.*

| Shares traded | 2019 R million | 2019 GBP million | 2018 R million | 2018 GBP million | 2017 R million | 2017 GBP million | 2016 R million | 2016 GBP million | 2015 R million | 2015 GBP million |
|---|---|---|---|---|---|---|---|---|---|---|
| Value of shares traded | **680.9** | **19.65** | 1,702.8 | 70.6 | 1,920.1 | 164.5 | 1,540.6 | 58.2 | 1,266.7 | 64.3 |

| | Unit | 2019 JSE | 2019 AIM | 2018 JSE | 2018 AIM | 2017 JSE | 2017 AIM | 2016 JSE | 2016 AIM | 2015 JSE | 2015 AIM |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Volume of shares traded | (million) | **418.7** | **222.8** | 952.1 | 639.1 | 623.7 | 932.6 | 650.7 | 461.6 | 573.2 | 527.9 |
| Volume traded as percentage of number in issue | (%) | **18.74** | **9.97** | 42.6 | 28.6 | 32.1 | 46.6 | 33.5 | 25.5 | 31.3 | 28.8 |
| Number of transactions | (number) | **23,424** | **14,449** | 5,824 | 19,082 | 16,217 | 34,020 | 35,926 | 20,784 | 29,855 | 21,221 |

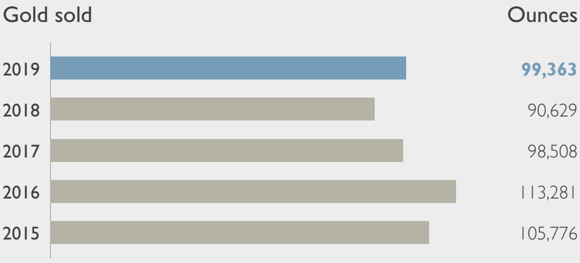
| | | 2019 Cents | 2019 Pence | 2018 Cents | 2018 Pence | 2017 Cents | 2017 Pence | 2016 Cents | 2016 Pence | 2015 Cents | 2015 Pence |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Price earnings* | (ratio) | **6.7** | 6.5 | (1.6) | (1.4) | 11.9 | 12.0 | 12.4 | 13.5 | 15.7 | 14.9 |
| Dividend yield* | (%) | – | – | 4.2 | 4.0 | 5.0 | 4.9 | 5.1 | 4.3 | 6.3 | 6.7 |
| **Traded prices** | | | | | | | | | | | |
| Last sale in year | | **186.0** | **10.0** | 135.0 | 7.1 | 236.0 | 13.7 | 375.0 | 19.0 | 180.0 | 9.5 |
| High | | **215.0** | **10.8** | 285.0 | 15.8 | 469.0 | 24.3 | 400.0 | 19.0 | 278.0 | 15.5 |
| Low | | **125.0** | **6.9** | 105.0 | 6.6 | 224.0 | 13.8 | 122.0 | 6.3 | 180.0 | 9.5 |
| Average price per share traded | | **161.7** | **8.8** | 197.0 | 11.2 | 308.3 | 17.8 | 224.6 | 12.4 | 222.3 | 12.2 |

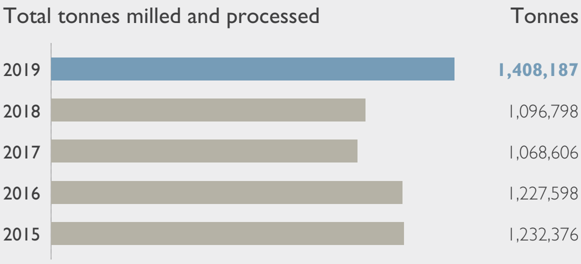
* *Refer to APMs on pages 220 to 225.*

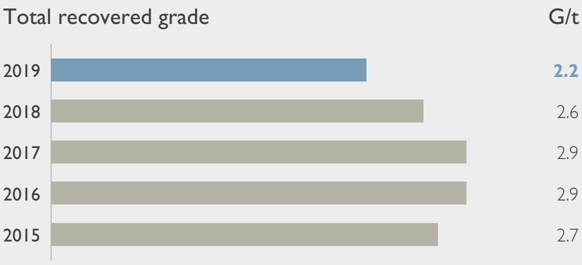
# OPERATIONAL AND PERFORMANCE REVIEW

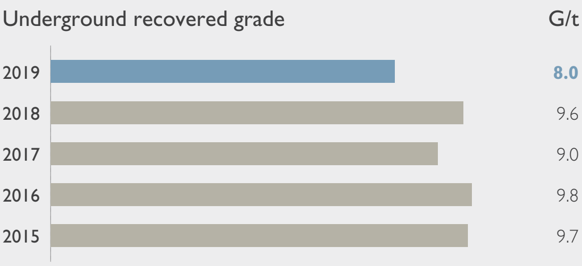
## BARBERTON MINES

Jan Thirion
*General manager*




The establishment of a third high-grade platform in the Fairview 11-block is anticipated within the first quarter of the 2020 financial year, which is expected to further improve mining flexibility.

### SALES AND PRODUCTION

Gold sales from the Barberton complex increased by 9.6% to 99,363oz (2018: 90,629oz).

- Underground and surface operations increased by 3.1% to 75,356oz (2018: 73,125oz)
- BTRP production increased by 37.2% to 24,007oz (2018: 17,504oz), due to an improved tonnage throughput and recoveries following the successful commissioning of the BTRP regrind mill in May 2018.

All-in sustaining costs per kilogramme increased by 5.4% to R491,605/kg (2018: R464,690/kg) and in USD per ounce terms, decreased by 4.1% to USD1.078/oz (2018: USD1,124/oz) following an increase in gold production.

- Barberton Mines' underground and surface operations all-in sustaining cost per kilogramme increased by 12.0% to R567,947/kg (2018: R507,130/kg) and in USD per ounce terms, increased by 1.5% to USD1,245/oz (2018: USD1,227oz)
- BTRP's all-in sustaining cost per kilogramme decreased by 12.3% to R251,973/kg (2018: R287,390/kg) and in USD per ounce terms, decreased by 20.5% to USD552/oz (2018: USD695/oz).

The establishment of a third high-grade platform in the Fairview 11-block is anticipated within the first quarter of the 2020 financial year, which is expected to further improve mining flexibility.

Fairview Mine saw an increase in free gold, and the group is installing a new gravity circuit at a cost of approximately R18 million (USD1.3 million) to improve Fairview Mines' free gold recovery and further enhance operational efficiencies. The expected pay-back on the project falls within two years, emphasising the added value the project will provide to Barberton Mines.

### ROYAL SHEBA PROJECT UPDATE

Extensive feasibility work was completed on Barberton Mines' Royal Sheba project. Due to the group's disciplined capital allocation criteria and the capital cost estimates to develop this mine, Pan African Resources will not pursue the Royal Sheba project on a stand-alone basis. The existing Barberton Mines processing plant infrastructure can be upgraded to process ore from this orebody. The benefits of this approach are the ability to expedite the environmental licensing process, shorten the timeline to production, enhance returns from mining this orebody and negate the requirement for external capital funding. We look forward to updating the market on this project in the months ahead.

### SUB-VERTICAL SHAFT UPDATE

Development of the top and bottom access for the sub-vertical shaft is progressing according to plan, with our focus in 2020 on the following:

- Completion of all preparatory development for the sub-vertical shaft
- Establishment of sufficient hoisting flexibility to cater for the additional tonnages when reaming of the shaft commences in the 2021 financial year.

Barberton Mines' goal is to reposition its underground operations as low-cost production by focusing on good quality, safe and sustainable ounces through optimisation of underground and plant infrastructure.

*Evander Mines – 7 Shaft headgear* >

## COST OF PRODUCTION

Production costs increased by 3.3% to USD92.0 million (2018: USD89.1 million), mainly impacted by the following:

- Security costs increased significantly by 39.5% to USD5.3 million (2018: USD3.8 million)
- Salaries and wages increased by 0.2% to USD40.9 million (2018: USD40.8 million). In rand terms, salaries and wages increased by 10.5% to R579.7 million (2018: R524.7 million) following the three-year wage agreement reached during September 2018
- Electricity costs increased by 4.2% to USD10.0 million (2018: USD9.6 million) or by 15.0% to R142.5 million (2018: R123.9 million) in rand terms due to annual tariff increases.

## CAPITAL EXPENDITURE

Total capital expenditure at Barberton Mines decreased by 1.2% to USD16.2 million (2018: USD16.4 million) comprising:

- Sustaining capital expenditure of USD9.9 million (2018: USD8.7 million)
- Expansion capital expenditure of USD6.3 million (2018: USD7.7 million).

The increase in capital expenditure in the current financial year was attributed to the Royal Sheba project which included exploration drilling and ongoing optimisation costs (R28.0 million or USD2.0 million) and investment in a gravity circuit for the Fairview plant (R12.6 million or USD0.9 million), as well as various surface and underground drilling and exploration projects. These projects, together with improvements to our underground ore handling and processing plant infrastructure, have the potential to boost Barberton Mines' production in the coming years.

## CHALLENGES

Gold production was impacted by operational disruptions from community unrest which resulted in 20 lost production days. This was an improvement on the 58 days lost in the prior financial year owing to increased community engagement efforts.

Illegal mining negatively affects our gold production and the safety and security of our employees, which in turn impacts revenues and security costs. During the 2019 financial year, more than 2,500 suspected criminals were arrested at Barberton Mines for theft of gold-bearing material and other commodities. To better control and monitor this risk, the group appointed a risk and security executive and approved a new integrated security strategy with a multi-faceted approach, including the increased use of modern technology.

## LOOKING AHEAD

Our focus remains on continuing to improve our safety performance, delivering quality ounces consistent with our production guidance of approximately 100,000oz per annum and advancing value-accretive growth opportunities.

We have a demonstrable record of replenishing our Mineral Resources through effective brownfield exploration and look to organic growth projects, such as the Royal Sheba project, to further enhance the sustainability of the group's operations.

Our primary focus areas for 2020 are:

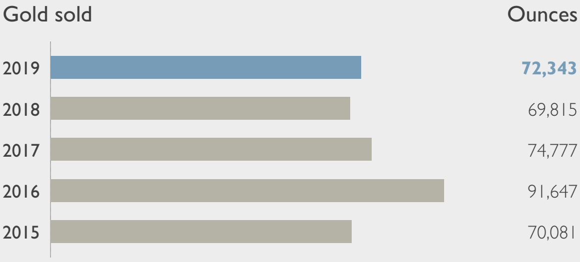
- Reduction of underground unit costs
- Optimisation of Barberton Mines' infrastructure utilisation by advancing the Royal Sheba project, the Fairview sub-vertical shaft project and Project Dibanisa
- Investment in a gravity circuit at Fairview Mine to improve free gold recoveries.

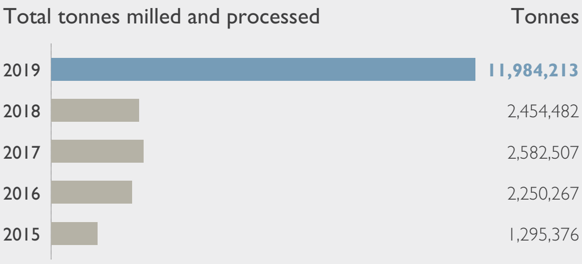
# OPERATIONAL AND PERFORMANCE REVIEW continued

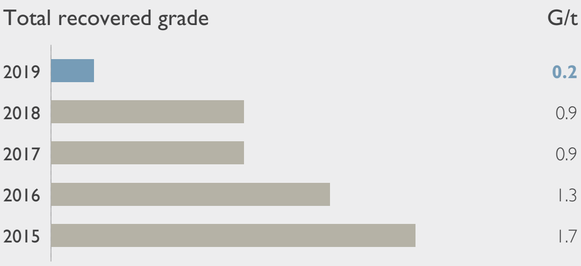
## EVANDER MINES

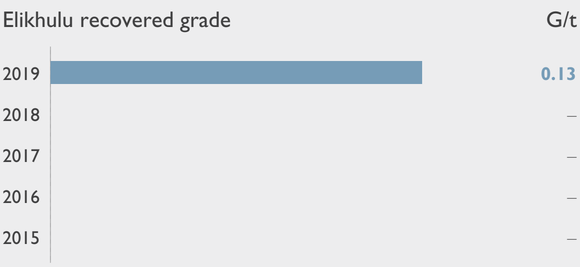
**Lazarus Motshwaiwa**
*General manager Evander Mines*

**Oriel Shikwambana**
*General manager Elikhulu*




### SALES AND PRODUCTION

Evander Mines' sales increased by 3.6% to 72,343oz (2018: 69,815oz) comprising:

- Elikhulu
  - Achieved its inaugural gold pour on 16 August 2018 and was commissioned ahead of schedule during September 2018
  - Processed 10,848,209 tonnes from September 2018 to June 2019
  - Achieved a recovered grade of 0.13g/t
  - Achieved gold sales of 45,465oz which excludes pre-production gold of 736oz capitalised as pre-production income and gold inventory locked up in the Elikhulu circuit. The production figures include the 200,000 tonnes per month throughput from ETRP, which was incorporated into Elikhulu, increasing Elikhulu's processing capacity to 1.2 million tonnes per month from January 2019.
- Remnant mining and surface sources which contributed a further 26,878oz (2018: 21,250oz).

All-in sustaining costs per kilogramme decreased by 42.6% to R394,193/kg (2018: R687,098/kg) and in USD per ounce terms decreased by 48.0% to USD864/oz (2018: USD1,662/oz) following an increase in gold production. Elikhulu's all-in sustaining cost per kilogramme was R269,442/kg and in USD per ounce terms, USD587oz.

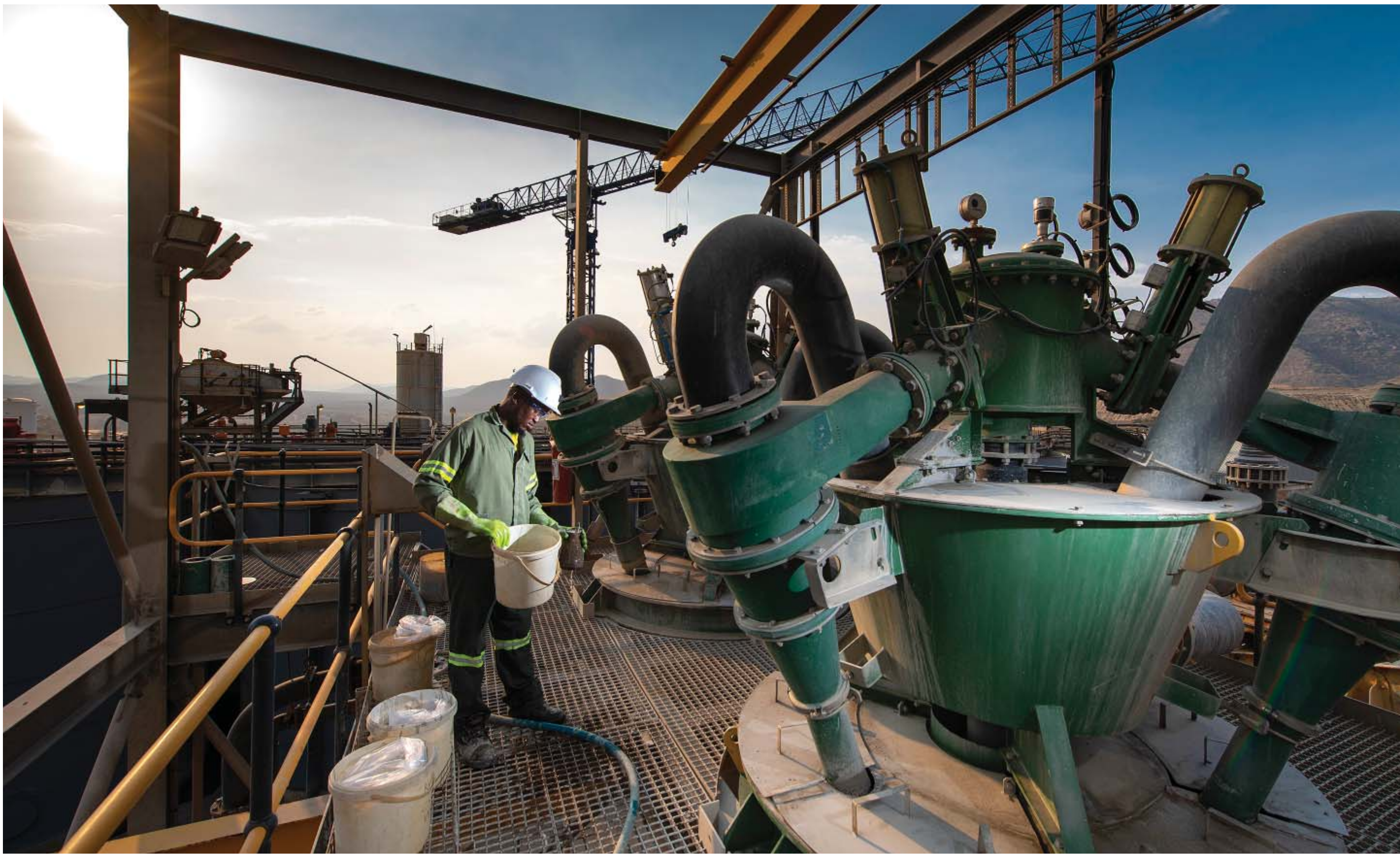
The independent feasibility study into the merits of mining Evander Mines' 8 Shaft pillar and high-grade areas in proximity to the pillar was completed and the board of directors approved the development of this project, with first gold produced in August 2019. Evander Mines' 8 Shaft pillar will replace the current remnant underground mining and vamping production and is expected to contribute an average of 20,000oz to 30,000oz per annum over the next three financial years with approximately 20,000oz forecast for the 2020 financial year.

### COST OF PRODUCTION

Evander Mines' cost of production for continuing operations increased to USD60.9 million (2018: USD18.0 million). The primary cost drivers were:

- Elikhulu's cost of production of USD25.4 million (2018: nil)
- Remnant mining and surface sources mining and processing costs increased to USD35.5 million (2018: USD18.0 million).

˅ *Barberton Mines – BTRP metallurgical plant*



## CAPITAL EXPENDITURE

Total capital expenditure at Evander Mines was USD40.4 million (2018: USD111.9 million) comprising:

- Sustaining capital expenditure of nil (2018: USD13.7 million)
- Expansion capital expenditure of USD40.4 million (2018: USD98.2 million).

The expansionary capital both in the current and prior year related predominantly to the development of Elikhulu.

## CHALLENGES

Production was impacted following the initial instability of the re-mining feed to Elikhulu. Subsequent optimisation of flow density and throughput stabilised the re-mining feed.

The cessation of large-scale underground operations at Evander Mines, and the retrenchment of affected employees in the prior financial year, resulted in increased unemployment in the communities surrounding Evander Mines, which gave rise to increased illegal mining and theft.

A revised integrated security strategy was implemented, resulting in access points to old mine shafts being closed, thereby limiting unauthorised access of illegal miners to underground mining areas.

## LOOKING AHEAD

Our goal for the year ahead is to achieve optimal performance in our operations, both surface and underground. We are focused on gaining maximum value from our current assets through operational optimisation.

Our focus areas for the year ahead include:

- Achieving continued low-risk, high-margin performance from Elikhulu
- Mining the Evander Mines' 8 Shaft pillar
- Reviewing the merits of expediting the Egoli project and assessing funding options.

Evander Mines' 8 Shaft pillar is expected to contribute an average of 20,000oz to 30,000oz per annum over the next three financial years.

# OPERATIONAL PRODUCTION

| | | | Mining operations | | | Tailings operations | | | | Total operations | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Year ended 30 June | Units | Barberton Mines | Evander Mines | Total | BTRP | ETRP | Elikhulu | Total | Barberton Mines total | Evander Mines total | Group total |
| Tonnes milled – underground | 2019 | (t) | 247,635 | 63,971 | 311,606 | – | – | – | – | 247,635 | 63,971 | 311,606 |
| | 2018 | (t) | 237,831 | 272,124 | 509,955 | – | – | – | – | 237,831 | 272,124 | 509,955 |
| Tonnes milled – surface | 2019 | (t) | 45,629 | – | 45,629 | – | – | – | – | 45,629 | – | 45,629 |
| | 2018 | (t) | – | – | – | – | 327,109 | – | 327,109 | – | 327,109 | 327,109 |
| Tonnes milled – total underground and surface | 2019 | (t) | 293,264 | 63,971 | 357,235 | – | – | – | – | 293,264 | 63,971 | 357,235 |
| | 2018 | (t) | 237,831 | 272,124 | 509,955 | – | 327,109 | – | 327,109 | 237,831 | 599,233 | 837,064 |
| Tonnes processed – tailings (note 4) | 2019 | (t) | – | – | – | 1,114,923 | 918,809 | 10,848,209 | 12,881,941 | 1,114,923 | 11,767,018 | 12,881,941 |
| | 2018 | (t) | – | – | – | 858,967 | 1,855,249 | – | 2,714,216 | 858,967 | 1,855,249 | 2,714,216 |
| Tonnes processed – surface feedstock | 2019 | (t) | – | – | – | – | 153,224 | – | 153,224 | – | 153,224 | 153,224 |
| | 2018 | (t) | – | – | – | – | 327,109 | – | 327,109 | – | 327,109 | 327,109 |
| Tonnes processed – total tailings and surface feedstock | 2019 | (t) | – | – | – | 1,114,923 | 1,072,033 | 10,848,209 | 13,035,165 | 1,114,923 | 11,920,242 | 13,035,165 |
| | 2018 | (t) | – | – | – | 858,967 | 2,182,358 | – | 3,041,325 | 858,967 | 2,182,358 | 3,041,325 |
| Tonnes milled and processed – total | 2019 | (t) | 293,264 | 63,971 | 357,235 | 1,114,923 | 1,072,033 | 10,848,209 | 13,035,165 | 1,408,187 | 11,984,213 | 13,392,400 |
| | 2018 | (t) | 237,831 | 272,124 | 509,955 | 858,967 | 2,182,358 | – | 3,041,325 | 1,096,798 | 2,454,482 | 3,551,280 |
| Overall recovered grade | 2019 | (g/t) | 8.0 | 8.2 | 8.0 | 0.7 | 0.3 | 0.1 | 0.2 | 2.2 | 0.2 | 0.4 |
| | 2018 | (g/t) | 9.6 | 5.6 | 7.4 | 0.6 | 0.3 | – | 0.4 | 2.6 | 0.9 | 1.4 |
| Overall recovery – underground | 2019 | (%) | 94 | 94 | 94 | – | – | – | – | 94 | 94 | 94 |
| | 2018 | (%) | 93 | 98 | 95 | – | – | – | – | 93 | 98 | 95 |
| Overall recovery – tailings | 2019 | (%) | – | – | – | 45 | 49 | 49 | 48 | 45 | 49 | 48 |
| | 2018 | (%) | – | – | – | 46 | 39 | – | 44 | 46 | 39 | 44 |
| Gold produced – underground | 2019 | (oz) | 72,864 | 16,879 | 89,743 | – | – | – | – | 72,864 | 16,879 | 89,743 |
| | 2018 | (oz) | 73,125 | 48,565 | 121,690 | – | – | – | – | 73,125 | 48,565 | 121,690 |
| Gold production – surface operations | 2019 | (oz) | 2,492 | – | 2,492 | – | – | – | – | 2,492 | – | 2,492 |
| | 2018 | (oz) | – | – | – | – | – | – | – | – | – | – |
| Gold produced – tailings | 2019 | (oz) | – | – | – | 24,007 | 3,762 | 46,201 | 73,970 | 24,007 | 49,963 | 73,970 |
| | 2018 | (oz) | – | – | – | 17,504 | 7,128 | – | 24,632 | 17,504 | 7,128 | 24,632 |
| Gold produced – surface feedstock | 2019 | (oz) | – | – | – | – | 6,237 | – | 6,237 | – | 6,237 | 6,237 |
| | 2018 | (oz) | – | – | – | – | 14,122 | – | 14,122 | – | 14,122 | 14,122 |
| Gold produced – total | 2019 | (oz) | 75,356 | 16,879 | 92,235 | 24,007 | 9,999 | 46,201 | 80,207 | 99,363 | 73,079 | 172,442 |
| | 2018 | (oz) | 73,125 | 48,565 | 121,690 | 17,504 | 21,250 | – | 38,754 | 90,629 | 69,815 | 160,444 |
| Gold sold – total (note 1) | 2019 | (oz) | 75,356 | 16,879 | 92,235 | 24,007 | 9,999 | 45,465 | 79,471 | 99,363 | 72,343 | 171,706 |
| | 2018 | (oz) | 73,125 | 48,565 | 121,690 | 17,504 | 21,250 | – | 38,754 | 90,629 | 69,815 | 160,444 |
| Average rand gold price received | 2019 | (R/kg) | 577,902 | 573,722 | 577,137 | 578,146 | 560,446 | 581,920 | 578,078 | 577,961 | 577,039 | 577,573 |
| | 2018 | (R/kg) | 534,288 | 537,161 | 535,434 | 535,055 | 555,870 | – | 546,469 | 534,436 | 542,856 | 538,100 |
| Average USD gold price received | 2019 | (USD/oz) | 1,267 | 1,258 | 1,265 | 1,267 | 1,228 | 1,267 | 1,267 | 1,267 | 1,265 | 1,266 |
| | 2018 | (USD/oz) | 1,292 | 1,299 | 1,295 | 1,294 | 1,344 | – | 1,322 | 1,293 | 1,299 | 1,301 |
| Rand cash cost* | 2019 | (R/kg) | 477,109 | 803,183 | 536,781 | 251,624 | 265,210 | 254,925 | 255,222 | 422,630 | 384,266 | 406,466 |
| | 2018 | (R/kg) | 435,368 | 695,246 | 539,082 | 285,593 | 305,108 | – | 296,294 | 406,441 | 576,497 | 480,439 |
| Rand all-in sustaining costs* | 2019 | (R/kg) | 567,947 | 806,630 | 611,626 | 251,973 | 265,210 | 269,442 | 263,633 | 491,605 | 394,193 | 450,564 |
| | 2018 | (R/kg) | 507,130 | 853,797 | 645,481 | 287,390 | 306,120 | – | 297,661 | 464,690 | 687,098 | 561,468 |
| Rand all-in cost * | 2019 | (R/kg) | 602,601 | 879,188 | 653,216 | 262,779 | 265,210 | 647,489 | 483,175 | 520,497 | 648,711 | 574,516 |
| | 2018 | (R/kg) | 513,553 | 963,882 | 693,274 | 443,188 | 306,120 | – | 368,029 | 499,963 | 763,675 | 614,713 |

** Refer to APMs on pages 220 to 225.*

| | | | Mining operations | | | Tailings operations | | | | Total operations | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Year ended 30 June | Units | Barberton Mines | Evander Mines | Total | BTRP | ETRP | Elikhulu | Total | Barberton Mines total | Evander Mines total | Group total |
| USD cash cost* | 2019 | (USD/oz) | 1,046 | 1,761 | 1,177 | 552 | 581 | 555 | 559 | 926 | 842 | 891 |
| | 2018 | (USD/oz) | 1,053 | 1,682 | 1,304 | 691 | 738 | – | 717 | 983 | 1,394 | 1,162 |
| USD all-in sustaining cost* | 2019 | (USD/oz) | 1,245 | 1,768 | 1,341 | 552 | 581 | 587 | 578 | 1,078 | 864 | 988 |
| | 2018 | (USD/oz) | 1,227 | 2,065 | 1,561 | 695 | 740 | – | 720 | 1,124 | 1,662 | 1,358 |
| USD all-in cost* | 2019 | (USD/oz) | 1,321 | 1,927 | 1,432 | 576 | 581 | 1,410 | 1,059 | 1,141 | 1,422 | 1,259 |
| | 2018 | (USD/oz) | 1,242 | 2,331 | 1,677 | 1,072 | 740 | – | 890 | 1,209 | 1,847 | 1,487 |
| Rand cash cost per tonne* | 2019 | (R/t) | 3,813 | 6,592 | 4,311 | 169 | 77 | 33 | 48 | 928 | 72 | 162 |
| | 2018 | (R/t) | 4,163 | 3,859 | 4,001 | 181 | 92 | – | 117 | 1,045 | 510 | 675 |
| Capital expenditure | 2019 | (R million) | 221.2 | 38.1 | 259.3 | 8.1 | – | 534.6 | 542.7 | 229.3 | 572.7 | 802.0 |
| | 2018 | (R million) | 125.0 | 181.5 | 306.5 | 85.4 | – | 1,256.1 | 1,341.5 | 210.4 | 1,437.6 | 1,648.0 |
| Revenue | 2019 | (R million) | 1,354.5 | 301.2 | 1,655.7 | 431.7 | 174.3 | 822.9 | 1,428.9 | 1,786.2 | 1,298.4 | 3,084.6 |
| | 2018 | (R million) | 1,215.2 | 811.4 | 2,026.6 | 291.3 | 367.4 | – | 658.7 | 1,506.5 | 1,178.8 | 2,685.3 |
| Cost of production | 2019 | (R million) | 1,118.3 | 421.7 | 1,540.0 | 187.9 | 82.5 | 360.5 | 630.9 | 1,306.2 | 864.7 | 2,170.9 |
| | 2018 | (R million) | 990.2 | 1,050.2 | 2,040.4 | 155.5 | 201.7 | – | 357.2 | 1,145.7 | 1,251.9 | 2,397.6 |
| All-in sustaining cost* | 2019 | (R million) | 1,331.2 | 423.5 | 1,754.7 | 188.1 | 82.5 | 381.0 | 651.6 | 1,519.3 | 887.0 | 2,406.3 |
| | 2018 | (R million) | 1,153.4 | 1,289.7 | 2,443.1 | 156.5 | 202.3 | – | 358.8 | 1,309.9 | 1,492.0 | 2,801.9 |
| All-in cost* | 2019 | (R million) | 1,412.4 | 461.6 | 1,874.0 | 196.2 | 82.5 | 915.6 | 1,194.3 | 1,608.6 | 1,459.7 | 3,068.3 |
| | 2018 | (R million) | 1,168.0 | 1,456.0 | 2,624.0 | 241.3 | 202.3 | – | 443.6 | 1,409.3 | 1,658.3 | 3,067.6 |
| Adjusted EBITDA* | 2019 | (R million) | 277.9 | (32.9) | 245.0 | 178.0 | 65.0 | 441.4 | 684.4 | 455.9 | 473.5 | 929.4 |
| | 2018 | (R million) | 247.0 | (270.0) | (23.0) | 94.6 | 150.6 | – | 245.2 | 341.6 | (119.4) | 222.2 |
| Average exchange rate | 2019 | (R/USD) | 14.19 | 14.19 | 14.19 | 14.19 | 14.19 | 14.28 | 14.19 | 14.19 | 14.19 | 14.19 |
| | 2018 | (R/USD) | 12.85 | 12.85 | 12.85 | 12.85 | 12.85 | 12.85 | 12.85 | 12.85 | 12.85 | 12.85 |

*Note 1: Gold sold excludes 736oz produced by Elikhulu during August 2018. The associated gold revenue and costs were capitalised for accounting purposes, prior to Elikhulu achieving commercial production on 1 September 2019.*

* Refer to APMs on pages 220 to 225.

*Fairview underground conveyor*

# ABRIDGED MINERAL RESOURCES AND MINERAL RESERVES REPORT

Hendrik Pretorius
*Group project geologist*

## ABOUT THIS ABRIDGED REPORT

Pan African Resources uses the internationally recognised procedures and standards of the SAMREC Code, 2016 edition.

## SCOPE OF REPORT

This version of the Pan African Resources Abridged Mineral Resources and Mineral Reserves Report 2019 conforms to the standards determined by the SAMREC Code and forms part of Pan African Resources' integrated annual report, including the annual financial statements for the year ended 30 June 2019. The entire suite of documents, including the full Mineral Resources and Mineral Reserves report, is available on our website at www.panafricanresources.com as published on 28 October 2019.

The Mineral Resource component is inclusive of Mineral Reserves, unless otherwise stated. Information in this report is presented by operation, mine or project on an attributable basis. The tables and graphs used to illustrate developments across the operations of Pan African Resources include:

- Mineral Resource tables
- Mineral Reserve modifying factors
- Mineral Reserve tables
- An annual comparison of the Mineral Resource and Mineral Reserve estimates
- Mineral Resource and Mineral Reserve risk tables
- Appointed competent persons.

Matters discussed in detail in this abridged version include regional geology, location, exploration drilling and organic Mineral Reserve projects. More detail on the resource estimation methodology, classification criteria and modifying factors are presented in the group's Mineral Resource and Mineral Reserve document, which is available on our website at www.panafricanresources.com. Rounding of numbers in this document may result in minor computational discrepancies.

## REPORTING CODE

The guiding principle of the Mineral Resources and Mineral Reserves report is to ensure integrity, transparency and materiality in informing all stakeholders on the status of the group's mineral asset base. Pan African Resources uses the SAMREC Code, 2016 edition, which sets out internationally recognised procedures and standards for reporting Mineral Resources and Mineral Reserves, developed by the South African Institute of Mining and Metallurgy as the recommended guideline for Mineral Reserve and Mineral Resource reporting for JSE-listed companies. Furthermore, the group also complies with JSE Section 12 and AIM Rules for Mining, Oil and Gas Companies of the LSE during the reporting of Mineral Resources and Mineral Reserves.

## PAN AFRICAN RESOURCES' REPORTING IN COMPLIANCE WITH THE SAMREC CODE

In order to meet the requirement of the SAMREC Code that the material reported as a Mineral Resource should have 'reasonable and realistic prospects for eventual economic extraction,' Pan African Resources has determined an appropriate cut-off grade, which has been applied to the quantified mineralised orebody. In determining the Mineral Resource cut-off grade, Pan African Resources uses a gold price of R700,000/kg (USD1,534/oz at ZAR14.19:USD1). At our underground mines, the optimal cut-off grade is defined as the lowest grade at which an orebody can be mined, such that the total profits, under a specified set of mining parameters, are maximised. The Mineral Resources optimiser tool, developed in-house, was applied to the Mineral Resource inventory and evaluates each block of the orebody based on its financial viability.

The optimiser programme requires the following inputs to convert Mineral Resources to Mineral Reserves and to optimise the economic cut-off grade:

- Database inventory of all Mineral Resource blocks
- An assumed gold price – R600,000/kg (USD1,315/oz at ZAR14.19:USD1) for Mineral Reserves
- Planned production rates for each mine
- Mine call factors based on current and historical results
- Plant recovery factors based on current and historical results
- Planned cash operating costs
- Anticipated capital requirements.

Barberton Mines – chairlift at Fairview Mine

Mineral Reserves represent the portion of the Measured and Indicated Mineral Resource above an economic cut-off in the life-of-mine plan. These Mineral Reserves have been estimated after considering all modifying factors affecting extraction. A range of disciplines is involved at each mine in the life-of-mine planning process, including geology, surveying, planning, mining design and engineering, rock engineering, metallurgy, financial management, human resources management and environmental management.

The competent person for Pan African Resources, Hendrik Pretorius, the group project geologist, signs off the Mineral Resources and Mineral Reserves for the group. He is a member of the South African Council for Natural Scientific Professions (SACNASP 400051/11 – Management Enterprise Building, Mark Shuttleworth Street, Innovation Hub, Pretoria, South Africa), as well as a member in good standing of the Geological Society of South Africa (CSIR Mining Precinct, Corner Rustenburg and Carlow Roads, Melville, South Africa). Hendrik has 16 years' experience in economic geology and mineral resource management (MRM). He is based at The Firs Office Building, 2nd Floor, Office 204, corner Cradock and Biermann Avenues, Rosebank, Johannesburg, South Africa. He holds a BSc (Hons) Geology from the University of Johannesburg as well as a Graduate Diploma in Engineering from the University of the Witwatersrand. Hendrik has reviewed and approved the information contained in this document as it pertains to Mineral Resources and Mineral Reserves and has provided written confirmation to Pan African Resources that the information is compliant with the SAMREC Code and, where applicable, the relevant Table 1 of the SAMREC Code, and may be published in the form and context in which it appears.

Hendrik is supported by key personnel and task experts for each discipline. Key personnel and their relevant experience are listed in the table below:

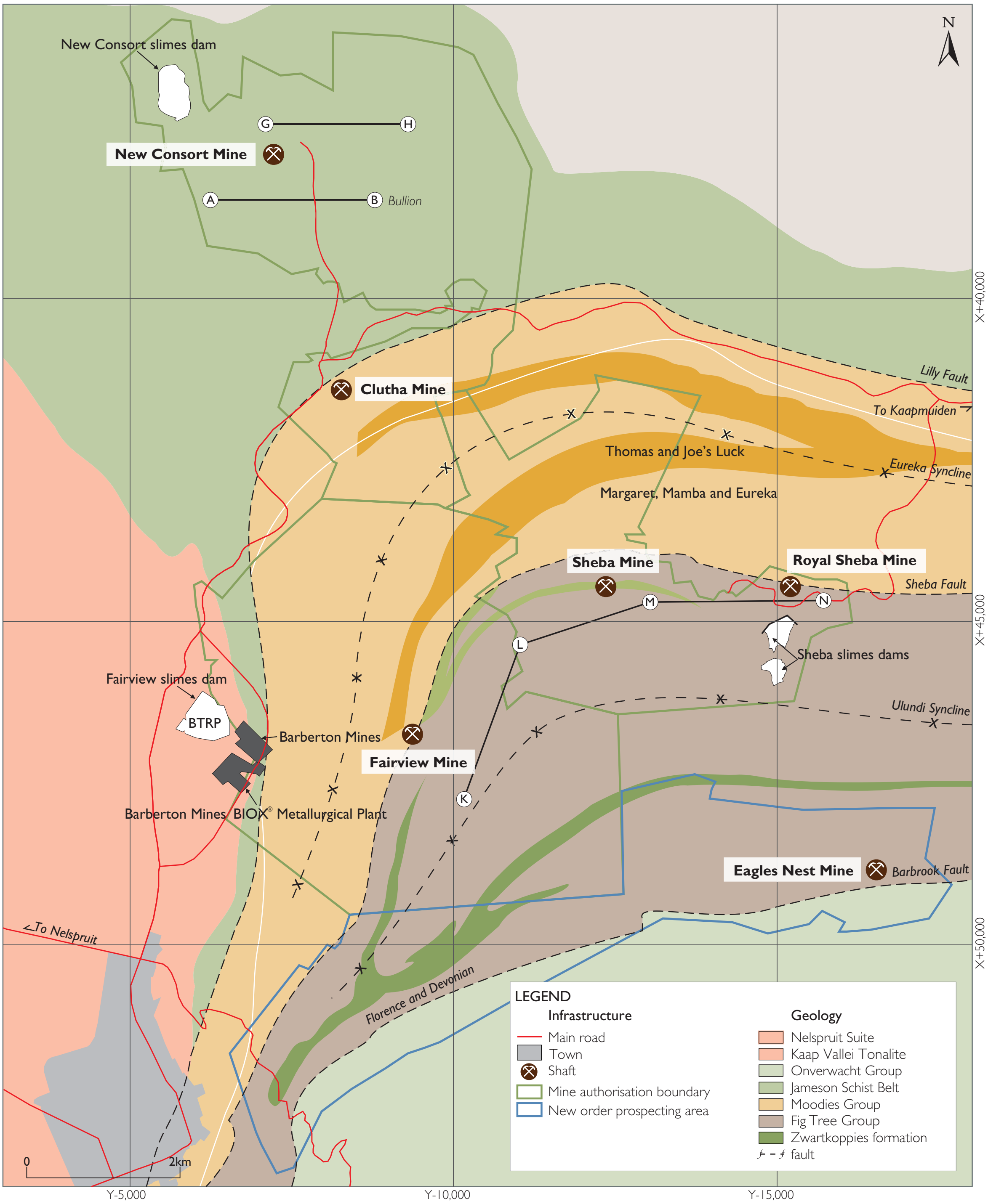
| Name | Designation | Operation | Professional registration and qualification | Relevant experience |
|---|---|---|---|---|
| Bert van den Berg | Group mining engineer | Group | Mine Managers Association of South Africa, the South African Institute of Mining and Metallurgy<br>BSc (Engineering) Mining engineering | >16 years |
| Barry Naicker | Group mineral resource and reserve manager | Group | SACNASP (400234/10)<br>MEng Mineral Resource Management<br>BSc (Hons) Geology | >18 years |
| Roelf le Roux | Mineral resource manager | Barberton Mines | BSc (Hons) Geology | >31 years |
| Ronnie Fraser | Chief surveyor | Barberton Mines | Institute of Mine Surveyors South Africa<br>Mine surveyors certificate of competency | >46 years |
| Walter Seymore | Ore reserve manager | Evander Mines | ND Geotechnology | >21 years |

# ABRIDGED MINERAL RESOURCES AND MINERAL RESERVES REPORT continued

## BARBERTON MINES

### Regional geology and location

The mineralisation at Barberton Mines is classified as Achaean epigenetic hydrothermal lode gold deposits within a granite greenstone terrain. The distribution and localisation of these orebodies in the Barberton Greenstone Belt can be largely attributed to the combined influence of thermal metamorphism and structural deformation. The Barberton Greenstone Belt has produced approximately 11Moz of gold since gold was discovered in this goldfield in the early 1880s. Barberton Mines has produced more than 75% of the total production from the Barberton Greenstone Belt.



The Barberton ores are mineralised shears with gold occluded in sulphide minerals. The sulphides often occur as massive assemblages in the shear structure. Lower-grade ore, in the wall rock, form as a result of the alteration process during fluid flow and is associated with disseminated sulphide minerals. A late stage of gold mineralisation occurred in brittle fractures with the formation of quartz veins. These quartz veins often contain free gold in visible clusters.

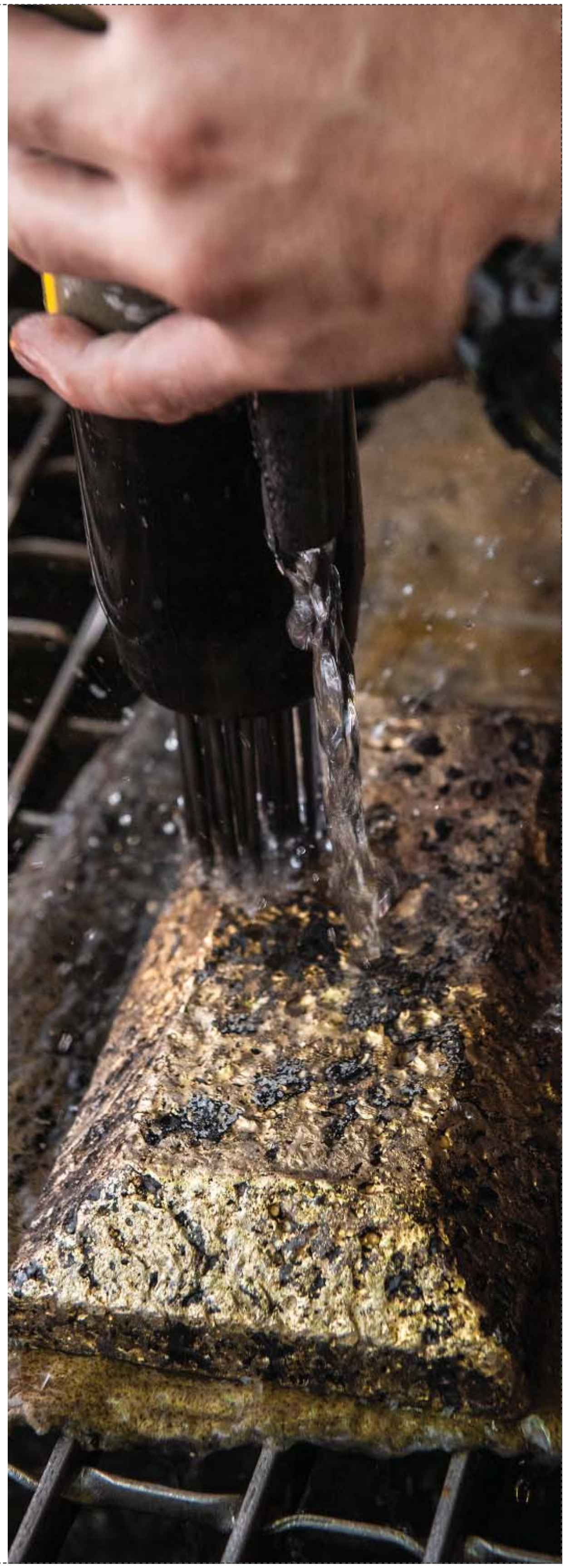
The mining methods used at Barberton Mines' underground operations are semi-mechanised up-dip cut and fill and up-dip room and stick. An estimated 16% to 18% of gold is recovered by sweeping and vamping contractors focusing on worked-out areas and mining high-grade pillars. Gold is extracted using the BIOX® gold extraction process, an environmentally friendly process which uses bacteria to release gold from the sulphide ore.

Barberton Mines' mining right extends over approximately 7,250 hectares. Most of the surface rights that form part of Barberton Mines' mining area are owned by local government (Department of Public Works) and are under the management of the Mpumalanga Tourism and Parks Agency. Barberton Mines has had an active lease agreement with the Department of Public Works of the South African government since 2012. This lease agreement enables Barberton Mines to continue using the surface areas for its approved mine works programme.

Barberton Mines owns surface rights on the farms Fairview 542JU, Portion 1 Bramber South 348JU, which adjoins the Fairview mining right area, and Portion 1 of the farm Segalla 306 JU at New Consort. Certain mine infrastructure, offices and operational tailings dams are located on these properties. Fairview Mine properties consist of approximately 3,000 hectares, of which approximately 4% of the surface is currently disturbed by mining and mining-related activities. The New Consort Mine property consists of approximately 2,500 hectares, of which 14% is currently disturbed by mining and mining-related activities.

Barberton Mines has established an environmental management programme. Each operation has an approved environmental impact assessment, environmental management programme and water-use licence. Barberton Mines' discounted rehabilitation provision, of USD3.0 million, (undiscounted USD5.1 million) is funded by means of a Cenviro Solutions insurance investment product underwritten by Centriq Insurance Company Limited, with a current value of USD3.9 million. These funds are invested in a portfolio comprising a combination of money market, capital market and equity instruments. The aim is to provide the group with the necessary liquidity for rehabilitation activities and preserve the value of the rehabilitation capital. The audit and risk committee reviews the performance of this portfolio on a quarterly basis.

*Barberton Mines – Fairview – cleaning of newly smelted dorè bar* >



# ABRIDGED MINERAL RESOURCES AND MINERAL RESERVES REPORT continued

## EVANDER MINES

### Regional geology and location

Exploration in the area started in 1903 with the advent of diamond drilling and progressed intermittently through various major exploration phases up to the incorporation of the first mine (Winkelhaak Mine) in 1955 within the Evander basin region of the world-renowned Witwatersrand Supergroup. Since then, three other mines were brought into production – namely Leslie Mine, Bracken Mine and Kinross Mine.

Evander Mines (Leslie, Bracken, Winkelhaak and Kinross Mines) exploits the Kimberley Reef in the Evander basin. The Kimberley Reef is mined throughout the major gold mining districts within the Witwatersrand Supergroup. Deposition models for gold within the conglomeratic horizons follow a paleo-placer type sedimentological deposition, along with winnowing, erosion and concentration of gold-bearing footwall lithologies. Various studies have highlighted the importance of hydrothermal activity of deposition and remobilisation and enrichment within certain packages of the Witwatersrand Supergroup.

Mining methods employed in the Evander basin are underground conventional scraper mining and rail-bound equipment with some trackless mechanised development (large-scale underground operations ceased on 31 May 2018). Hydraulic mining of the Kinross tailings dam is employed to pump material to the Elikhulu plant. The gold is then extracted at a carbon-in-leach (CIL) hybrid plant.

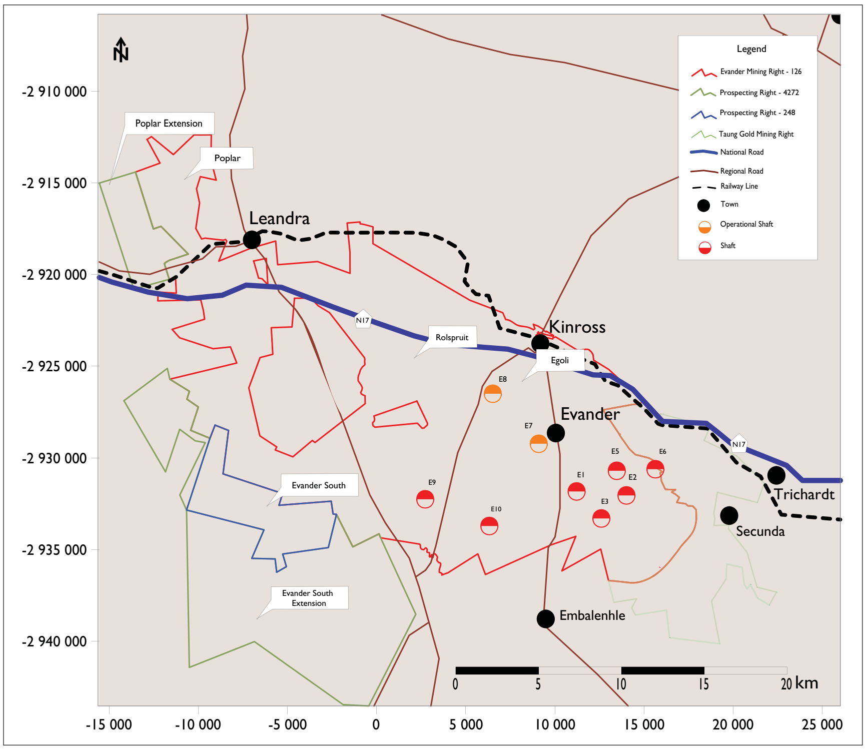
Evander Mines is situated in Mpumalanga, approximately 120km east-south-east from Johannesburg near the town of Secunda, which hosts the Sasol II Plant. This operation exploits several coal seams in the area.

Evander Mines' mining right extends over approximately 31,783 hectares. Evander Mines owns a surface area of 6,676 hectares, of which 2,230 hectares is disturbed by mining and mining-related activities. The surface activities are limited to the three main shaft complexes: Kinross, Winkelhaak, and Leslie/Bracken. There is also one TSF associated with each of the three complexes. No surface exploration activities are being undertaken at present.

Historically, mining involved underground operations from nine shafts at the Kinross (ceased in May 2018), Winkelhaak and Bracken/Leslie sections. Water abstraction is via both 7 Shaft and 8 Shaft in the Kinross section. Evander Mines also undertook reworking of surface tailings via ETRP, which is now fully incorporated into Elikhulu.

Evander Mines has established an approved environmental Impact assessment, environmental management programme and water-use licence, which includes Elikhulu. A rehabilitation strategy and implementation plan was compiled and updated in 2017 to rehabilitate dormant and non-productive areas.

Evander Mines' discounted rehabilitation provision, USD12.8 million (undiscounted USD18.5 million) is fully funded by means of a Cenviro Solutions insurance investment product underwritten by Centriq Insurance Company Limited with a current value of USD21.2 million. These funds are invested in a portfolio comprising a combination of money market, capital market and equity instruments. The aim is to provide the group with the necessary liquidity for the rehabilitation activities and preserve the value of the rehabilitation capital. The audit and risk committee reviews the performance of this portfolio on a quarterly basis.



## MINERAL TENURE

The group is committed to complying with the MPRDA. In this regard, Barberton Mines' and Evander Mines' mining rights are valid until April 2021 and April 2038, respectively. On 23 August 2018, Barberton Mines submitted renewal applications to the South African Department of Mineral Resources to extend the operation's mining rights for a further 30 years, up to August 2048.

The DMR has responded to these renewal applications by stating that the renewals were lodged too early. The company has, however, taken legal advice to the effect that the DMR should process the renewal applications in accordance with the South Africa Mineral and Petroleum Resources Development Act 28 of 2002. Consequently, the company lodged an appeal against the decision of the DMR to delay the processing of the renewal applications. This internal administrative process is not expected to impact on the company's security of tenure with regard to its mining rights.

It is noted that the Evander South Mineral Resource of 21.7Mt at 7.66g/t for 5.3Moz (11.6Mt at 8.88g/t for 3.3Moz are Indicated and 10.1Mt at 6.25g/t for 2.0Moz are Inferred Mineral Resources) occurs on the Evander South prospecting right MP30/5/1/2/2/248 PR. This prospecting right is being consolidated into the Evander Mines mining right MP30/5/1/2/2/126 MR through a Section 102, application which was lodged in 8 December 2017.

Pan African Resources' attributable gold Mineral Resources and Mineral Reserves as at 30 June 2019 are tabled below, with detail presented in the group Mineral Resources and group Mineral Reserves sections of this report, respectively. Production statistics for the preceding years are presented in this document (refer to pages 54 and 55).

| | Mineral Resources | | | Mineral Reserves | |
|---|---|---|---|---|---|
| | As at 30 June 2019 | As at 30 June 2018 | | As at 30 June 2019 | As at 30 June 2018 |
| Total | **36.0Moz Au** | 33.3Moz Au | Total | **10.9Moz Au** | 11.2Moz Au |
| Inferred | **12.3Moz Au** | 10.2Moz Au | | | |
| Indicated | **20.5Moz Au** | 20.1Moz Au | Probable | **9.5Moz Au** | 10.23Moz Au |
| Measured | **3.1Moz Au** | 3.0Moz Au | Proved | **1.4Moz Au** | 0.98Moz Au |

All Mineral Resources and Mineral Reserves reported are within the group's existing mining rights and prospecting rights.

## MINERAL RESOURCE CLASSIFICATION

### Barberton Mines

Measured Resource blocks are generally 20m on strike and 10m in the dip direction of actual mining. Where blocks are defined adjacent to a development end only, the grade and true width of the reef in the block are estimated by calculating the arithmetic mean or 'stretch average' of the samples along the development end. If the sample spacing is at the standard stope sampling grid of 3m, the block value is derived by calculating the inverse weighted estimated value of all available samples. If the sample interval is variable, the block is assigned the inverse weighted estimate of the strip grades. During ordinary kriging, a Measured Resource block is defined as a block estimated within the modelled variogram range with a slope of regression of not less than 70%, effectively reporting a Measured Resource within 50m of sufficient representative sampling.

Indicated Resource blocks are defined where only diamond drill hole samples and information are available. Both the grades and orebody widths are either estimated by means of an inverse weighted estimate or ordinary kriging. The Indicated Resource extends up to the modelled variogram ranges of a sufficiently sampled area. Grades and widths are mostly interpolated into the Indicated Resource blocks as to extrapolation that occurs for Inferred Resource blocks.

The Inferred Resource blocks are characterised by an average grade and width obtained from arithmetic means, Sichel's-t estimates and wide-range ordinary kriging. Inferred Resource blocks are extrapolated to double the modelled variogram range or grade continuity for each orebody.

### Evander Mines

Grade estimates are kriged into 30m x 30m blocks for the Measured Resources from point data within the modelled variogram ranges. Indicated Mineral Resources are estimated into 60m x 60m parent cells employing a regularised, declustered grid of samples on the same basis. Estimation is conducted within the modelled variogram ranges per geozone. Inferred Mineral Resources are estimated into a 120m x 120m parent cell within the identified geozones, based on the modelled variogram range from a regularised and declustered data set on the same grid size. The Measured and Indicated Resource models are then tested on kriging efficiency and slope of regression and merged together with the inferred model to produce a combined kriged block model.

# ABRIDGED MINERAL RESOURCES AND MINERAL RESERVES REPORT continued

## MINERAL RESERVE CLASSIFICATION

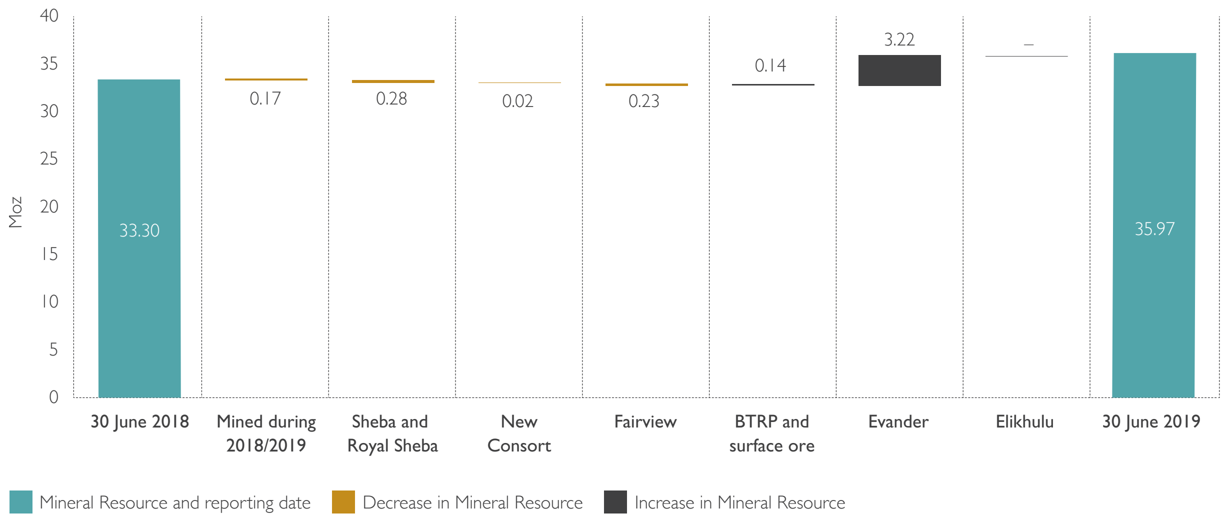
Indicated Mineral Resources are converted to Probable Mineral Reserves due to the lower confidence, mainly in grade continuity, relative to that of Measured Mineral Resources. In most instances Measured Mineral Resources are converted to Proved Mineral Reserves. Certain Measured Mineral Resource blocks are not immediately accessible for mining and require further development or equipping. In these situations, a Measured Mineral Resource block has been converted to a Probable Mineral Reserve.

## GROUP MINERAL RESOURCE TABULATION

The total Mineral Resources for the group increased from 33.3Moz (331.2Mt at 3.13g/t) in June 2018 to 36.0Moz (335.8Mt at 3.13g/t) in June 2019 – a gross annual increase of 2.7Moz (4.6Mt at 18.04g/t), or 8.0%.

| | Mineral Resources | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | As at 30 June 2019 | | | | As at 30 June 2018 | | | |
| | | Contained gold | | | | Contained gold | | |
| Category | Tonnes million | Grade g/t | Tonnes gold | Moz | Tonnes million | Grade g/t | Tonnes gold | Moz |
| Measured | 53.1 | 1.84 | 97.5 | 3.14 | 55.5 | 1.65 | 91.8 | 2.95 |
| Indicated | 218.1 | 2.93 | 639.2 | 20.54 | 219 | 2.86 | 625.5 | 20.10 |
| Inferred | 64.7 | 5.90 | 381.8 | 12.29 | 56.6 | 5.62 | 318.2 | 10.24 |
| Total | 335.8 | 3.33 | 1,118.5 | 35.97 | 331.2 | 3.13 | 1,035.5 | 33.30 |

Resource reconciliation – gold ounce



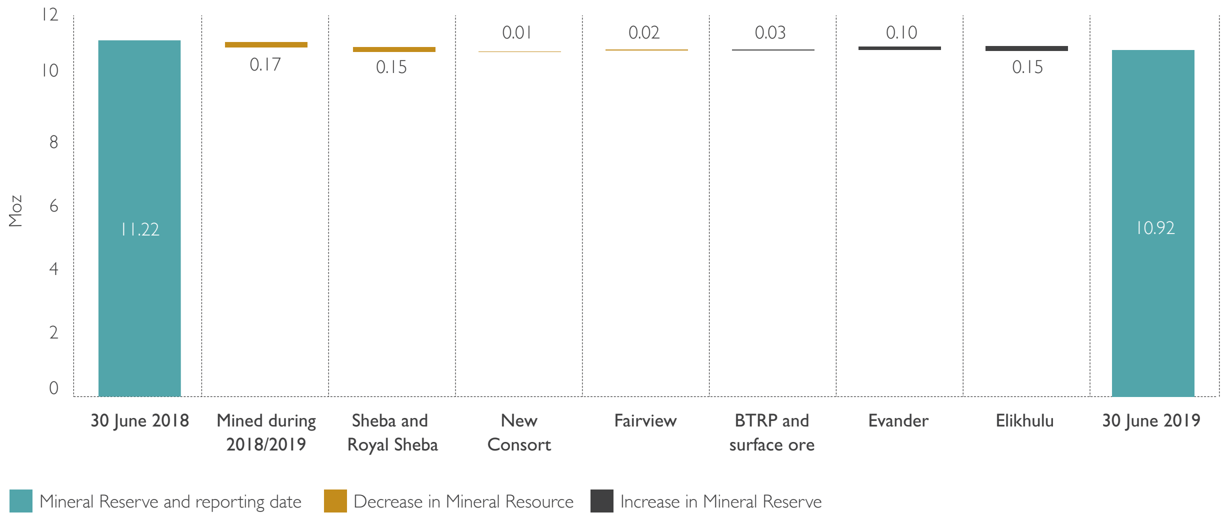

Mineral Resources increased mainly due to cut-off grade changes at Evander Mines. The changes in the cut-off grade are impacted by the higher gold price used in the cut-off grade estimations relative to the previous declarations (June 2019: R700,000/kg Au – June 2018: R600,000/kg Au). Additional Inferred Mineral Resources were identified at the BTRP operation in the form of the Camelot and Sheba TSFs.

## GROUP MINERAL RESERVE TABULATION

Pan African Resources' Mineral Reserves decreased from 11.2Moz (239.1Mt at 1.46g/t) in June 2018 to 10.9Moz (216.6Mt at 1.57g/t) in June 2019 – a gross annual decrease of 0.28Moz (22.5Mt at 0.38g/t), or 2.5%.

| | Mineral Reserves | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | As at 30 June 2019 | | | | As at 30 June 2018 | | | |
| | | Contained gold | | | | Contained gold | | |
| Category | Tonnes million | Grade g/t | Tonnes gold | Moz | Tonnes million | Grade g/t | Tonnes gold | Moz |
| Proved | 36.4 | 1.22 | 44.3 | 1.42 | 48.4 | 0.63 | 30.5 | 0.98 |
| Probable | 180.2 | 1.64 | 295.5 | 9.50 | 190.7 | 1.67 | 317.9 | 10.23 |
| Total | 216.6 | 1.57 | 339.8 | 10.92 | 239.1 | 1.46 | 348.4 | 11.22 |

Reserve reconciliation – gold ounce




Mineral Reserves remained relatively constant year-on-year, with a minimal decrease of 2.5%. This includes 163.7Koz (excluding 8.7Koz of processed surface sources) recovered through mining. Increases in the Mineral Reserves are observed for the New Consort, Fairview, BTRP and Evander operations, with decreases at Sheba, Royal Sheba and Elikhulu. Decreases are due to depletion and modelling changes.

# ABRIDGED MINERAL RESOURCES AND MINERAL RESERVES REPORT continued

## GROUP STRATEGY – MINERAL RESOURCES AND MINERAL RESERVES

Pan African Resources has an exceptional asset base and attractive growth opportunities, both in established projects and brownfield resource definition prospects. Strategy in this regard is based on global best practice in MRM: to dynamically explore and develop projects that will become next-generation long-term business units.

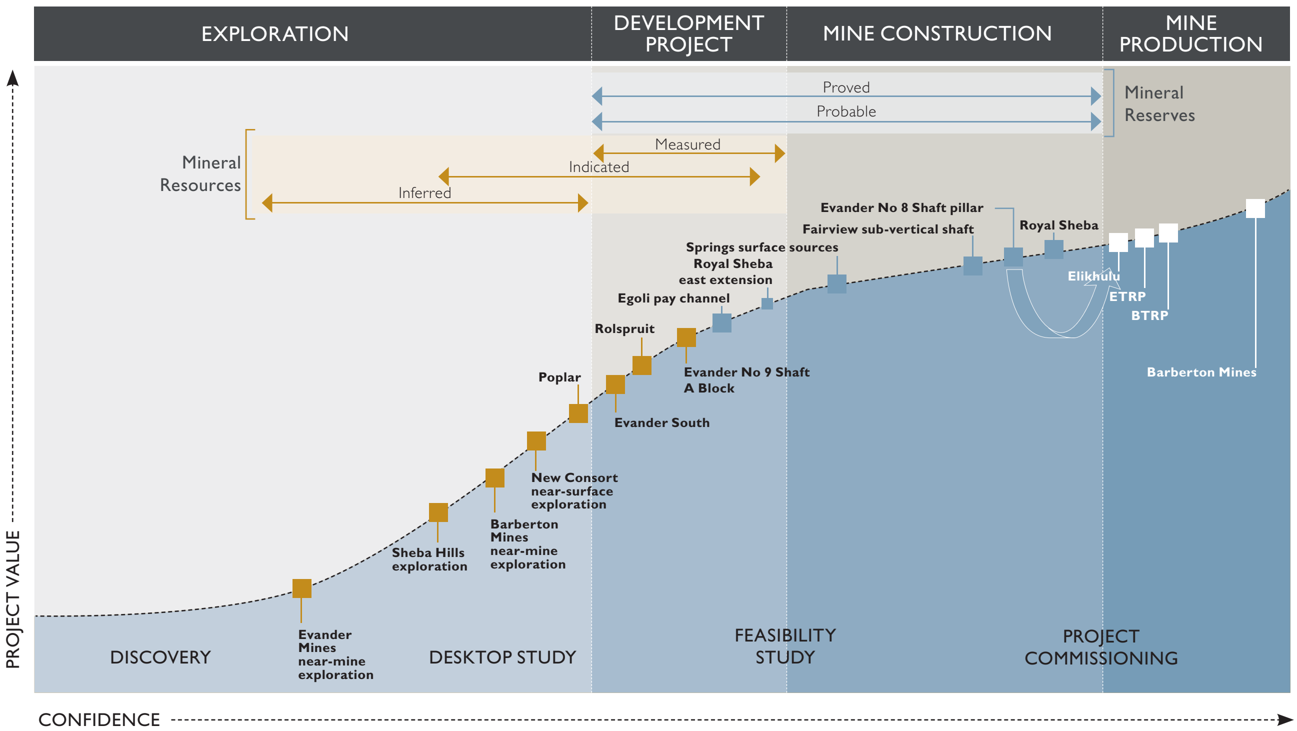
This strategy includes:

- improving the conversion of Mineral Resources to Mineral Reserves by accessing, developing and exploiting surface and underground assets
- unlocking the value of major organic projects
- identifying new expansion opportunities to sustain growth.

## VALUE CREATION

In order to obtain investment approval and subsequent project implementation, a project evolves from initial sample testing to commissioning a series of study stages, commencing with exploratory work and terminating with feasibility studies. If a project is evaluated as feasible, and meets the return requirements, it is then implemented (subject to funding). Pan African Resources distinguishes itself from its peers by having a clear focus on growth and mining resources that are profitable at lower gold prices, in order to deliver long-term economic benefit.

The graph below demonstrates the group's mineral assets and how value is created through projects and operations such as the BTRP, ETRP, Elikhulu, Royal Sheba, Egoli and Evander Mines' 8 Shaft pillar.




## ORGANIC GROWTH

The operations' robust life-of-mine plans support the group's business. Current resource definition drilling and initiatives to access and develop orebodies were aggressively pursued at the Barberton operations during the year ended April 2019. The strategy of converting Mineral Resources to Mineral Reserves was progressed by moving organic projects further up the mining value chain closer towards feasibility or production stages. These projects include Elikhulu, Egoli, Royal Sheba and Evander Mines' 8 Shaft pillar. The following tables reflect the progress of near-mine growth projects that contributed ounces to Mineral Resources for the year.

## EXPLORING THE OREBODY: RESOURCE DEFINITION DRILLING

| Operation | Total metres | Number of boreholes | Total expenditure R million |
|---|---|---|---|
| Barberton Mines underground | 12,825 | 159 | 11.3 |
| Barberton Mines surface | 7,145 | 72 | 20.3 |
| Evander Mines | – | – | – |

## ACCESSING THE OREBODY: ON-REEF DEVELOPMENT

| Operation | Total on-reef development metres | Average grade g/t |
|---|---|---|
| Barberton Mines | 1,714 | 2.80 |
| Evander Mines | 60 | 28.86 |

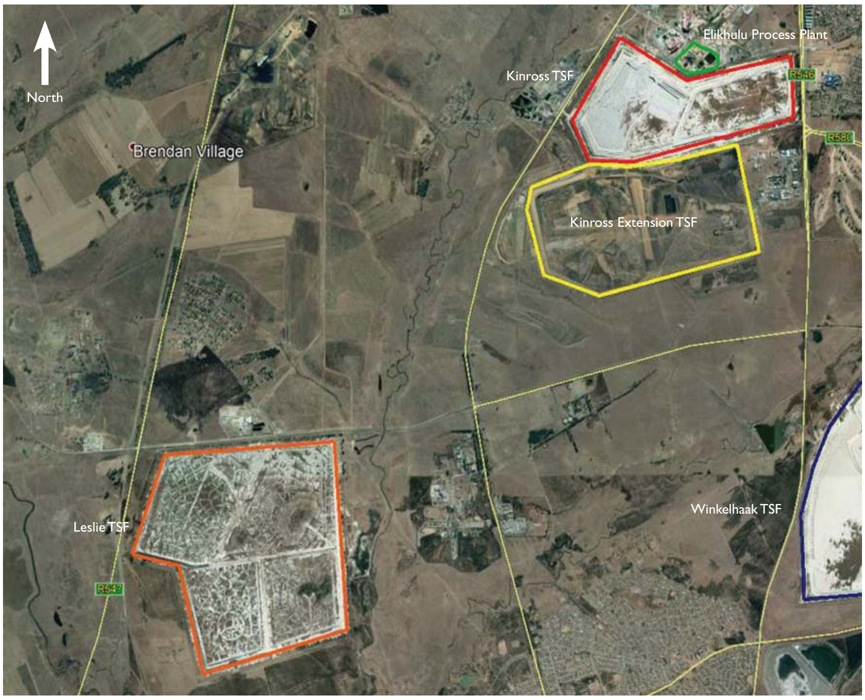
## DEVELOPING THE OREBODY: CAPITAL ORE RESERVE PROJECTS – BARBERTON MINES

| Project | 2019 metres | 2018 metres | 2017 metres | 2016 metres | Potential resource target oz |
|---|---|---|---|---|---|
| Sheba – pillar development | 513.6 | 488.1 | 450 | 540 | 10,101 |
| Sheba – Edwin Bray to Thomas and Joe's Luck area | 121.9 | 7.6 | 8 | 27 | 14,326 |
| Fairview – 11 Level Royal Reef | – | – | – | Equipping | 15,655 |
| Fairview – Shaft one reserve opening | – | – | 71 | 131 | 34,701 |
| Fairview – 3 Shaft deepening | 309.3 | 177.7 | 171 | 64 | 115,423 |
| Fairview – (64 – 68) Level | 917.0 | 531.9 | 451 | 581 | 1,166,275 |
| New Consort – (33 – 45) PC | 87.3 | 74.8 | 265 | 387 | 26,005 |
| New Consort – MMR pillar development | – | – | 8 | – | 21,953 |
| New Consort – 3 Shaft | – | – | – | 17 | 8,357 |
| Royal Sheba | 251.4 | 373.1 | 143 | 189 | 648,587 |
| Sheba Western Cross | 49.6 | – | 4 | 133 | 26,752 |

# ABRIDGED MINERAL RESOURCES AND MINERAL RESERVES REPORT continued

## VALUE CREATION THROUGH EXECUTION

### Elikhulu




Elikhulu was commissioned during the first quarter of the 2019 financial year. During December 2018, the ETRP circuit was incorporated into Elikhulu to ensure more efficient recoveries of gold from the tailings being processed for the next 13 years and also to reduce unit costs of production going forward. The three existing TSFs will be reclaimed in the following order: Kinross (three years), Leslie/Bracken (five years) and Winkelhaak (five years).

Elikhulu is expected to yield approximately 60,000oz of gold per annum for its initial eight years of production while treating the Kinross and Leslie TSFs. Thereafter, while processing the Winkelhaak TSF, production is expected to be approximately 45,000oz a year for the plant's remaining five years. These production figures exclude an Inferred Resource of 150,000oz of gold delineated in the soil material beneath the existing tailings dumps.

### Mineral Resources

| | Mineral Resources | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | As at 30 June 2019 | | | | As at 30 June 2018 | | | |
| | | Contained gold | | | | Contained gold | | |
| Category | Tonnes million | Grade g/t | Tonnes gold | Moz | Tonnes million | Grade g/t | Tonnes gold | Moz |
| Measured | 37.58 | 0.31 | 11.7 | 0.38 | 46.24 | 0.32 | 14.8 | 0.48 |
| Indicated | 153.41 | 0.28 | 42.5 | 1.36 | 150.91 | 0.28 | 42.3 | 1.35 |
| Inferred | 12.57 | 0.34 | 4.2 | 0.15 | 12.57 | 0.34 | 4.2 | 0.15 |
| **Total** | 203.56 | 0.29 | 58.4 | 1.89 | 209.72 | 0.29 | 61.3 | 1.98 |

Mineral Resources are reported in accordance with the SAMREC Code. Mineral Resources would be the same if reported according to the guidelines of the Canadian Institute of Mining's National Instrument 43-101. Cut-off values are calculated at 0.1g/t applying a gold price of R700,000/kg (USD1,534/oz and ZAR14.19:USD1). Mineral Resources are reported inclusive of Mineral Reserves. All Mineral Resources reported exclude geological structures. Mineral Resources are reported as in-situ tonnes. Any discrepancies in totals are due to rounding.

Additional effects of mining and recovery losses have been considered in the cut-off grade calculations.

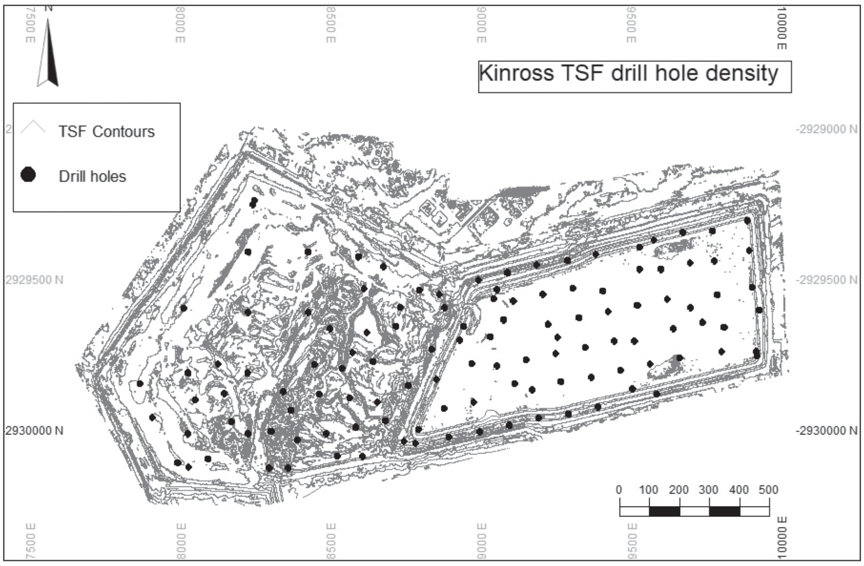
## Mineral Reserves

| | Mineral Reserves | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | As at 30 June 2019 | | | | As at 30 June 2018 | | | |
| | | Contained gold | | | | Contained gold | | |
| Category | Tonnes million | Grade g/t | Tonnes gold | Moz | Tonnes million | Grade g/t | Tonnes gold | Moz |
| Proved | **23.62** | **0.31** | **7.4** | **0.23** | 46.0 | 0.32 | 14.7 | 0.48 |
| Probable | **146.99** | **0.26** | **38.8** | **1.25** | 144.6 | 0.28 | 40.1 | 1.3 |
| **Total** | **170.61** | **0.27** | **46.2** | **1.48** | 190.6 | 0.29 | 54.8 | 1.78 |

Mineral Reserves are reported in accordance with the SAMREC Code. Mineral Reserves would be the same if reported according to the guidelines of the CIM's National Instrument 43-101. Cut-off value is calculated at 0.1g/t applying a gold price of R600,000/kg (USD1,315/oz and ZAR14.19:USD1). All Mineral Reserves reported exclude geological structures. Mineral Reserves are reported as in-situ tonnes. Any discrepancies in totals are due to rounding.

Additional effects of mining and recovery losses have been considered in the cut-off grade calculations.

The total Mineral Reserve contains 1.48Moz, of which an estimated 692,895oz will be recovered over a 13-year life of the plant at an average gold recovery of 46.88%.




The grade tonnage of the Kinross dam was de-risked through a resource definition drilling campaign (1,832m) conducted during 2018. This drilling also resulted in the upgrade of Probable Reserves to Proved Reserves. All data collected from the resource definition drilling programme was employed in the updated Mineral Resources and Mineral Reserves for Kinross dam.

### EVANDER MINES' 8 SHAFT PILLAR

An independent feasibility study into the merits of mining Evander Mines' 8 Shaft pillar and high-grade areas in proximity to the pillar was completed and the Pan African Resources board of directors approved the project, with first gold produced during August 2019. Evander Mines' 8 Shaft pillar will replace the current remnant underground mining and vamping production and is expected to contribute, on average, 30,000oz per annum over the next three financial years, with approximately 20,000oz forecast for the 2020 financial year.

# ABRIDGED MINERAL RESOURCES AND MINERAL RESERVES REPORT continued

Evander Mines' 8 Shaft pillar contains the following Mineral Reserves:

| | Mineral Reserves | | | |
|---|---|---|---|---|
| | As at 30 June 2019 | | | |
| | | Contained gold | | |
| Category | Tonnes million | Grade g/t | Tonnes gold | Moz |
| Proved | 0.38 | 8.54 | 3.2 | 0.10 |
| Probable | – | – | – | – |
| Total | 0.38 | 8.54 | 3.2 | 0.10 |

Mineral Reserves are reported in accordance with the SAMREC Code. Mineral Reserves would be the same if reported according to the guidelines of the CIM's National Instrument 43-101. Cut-off value is calculated at 951cmg/t (or 7.93g/t at a 1.2m stoping width) applying a gold price of R600,000/kg (USD1,315/oz and ZAR14.19:USD1). All Mineral Reserves reported exclude geological structures. Mineral Reserves are reported as in-situ tonnes. Any discrepancies in totals are due to rounding.

Additional effects of mining and recovery losses have been considered in the cut-off grade calculations.

## ROYAL SHEBA

Extensive feasibility work was completed on Barberton Mines' Royal Sheba project during the year. Due to the group's disciplined capital allocation criteria and the capital cost estimates to develop this mine, Pan African Resources will not currently pursue the Royal Sheba project on a stand-alone basis. The existing Barberton Mines processing plant infrastructure can, however, be upgraded to process ore from this orebody. The benefits of this approach are the ability to expedite the environmental licensing process, shorten the timeline to production, enhance returns from mining this orebody and negate the requirement for external capital funding. We look forward to updating the market on this project in the months ahead.

During the 2019 financial year, an additional 39 holes were drilled into the near-surface expression to confirm the orebody's extent and volume. The drilling resulted in an update of the 3D geological model and Mineral Resource estimate as presented above.

The emphasis is now on assessing the merits of using an underground sub-level open-stoping mining method, by developing haulages from the current surface adits into the orebody. General authorisation in terms of Section 39 of the National Water Act 36 of 1998 was obtained during May 2019, which allows the group to upgrade the Royal Sheba adit and bridge.

### Mineral Resources

| | Mineral Resources | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | As at 30 June 2019 | | | | As at 30 June 2018 | | | |
| | | Contained gold | | | | Contained gold | | |
| Category | Tonnes million | Grade g/t | Tonnes gold | Moz | Tonnes million | Grade g/t | Tonnes gold | Moz |
| Measured | 2.40 | 3.46 | 8.3 | 0.27 | 4.11 | 3.29 | 13.5 | 0.43 |
| Indicated | 2.33 | 3.93 | 9.1 | 0.29 | 3.14 | 3.25 | 10.2 | 0.33 |
| Inferred | 0.86 | 3.19 | 2.7 | 0.09 | 1.31 | 3.22 | 4.2 | 0.14 |
| Total | 5.58 | 3.61 | 20.2 | 0.65 | 8.56 | 3.27 | 28.0 | 0.90 |

Mineral Resources are reported in accordance with the SAMREC Code. Mineral Resources would be the same if reported according to the guidelines of the CIM's National Instrument 43-101. Cut-off values are calculated at 1.7g/t applying a gold price of R700,000/kg (USD1,534/oz and ZAR14.19:USD1). Mineral Resources are reported inclusive of Mineral Reserves. All Mineral Resources reported exclude geological structures. Mineral Resources are reported as in-situ tonnes. Any discrepancies in totals are due to rounding. Mineral Resources reported for the year ending 30 June 2018 include near-surface Mineral Resources that were reported at a cut-off grade of 0.5g/t. In the current Mineral Resource, these areas are reported at a cut-off grade of 1.7g/t.

Additional effects of mining and recovery losses have been considered in the cut-off grade calculations.

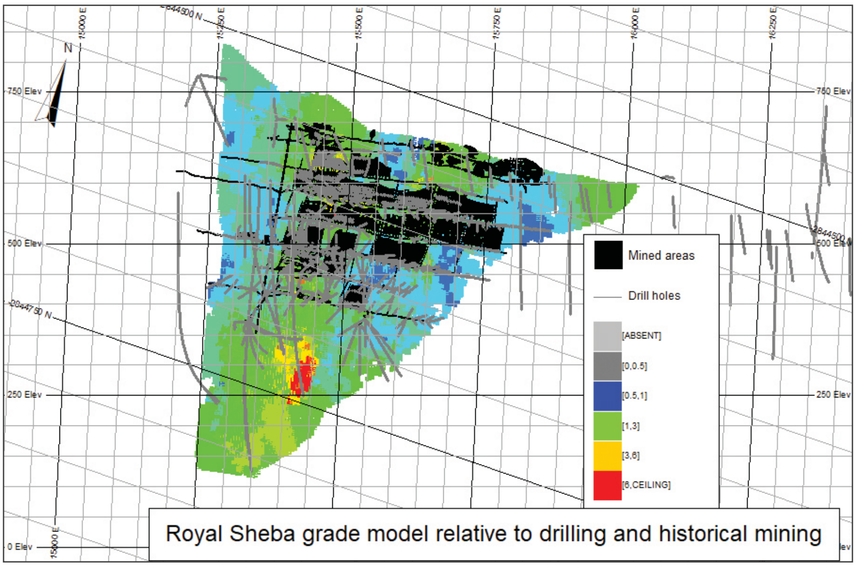
*Elikhulu plant – inspecting CIL tanks*

## Mineral Reserves

| | Mineral Reserves | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | As at 30 June 2019 | | | | As at 30 June 2018 | | | |
| | | Contained gold | | | | Contained gold | | |
| Category | Tonnes million | Grade g/t | Tonnes gold | Moz | Tonnes million | Grade g/t | Tonnes gold | Moz |
| Proved | 2.29 | 3.46 | 7.9 | 0.26 | – | – | – | – |
| Probable | 2.33 | 3.93 | 9.1 | 0.29 | 5.14 | 3.38 | 17.37 | 0.56 |
| Total | 4.62 | 3.70 | 17.1 | 0.55 | 5.14 | 3.38 | 17.37 | 0.56 |

Mineral Reserves are reported in accordance with the SAMREC Code. Mineral Reserves would be the same if reported according to the guidelines of the CIM's National Instrument 43-101. Cut-off value is calculated at 1.7g/t applying a gold price of R600,000/kg (USD1,315/oz and ZAR14.19:USD1). All Mineral Reserves reported exclude geological structures. Mineral Reserves are reported as in-situ tonnes. Any discrepancies in totals are due to rounding. Mineral Reserves reported for the year ending 30 June 2018 include near-surface Mineral Reserves that were reported at a cut-off grade of 0.7g/t. In the current Mineral Reserves, these areas are reported at a cut-off grade of 1.7g/t.

Additional effects of mining and recovery losses have been considered in the cut-off grade calculations.

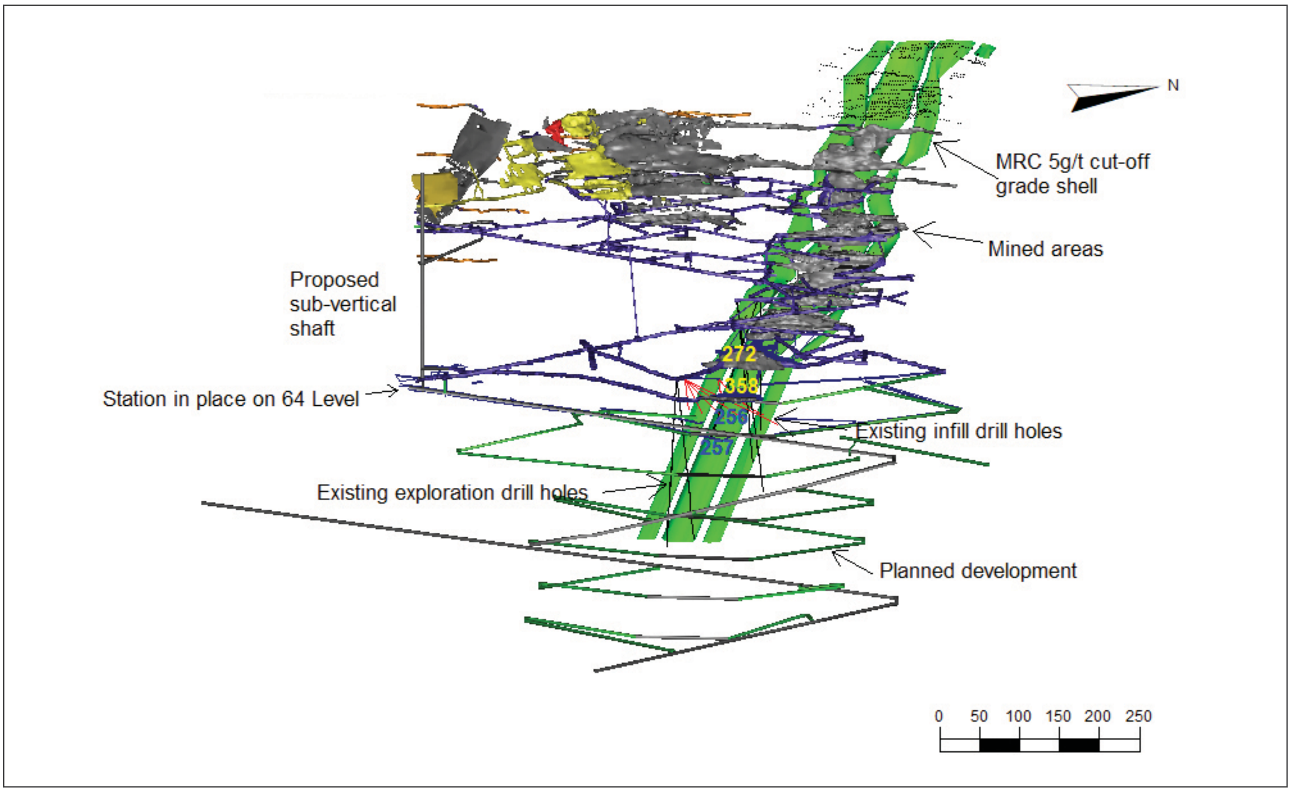



Royal Sheba grade model relative to drilling and historical mining

# ABRIDGED MINERAL RESOURCES AND MINERAL RESERVES REPORT continued

## VALUE CREATION THROUGH OPTIMISATION

Barberton Mines' sub-vertical shaft project at Fairview Mine




The Fairview mining operation is currently restricted by the hoisting capacity of its 3 Decline, which is used to access workings below 42 Level. This decline is currently used to transport employees and material, and for rock hoisting. The 11-block, or Main Reef Complex (MRC), orebody has an average grade of 31.3g/t and current life-of-mine of 20 years. With no intervention, future mining at depth will result in an increased travelling distance, reduced employee face time and will cause a lack of capacity with which to ensure both ore replacement and exploration development.

Pan African Resources, with the assistance of DRA Global, completed a feasibility study on the construction of a raise-bored, sub-vertical shaft from Fairview's 42 Level to 64 Level, with the potential of continuing the vertical shaft to 68 Level in the future.

This sub-vertical shaft will transport employees and material to the working areas, which will allow the 3 Decline to be used exclusively for rock hoisting, thus increasing overall capacity and production from the 11-block mining area.

Pan African Resources has also commenced an infill drilling programme on the 11-block orebody of 10 diamond drill holes. This is to enhance the confidence of the Probable Mineral Reserve to that of a Proved Mineral Reserve ahead of the mining face, by up to 60m ahead of current mining areas. This is equivalent to more than five years life-of-mine on the 11-block. The results of the drill holes are considered in the reported Mineral Resource and Mineral Reserve estimates.

During the current financial year, R5.89 million was spent in progressing access to the sub-vertical collar position. Developing top and bottom access for the sub-vertical shaft is progressing according to plan, with our focus in 2020 on the following:

- Completing all preparatory development for the sub-vertical shaft on both 42 Level and 64 Level at Fairview Mine
- Establishing sufficient hoisting flexibility to cater for the additional tonnages when reaming of the shaft commences in the 2021 financial year.

## Mineral Resources

| Category | Mineral Resources As at 30 June 2019 Tonnes million | Contained gold Grade g/t | Contained gold Tonnes gold | Moz | As at 30 June 2018 Tonnes million | Contained gold Grade g/t | Contained gold Tonnes gold | Moz |
|---|---|---|---|---|---|---|---|---|
| Measured | 1.62 | 10.04 | 16.2 | 0.52 | 1.62 | 10.12 | 16.4 | 0.53 |
| Indicated | 1.02 | 13.05 | 13.4 | 0.43 | 1.04 | 13.51 | 14.1 | 0.45 |
| Inferred | 1.75 | 16.12 | 28.2 | 0.91 | 1.75 | 19.66 | 34.4 | 1.10 |
| Total | 4.39 | 13.16 | 57.8 | 1.86 | 4.41 | 14.70 | 64.8 | 2.08 |

Mineral Resources are reported in accordance with the SAMREC Code. Mineral Resources would be the same if reported according to the guidelines of the CIM's National Instrument 43-101. Cut-off values are calculated at 2.08g/t applying a gold price of R700,000/kg (USD1,534/oz and ZAR14.19:USD1). Mineral Resources are reported inclusive of Mineral Reserves. All Mineral Resources reported exclude geological structures. Mineral Resources are reported as in-situ tonnes. Any discrepancies in totals are due to rounding.

Additional effects of mining and recovery losses have been considered in the cut-off grade calculations.

## Mineral Reserves

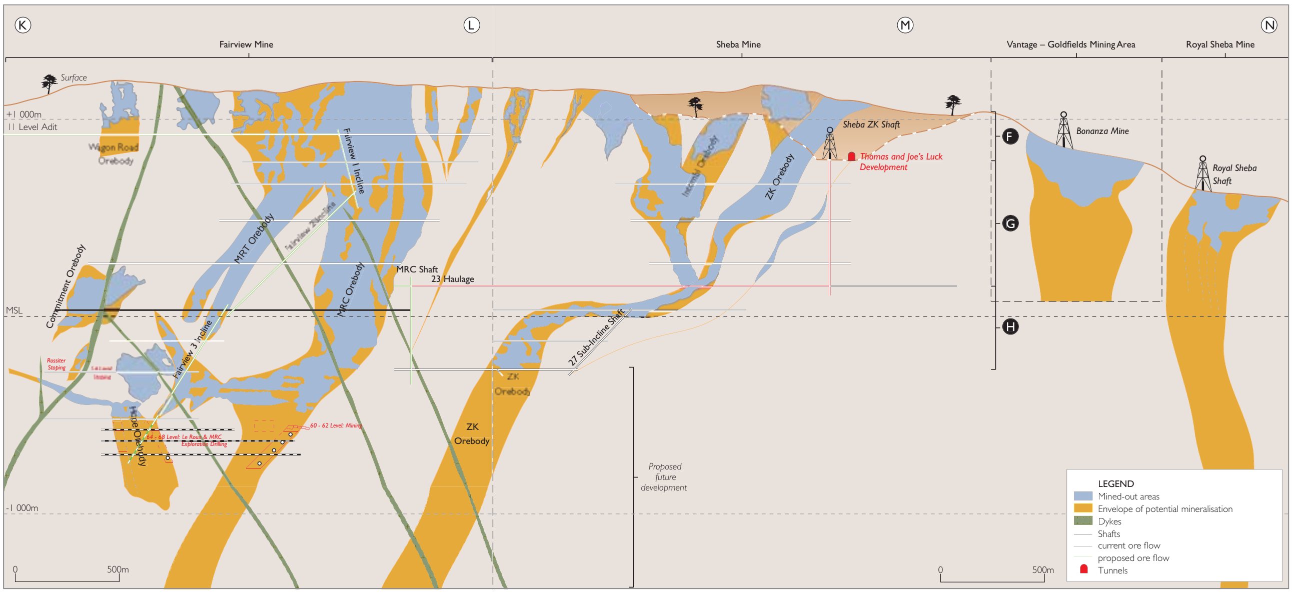
| Category | Mineral Reserves As at 30 June 2019 Tonnes million | Contained gold Grade g/t | Contained gold Tonnes gold | Moz | As at 30 June 2018 Tonnes million | Contained gold Grade g/t | Contained gold Tonnes gold | Moz |
|---|---|---|---|---|---|---|---|---|
| Proved | 0.74 | 8.83 | 6.6 | 0.21 | 0.93 | 9.07 | 8.43 | 0.27 |
| Probable | 1.20 | 13.95 | 16.8 | 0.54 | 1.06 | 14.25 | 15.16 | 0.49 |
| Total | 1.95 | 11.99 | 23.4 | 0.75 | 1.99 | 11.84 | 23.58 | 0.76 |

Mineral Reserves are reported in accordance with the SAMREC Code. Mineral Reserves would be the same if reported according to the guidelines of the CIM's National Instrument 43-101. Cut-off value is calculated at 7.73g/t applying a gold price of R600,000/kg (USD1,315/oz and ZAR14.19:USD1). All Mineral Reserves reported exclude geological structures. Mineral Reserves are reported as in-situ tonnes. Any discrepancies in totals are due to rounding.

Additional effects of mining and recovery losses have been considered in the cut-off grade calculations.

# ABRIDGED MINERAL RESOURCES AND MINERAL RESERVES REPORT continued

## Barberton Mines' Project Dibanisa




Project Dibanisa aims to use the current Sheba Mine infrastructure, both on surface and underground, to effectively extract the Royal Sheba orebody from 23 Level (Sheba Mine Zwartkoppie (ZK) Shaft). This enables the concurrent mining of the Royal Sheba orebody from near-surface workings as well as some 600m beneath surface, targeting the Measured and Indicated Mineral Resources.

The project involves connecting the Sheba and Fairview workings on 23 Level by establishing a series of ore-passes from the Sheba Mine to the Fairview Mine. The combined production of Fairview and Sheba will then be hoisted from the Fairview infrastructure (mainly 2 Decline and 1 Decline). The ore will then be processed at the Fairview plant where a gravity circuit (Knelson Concentrator) is currently being installed. This will enable the Fairview plant to effectively process the free gold reefs of Sheba Mine and decrease the overall cost by reducing the transportation of concentrate from the Sheba plant to the Fairview BIOX® plant.

Following these modifications and enhancements to the underground and surface infrastructure, underground ore from Royal Sheba (23 Level Sheba Mine ZK Shaft) will be extracted through the Sheba Mine ZK Shaft and processed at the Sheba plant at a throughput of approximately 12,000 tonnes per month.

Near-surface workings at Royal Sheba will be used to fill the plant capacity at New Consort. The total project is estimated to be completed by June 2022.

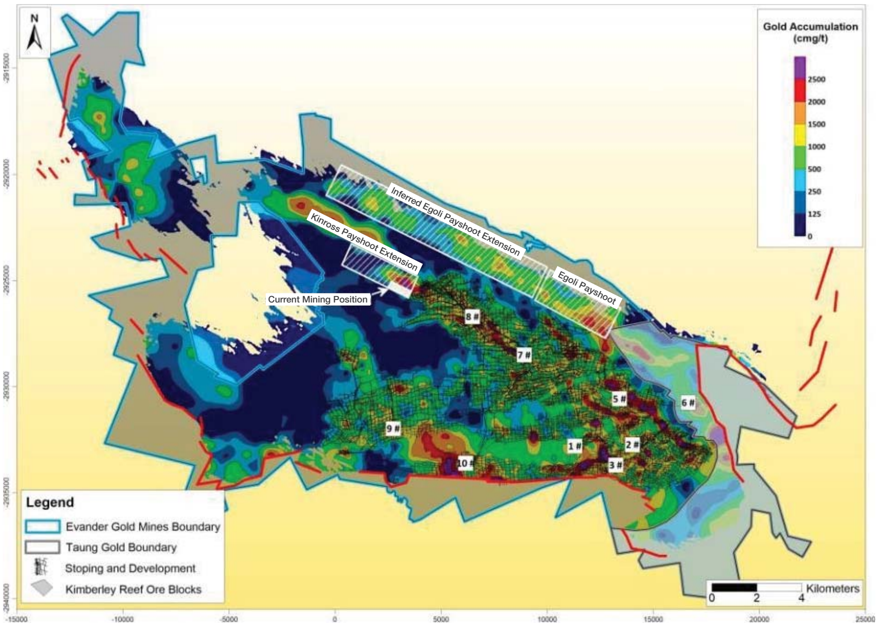
Project Dibanisa mitigates the need for the high capital requirements of commissioning a new plant and related infrastructure for the Royal Sheba deposit. Further, this initiative reduces overall overhead costs for the operations by consolidating infrastructure.

## VALUE CREATION THROUGH PROJECT DEVELOPMENT

### Egoli

Egoli's promising mining feasibility study was completed and optimisation studies are being finalised. Development options for this project will be finalised during the 2020 financial year. The group is currently reviewing the merits of expediting the Egoli project and is assessing funding options in this regard.

The Egoli pay channel is approximately 4.5km in tramming distance from 7 Shaft, which was used by Evander Mines for hoisting run-of-mine material to the Kinross metallurgical plant. This compares favourably with the 8 Shaft mining area, which is approximately 12km in tramming distance from 7 Shaft.




The Egoli pay channel Mineral Resource is adjacent to the 7 Shaft infrastructure and extends from the boundary of Taung Gold International Limited's 6 Shaft project and mining rights in a west-north-westerly direction. Egoli's Mineral Resources and Mineral Reserves are summarised in the following tables:

### Mineral Resources

| | Mineral Resources | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | As at 30 June 2019 | | | | As at 30 June 2018 | | | |
| | | Contained gold | | | | Contained gold | | |
| Category | Tonnes million | Grade g/t | Tonnes gold | Moz | Tonnes million | Grade g/t | Tonnes gold | Moz |
| Measured | 0.44 | 8.6 | 3.8 | 0.12 | 0.41 | 8.76 | 3.6 | 0.11 |
| Indicated | 2.94 | 9.85 | 28.9 | 0.93 | 2.93 | 9.86 | 28.9 | 0.93 |
| Inferred | 6.26 | 9.68 | 60.6 | 1.95 | 6.23 | 9.70 | 60.4 | 1.94 |
| **Total** | 9.64 | 9.69 | 93.3 | 3.00 | 9.57 | 9.71 | 92.9 | 2.99 |

Mineral Resources are reported in accordance with the SAMREC Code. Mineral Resources would be the same if reported according to the guidelines of the CIM's National Instrument 43-101. Cut-off values are calculated at 689cmg/t (or 5.74g/t at a 1.2m stoping width) applying a gold price of R700,000/kg (USD1,534/oz and ZAR14.19:USD1). Mineral Resources are reported inclusive of Mineral Reserves. All Mineral Resources reported exclude geological structures. Mineral Resources are reported as in-situ tonnes. Any discrepancies in totals are due to rounding.

# ABRIDGED MINERAL RESOURCES AND MINERAL RESERVES REPORT continued

Mineral Reserves

| | Mineral Reserves | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | As at 30 June 2019 | | | | As at 30 June 2018 | | | |
| | | Contained gold | | | | Contained gold | | |
| Category | Tonnes million | Grade g/t | Tonnes gold | Moz | Tonnes million | Grade g/t | Tonnes gold | Moz |
| Proved | **0.62** | **4.21** | **2.6** | **0.08** | 0.62 | 4.21 | 2.6 | 0.08 |
| Probable | **3.51** | **7.06** | **24.8** | **0.80** | 3.51 | 7.06 | 24.8 | 0.80 |
| Total | **4.13** | **6.64** | **27.4** | **0.88** | 4.13 | 6.64 | 27.4 | 0.88 |

Mineral Reserves are reported in accordance with the SAMREC Code. Mineral Reserves would be the same if reported according to the guidelines of the CIM's National Instrument 43-101. Cut-off value is calculated at 805cmg/t (or 6.71g/t at a 1.2m stoping width) applying a gold price of R600,000/kg (USD1,315/oz and ZAR14.19:USD1). All Mineral Reserves reported exclude geological structures. Mineral Reserves are reported as in-situ tonnes. Any discrepancies in totals are due to rounding.

Additional effects of mining and recovery losses have been considered in the cut-off grade calculations.

## RISKS TO THE MINERAL RESOURCES AND MINERAL RESERVES

Mineral Resources and Mineral Reserves are estimates of the portion of the deposit that can be mined economically and legally. The estimate of the amount of gold is a function of set criteria for geological, technical and economic factors. Estimating the grade and/or quantity of the Mineral Resource is conducted by geologically analysing the volume, continuity and shape of the deposit. Data employed for these analyses includes geological mapping, core drilling, logging and sampling. Due to the nature of the deposits, it is required that complex geological judgements and scientific calculations be used to interpret the data and construct models.

Economical and technical factors such as inflationary cost increases and volatile commodity prices impact the cut-off grade employed to report the economically extractable Mineral Resources and Mineral Reserves. In addition, global markets and geological data from the operations can result in changes to the estimates of the Mineral Resources and Mineral Reserves reported. The group's financial position and results could be impacted by changes to the Mineral Resources and Mineral Reserves.

*Elikhulu – tailings remining*

Risks detailed in the full integrated annual report (refer to pages 29 to 35) should also be considered.

Low Medium High

| Type of risk | Risk | Mitigation action | Level of risk |
|---|---|---|---|
| Financial | Volatile commodity price and foreign currency exchange rates | • A conservative rand gold price was used to calculate the modifying factors in comparison to the current prevailing rand gold prices | |
| | Cost inflation | • Successfully concluded a three-year wage deal at Barberton Mines in 2018<br>• Cessation of the large-scale underground operations at Evander Mines' 8 Shaft resulted in a reduction in the group's all-in sustaining cost per kilogramme<br>• Low-cost and low-risk tailings operations in the form of the BTRP, ETRP and Elikhulu further assist the group in reducing the all-in sustaining cost per kilogramme<br>• Tailings retreatment accounted for 46.5% of the group's gold production for the year ended June 2019 | Short to medium term |
| Legal | Mining right legal tenure | • Barberton Mines submitted its mining right renewal application on 23 August 2018 for a further 30 years. The renewal application is pending approval based on the appeal lodged towards the decision of the DMR not to process the renewal application at this time. This internal administrative process does not at all impact the company's security of tenure with regard to its mining rights<br>• Evander Mines' mining right expires on 28 April 2038<br>• A Section 102 application has been in process from 8 December 2017 to incorporate MP30/5/1/2/2/248 PR and MP30/5/1/2/2/4272 PR into Evander Mines' mining right MP30/5/1/2/2/126 MR | |
| Operational | Modifying factors | • Modifying factors as defined in the Mineral Reserve conversion are based on actual modifying factors achieved over the preceding three years<br>• The group's mining operations have consistently exploited the same orebodies with the same infrastructure over the past three years | |
| | Limited mining flexibility | • Development rates have increased by 72% in the MRC high-grade 11-block<br>• A third high-grade panel in the MRC 11-bock was accessed within August 2019<br>• The Fairview sub-vertical shaft project will improve ore handling efficiencies and significantly increase face time in the high-grade 11-block<br>• The sub-vertical shaft project is estimated to improve production by approximately 7,000oz to 10,000oz per annum<br>• Development at New Consort's dow-dip extension of the MMR from 14 Level to 15 Level as well as 38 Level to 40 Level is underway in the 2020 financial year<br>• High variability in gold grades may be experienced in hydrothermal lode gold deposits | |
| | Nature reserve | • Portions of Barberton Mines' mining rights overlap the boundaries of a proclaimed nature reserve, impacting surface infrastructure, surface mining and environmental rehabilitation<br>• Continuous communication and collaboration with governmental departments to ensure sustainable mining operations | |

There are currently no material legal proceedings or material conditions that will impact the Mineral Resources and Mineral Reserves reported for 2019 or Pan African Resources' ability to continue mining activities as per life-of-mine plans.

# BARBERTON'S HIGH-GRADE MINING FUTURE

Our Barberton mines are characterised by discrete, high-grade, shear zone-hosted vein and lode gold deposits formed in flexures in the regional dip and strike of major shear zones or faults. These structures generally extend from the surface down-dip at angles of up to 70°. The orebodies are defined as lensoidal shapes and have a strike length of between 40m and 80m, with thicknesses ranging between 1m (for the vein type deposits) up to 10m (for the lode type deposits). These are the deposits traditionally mined throughout the history of the Barberton gold field.

Grades in these deposits are known to be highly 'nuggety', due to the presence of free gold, although individual stope sample sections are assayed at over 1,100g/t over the full width of the orebody. These extreme grades occur in the centre of the deposits and are flanked by grades between 5g/t and 50g/t. The average mining grade of these high-grade deposits, over the total width, ranges between 10g/t and 40g/t on a weekly to monthly basis.

Pan African Resources has a strategy of proofing the down-dip extent of the orebodies by means of deep drilling within 300m of the current mining horizon down-dip. Infill drilling of 30m x 30m is then conducted for five years following the proofing. This effectively serves to de-risk the strategic approach.

Once the development intersects the mineralisation, the orebody is sampled on a 2m grid through channel sampling. These samples, along with the infill- and down-dip drilling, inform the planned grades of the mining unit. During stoping, the channel sampling procedure is continued and the mining unit grades are updated on a monthly basis for operational planning purposes.

*Barberton Mines – Fairview 11-block stoping* >

Existing drilling on both the Proven and Probable Mineral Reserves, for three of the highest grade orebodies define life of the orebody as follows:

- Fairview's 66 Level Main Reef Complex: 20 years
- Fairview's 54 Level Rossiter Reef: 17 years
- Sheba's 36 Level ZK Reef: 10 years.

Orebody scheduling does not include the Inferred Mineral Resources, which are continuously upgraded to the Indicated Mineral Resource category through the down-dip extension drilling. The upgraded Inferred Mineral Resource is scheduled in the life-of-mine plan, thereby extending the life of linked operations.

Barberton Mines utilises three processing circuits to process varied forms of gold-bearing material:

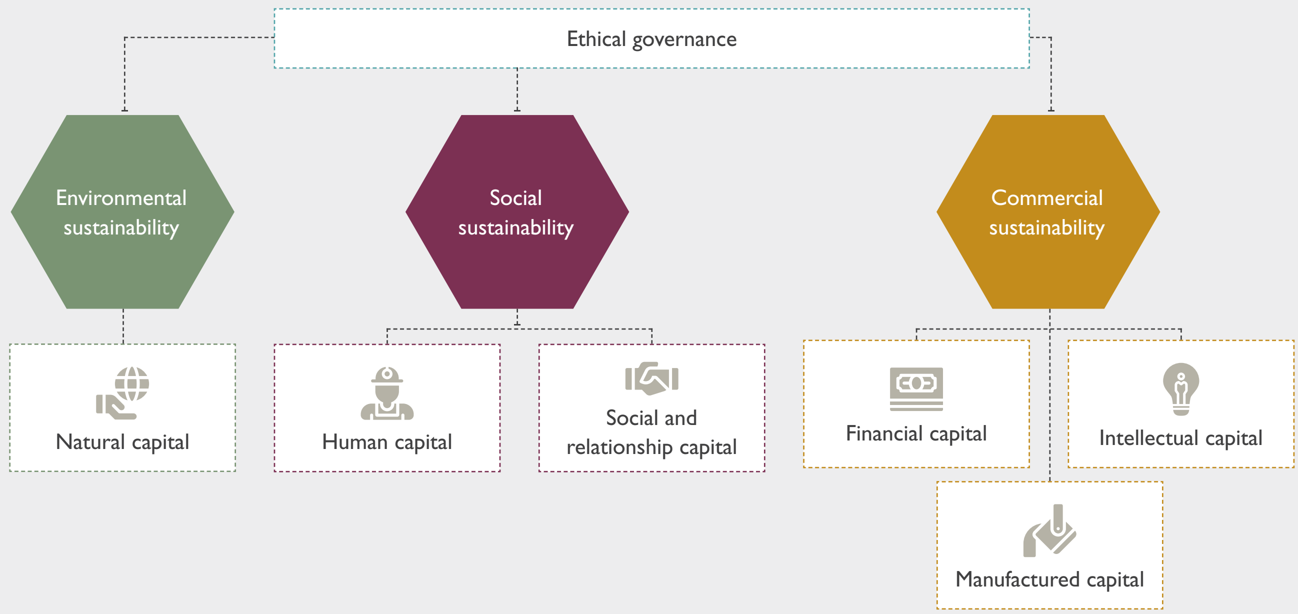
- Free milling/gravity recovery circuit
- Carbon in leach cyanidation circuit
- BIOX® with a carbon in pulp, elution and regeneration circuit.

Pan African Resources recovers over 94% of its gold production by utilising this combination of metallurgic processes.

# ENVIRONMENTAL SUSTAINABILITY

Pan African Resources views sustainability as a core business priority and critical to the group's ability to operate successfully. Sustainability challenges, such as climate change, resource scarcity and energy efficiency are everyday business realities that impact the mining industry. Managing these issues underpins our licence to operate.

## OUR APPROACH TO SUSTAINABILITY




*Barberton Mines – Fairview 11 Level adit infrastructure*

A 2017 study conducted by the Fraser Institute of 91 countries with significant mining activity, ranked South Africa as the tenth most challenging country in which to own mining interests. Most local mining companies report regulatory uncertainty, the taxation regime, political instability, labour relations and employment law as significant investment deterrents to the sector.

The sustainability of the South African mining industry requires that local mining companies can operate profitably, attract investors and compete with global competitors. Difficult operating conditions and volatile commodity price cycles tend to force out the least efficient industry performers. Traditionally, labour-intensive deep-level operations struggle to maintain productivity and competitive production costs, threatening the international competitiveness of the mining industry.

Pan African Resources adopts a holistic and long-term approach to sustainability, acknowledging and acting on the importance of ESG sustainability while ensuring the commercial viability and sustainability of the group in creating value for all stakeholders, now and in the future.

Our management teams ensure that all our operational activities comply with industry regulations and are conducted responsibly to safeguard our employees and the communities and environment in which we operate.

# NATURAL CAPITAL

Pan African Resources fully embraces and commits to its responsibility to effectively monitor, measure and manage the environmental impact of all its operations.

*Barberton Mines – Fairview metallurgical plant*

## COMMITTED TO PROTECTING OUR NATURAL HERITAGE

Pan African Resources recognises the privilege it has been afforded to operate and mine in some of the oldest and best-preserved deposits of sedimentary and volcanic rock on the planet.

Our mines are fully committed to operating with due respect within our natural environment to extract our high-grade geological gold resources. Furthermore, we take the greatest care to ensure we return the environment to its natural state through our fully funded rehabilitation funds.

Historical mining tailings are often considered to be one of the most significant sources of environmental damage produced by mining operations. The re-mining and consolidation of these tailings assist in reducing their environmental footprint. Our new Elikhulu plant will consolidate the Kinross, Leslie and Winkelhaak TSFs into a single facility, which will reduce the environmental footprint and impact of Evander Mines. BTRP in Barberton also fulfils the same function and is consolidating the Bramber and Harper TSFs through re-mining and re-depositing tailings material.

Elikhulu's enlarged Kinross TSF extension is lined to prevent and limit underground seepage and pollution and represents our sincere commitment to address the 'scar tissue' of tailings that is so often associated with the mining industry. At the same time, the consolidated facility allows us to increase our positive socio-economic contributions, particularly through job creation.

## WHY NATURAL RESOURCES ARE MATERIAL TO PAN AFRICAN RESOURCES

The business of Pan African Resources depends wholly on the environment and its natural resources; not only those we extract from the ground, but also land, water and air. As such, we are committed to being the best possible stewards of these resources and treating them with the care and responsibility they deserve. We are dedicated to minimising and, where possible, eliminating the negative environmental impacts of our operations.

## 2019 NATURAL CAPITAL HIGHLIGHTS AND CHALLENGES

### Highlights

- Evander Mines improved its water recycling to 57% (2018: 30%) of total water used
- Barberton Mines conducted river and community clean-up campaigns including basic education
- A Water Management and Conservation plan was approved for Barberton Mines' operations
- Reduced cyanide consumption at the Elikhulu plant through active monitoring and regulation of reagent consumption

### Challenges

- Decreasing energy consumption and moving to renewable-energy sources
- Illegal miners working near rivers are polluting water sources in the Barberton catchment area
- Employee and community adoption of pro-environmental behaviours and driving a culture of environmental sustainability

### Looking ahead

- Proactively reduce freshwater use and maximise water recycling
- Conduct a feasibility study into a solar-powered plant at Evander Mines
- Continue to develop, refine and enhance our biodiversity plans
- Development and implementation of energy management plans
- Target a 10% annual reduction of reportable environmental incidents at our Evander operations
- Continuation of Evander Mines' rehabilitation programme to close old shafts
- The implementation and promotion of eco-tourism in the greater Barberton area to promote environmental awareness and create employment opportunities
- Given the recent changes to the legislation governing mining in South Africa, we will focus on achieving full regulatory compliance, particularly as it applies to our water and air quality licences

# ENVIRONMENTAL SUSTAINABILITY continued

## NATURAL CAPITAL continued

### GROUP PROGRESS AGAINST 2019 TARGETS

Substantively achieved | Moderate progress | Not achieved

| Our focus for 2019 | What we achieved | Self-assessment |
|---|---|---|
| Maintaining zero environmental fines | Evander Mines was issued with an air emission licence penalty relating to financial years 2014 to 2019, due to not registering the infrastructure and plants according to requirements. We are currently compliant with the air emission licence and the penalty was only of an administrative nature | Not achieved |
| Evander Mines' rehabilitation programme | Evander Mines has made significant progress during the 2019 financial year, spending USD4.0 million on the rehabilitation and closure of old shafts | Substantively achieved |
| Ensuring all operations have zero reportable environmental incidents | There were no fines or reportable environmental incidents at Barberton Mines for the year under review<br><br>Five reportable environmental incidents occurred at Evander Mines during the 2019 financial year | Moderate progress |
| Ensuring compliance with water-use licence conditions to prevent pollution | All operations comply with the conditions of our water-use licence. The licence was amended for Evander Mines in August 2017 to incorporate Elikhulu | Substantively achieved |
| Ensuring compliance with approved mining rights, prospecting rights and environmental management programmes | All operations fully comply with the relevant mining and prospecting rights regulations as well as the environmental management programmes | Substantively achieved |

### MANAGEMENT APPROACH

As an organisation operating in an industry with the potential for significant environmental impact, Pan African Resources places a priority on preserving the environment and protecting vital natural resources like air, water, soil, minerals, fuels, plants and animals.

While it is not possible to operate a mine without impacting the physical environment around the mining site, we make every effort to keep this impact to a minimum. While we cannot completely prevent environmental impact, we work to mitigate the effects through the application of innovative technology, coupled with a group-wide commitment to environmental stewardship and a culture of compliance with all applicable environmental laws and regulations.

By fostering good relations with the regulatory authorities such as the Department of Environmental Affairs and the Department of Mineral Resources, and contributing wherever possible to the development of laws and regulations for our industry, we have established a reputation for environmental awareness, concern and compliance.

#### Environmental objectives

Environmental stewardship is a key part of our business strategy and risk management practices. Our environmental objectives include the following:

| | |
|---|---|
| Environmental legal compliance | ◗ Achieving zero penalties for environmental breaches<br>◗ Ensuring compliance with water-use licence conditions and the Environmental Management Plan<br>◗ Maintaining air pollution levels within legal limits |
| Environmental risk management | ◗ Constantly evaluating environmental risks associated with our activities, products and services<br>◗ Taking appropriate action to minimise environmental risks |
| Water management | ◗ Reducing water incidents and incidental overflow to minimise the impact on surrounding communities and the environment |
| Energy management | ◗ Achieving internal environmental targets to reduce our carbon footprint |
| Waste management | ◗ Reducing, reusing and recycling waste to minimise the impact on surrounding communities and the environment |
| Biodiversity management | ◗ Continuously monitoring the tailings and pollution control dams to prevent negative biodiversity impact |

### Environmental governance and legislation

The group monitors adherence to mining-related legislation through a robust SHEQC governance framework that includes comprehensive environmental guidelines relevant to the mining industry.

Comprehensive operational procedures are in place and are updated at least every two years in line with the key elements of environmental legislation specific to regulating the mining industry:

- Mineral and Petroleum Resources Royalty (Administration) Act 29 of 2008
- National Environmental Management Act 107 of 1998
- National Water Act 36 of 1998
- National Nuclear Regulatory Act 47 of 1999
- National Environmental Waste Act 59 of 2008
- Air Quality Amendment Act 20 of 2014
- National Environmental Management: Air Quality Act 39 of 2004
- National Environmental Management: Air Quality Amendment Act 20 of 2014
- National Environmental Management: Protected Areas Act 57 of 2003
- National Environmental Management: Biodiversity Act 10 of 2004
- Conservation of Agricultural Resources Act of 1983
- Constitution of the Republic of South Africa Act 108 of 1996
- Hazardous Substances Act 15 of 1973
- National Heritage Resources Act 25 of 1999 (specific to Barberton operations).

We have implemented a group environmental management system that aligns with ISO14001. Environmental impact assessments are conducted at all operations, with impact and aspect registers maintained for each. These are reviewed annually to ensure legislative compliance. Risk registers are reviewed quarterly, and the results are reported to the group SHEQC manager who escalates any material matters to the SHEQC sub-committee for immediate attention.

The group's environmental impacts are monitored through a SHEQC dashboard that collates all relevant environmental information required to accurately calculate the group's carbon emissions. We are fully aware of the dangers of climate change and the importance of doing our part to address and mitigate its impact, as set out in our group SHEQC policy. South Africa's long-pending carbon tax legislation was promulgated on 27 May 2019.

As a result of these stringent controls, none of the risks outlined previously are deemed to have had a significant financial or environmental impact on the group over the year under review, nor have our operations contributed to, or exacerbated, these risks for the immediate environments in which we operate.

All Pan African Resources operations have approved end-of-mine plans and closure plans are in place. Barberton Mines and Evander Mines' end-of-mine plans have been approved by the DMR.

*Elikhulu plant – CIL tanks* >

# ENVIRONMENTAL SUSTAINABILITY continued
## NATURAL CAPITAL continued

### PERFORMANCE
Key performance indicators

| | | 2019 | | | 2018 |
|---|---|---|---|---|---|
| | Unit | Barberton Mines | Evander Mines | Group | Group |
| Total water consumption | (000m$^3$) | 2,698 | 10,671 | 13,369 | 16,675 |
| Total electricity consumption | (GJ) | 499,802 | 728,699 | 1,228,501 | 1,397,695 |
| Total greenhouse gas (GHG) emissions | ($tCO_2e$/t milled) | 0.1 | 0.02 | 0.03 | 0.12 |
| Environmental fines and penalties (USD million) | (number) | – | 0.1 | 0.1 | – |

#### Fines for reportable environmental incidents
There were no fines or reportable environmental incidents at Barberton Mines for the year under review.

One environmental administrative penalty was incurred at Evander Mines for an amount of USD0.1 million (2018: nil) due to operating without an Air Emissions Licence (AEL) as required by the Air Quality Act of 2004. We are now compliant with the AEL.

Evander Mines recorded five (2018: five) environmental incidents for the year under review, as reported to the group's SHEQC committee:
- Three incidents related to pipeline spills on two different lines to the Winkelhaak Tailings dam as a result of attempted pipeline theft
- Two environmental incidents related to water overflows from return-water dams into the Grootspruit River.

The areas in respect of the above incidents have subsequently been cleaned and rehabilitated. An Environment and Social Management Plan has been developed for Elikhulu in terms of the applicable regulations promulgated under the National Environmental Management Act. Evander Mines is actively working on reducing the number of reportable environmental incidents by 10% for the next financial year.

#### Water
Mines depend on steady water supplies for extracting resources and beneficiating mined ore. Pan African Resources is in the favourable position of being able to capture excess discharge water for reuse in our operations. This water reuse is a key enabler of operational and environmental sustainability and ensures our mining operations meet the requirements of water discharge regulations. We contribute to the sustainability of water as a natural resource by increasing the use of recycled water in our mining processes.

At Barberton Mines, underground drilling and blasting activities release groundwater, which is pumped to the surface and recycled for use in mining or metallurgical processes. A highly effective closed-loop water-recycling circuit at Fairview and New Consort reuses the bulk of the released groundwater for other mining processes.

Excess water is released into special purpose evaporation ponds, while rainwater is collected in tailings and pollution control dams are incorporated into the mine water system.

Barberton Mines has implemented an approved Water Management and Conservation Plan. Water purified to acceptable quality standards can be reused in mining processes and can safely be released to communities and municipalities for non-potable purposes. Reducing the amount of dirty water produced through the mining process reduces the need for water extraction which, in turn, reduces energy costs from pumping and refining water.

Evander Mines is being equipped to continuously reuse recycled water and reduce the need for freshwater replenishment. This approach reduces environmental and operational costs. Introducing state-of-the-art water treatment systems was a necessary first step.

All our mining operations hold approved water-use licences as issued by the Department of Water and Sanitation. Annual internal and external audits are performed by each mining operation to ensure compliance with their water-use licences.

### Tailings storage facilities

The group's TSFs are located in the Barberton and Evander areas and the majority of our TSFs are in close proximity to residential areas. Pan African Resources has appointed specialist third-party contractors to design, build and operate the TSFs within the group. Tailings dam management is overseen by an appointed competent person at each of our TSF sites to ensure compliance with legislation, DMR requirements and our own internal code of practice. Pan African Resources implements leading practices in our tailings dam management to ensure regulatory compliance. We have provided additional disclosure on our website at www.panafricanresources.com/sheqc/gri-and-sustainability/ related to our tailings storage facilities, as requested by the Church of England Pensions Board and the Swedish Council on Ethics for the AP Funds, and backed by the UN-supported Principles for Responsible Investment. Refer to page 24 for additional information.

Quarterly inspections and meetings are held between mine operations, third-party TSF operators and competent persons tasked with monitoring and compliance. An independent specialist reviews group facilities and ensures that we comply with the latest legislative requirements.

### Targets and performance

Total water consumption amounted to 13.4 million $m^3$ (2018: 16.7 million $m^3$), which shows our commitment to reduce water consumption.

The group's total electricity consumption decreased to 1,228,501GJ (2018: 1,397,695GJ), primarily due to the cessation of large-scale underground operations at Evander Mines.

### Environmental protection and rehabilitation

The group's total environmental protection expenditure was USD4.0 million (2018: USD49.0 thousand). In the current financial year, Evander Mines incurred rehabilitation expenditure of USD4.0 million, the majority of which related to the rehabilitation of the Evander return-water dam (USD1.8 million) and the rehabilitation in the Winkelhaak area (USD1.1 million) and the clearing of old hostel infrastructure (USD0.8 million).

The group's rehabilitation liability is fully funded by means of a Cenviro Solutions insurance investment product underwritten by Centriq Insurance Company Limited. These funds are invested in a portfolio comprising a combination of money market, capital market and equity instruments. The aim is to provide the group with the necessary liquidity for the rehabilitation preservation of capital and the growth of underlying funds. The audit and risk committee reviews the performance of this portfolio on a quarterly basis.

## LOOKING AHEAD

Environmental awareness and protection will always remain a key focus of Pan African Resources, not just because of our moral obligation to preserve the natural habitats of the regions in which we operate, but also because environmentally friendly processes and behaviours make good business sense. We recognise that the effectiveness of our environmental efforts is amplified through effective partnerships with our stakeholders. We will continue to work to raise awareness among our employees and local community members and make every effort to grow the culture of environmental care and positive behaviour.

*< Elikhulu – TSF – deposition of tailings*

# SOCIAL SUSTAINABILITY

## HUMAN CAPITAL

To enable us to attract, develop and retain skilled, motivated and committed employees, we seek to build and maintain relationships with our employees which are based on trust, mutual respect and credibility. To achieve our strategic objectives, we focus on ensuring that we have the necessary skills, culture and employees in place.

### 2019 HUMAN CAPITAL HIGHLIGHTS AND CHALLENGES

**Highlights**

- Barberton Mines successfully concluded a three-year wage agreement during September 2018 to provide certainty of earnings and sustainable productivity
- Safety programmes, motivational talks and other safety initiatives have been well received by all our employees at Barberton Mines and Evander Mines, leading to a clear improvement in safety

**Challenges**

- Ongoing community pressure and unrealistic employment expectations
- Limited lower-level employee opportunities if they are not appropriately trained and provided with the requisite skills required to grow
- Community unrest in areas surrounding our mining operations. This is a particular problem at Barberton Mines due to communities being located close to the mining operations

**Looking ahead**

- Continue to offer motivational talks and other initiatives aimed at safety improvement
- Enabling safe operations through good leadership examples and effective line management strategies
- Improve on training and talent management systems
- Review of human resource policies to ensure that they are aligned to Mining Charter III

The board and remuneration committee mandated an independent remuneration expert to review the group's remuneration policies, consult shareholders and recommend improvements, where necessary.

### WHY EMPLOYEES ARE MATERIAL TO PAN AFRICAN RESOURCES

Our people are fundamental to the sustainability of our business and long-term value creation in addition to being key enablers in the execution of our strategy. Our employees are key to our business success, which makes it imperative that they are part of an organisational culture that prioritises safety, diversity, innovation and performance.

### MANAGEMENT APPROACH

We believe that our people have the right to work in a safe and healthy environment. Mining operations present many risks to our people's health and safety and we will continue to work towards an environment of zero harm.

Our employment policies and procedures are guided by and comply with labour legislation in South Africa. We review our human resources policies and procedures on an ongoing basis.

Our recruitment strategies are designed to focus on local communities in the areas in which we operate. We recruit employees outside of these areas only when the requisite skills or experience are not available locally.

We respect human rights and value equality and diversity. Pan African Resources does not tolerate any form of discrimination or harassment and we foster a work environment free from discrimination against gender, age, race, national origin, marital status, sexual orientation, religious beliefs, disability or any other personal characteristics protected by applicable law. No human rights-related grievances or proven incidents of discrimination were filed during the current financial year. Human rights are specifically addressed by our human rights policy which focuses on the human rights of our employees, people in the communities and in our supply chain.

Pan African Resources abides by the human rights conventions of the International Labour Organisation and South Africa's Constitution. The leadership of each operation, as well as the group executive committee, report to the board in this regard. In the 2019 financial year, no operations or suppliers were found to be exposed to the risk of incidents relating to child, forced or compulsory labour.

Our employees and contractors have the right to freedom of association. Barberton Mines has recognition agreements in place with the National Union of Mineworkers (NUM) and the United Association of South Africa (UASA). NUM represents approximately 83% of the bargaining unit employees and UASA represents approximately 51% of officials, artisans and miners. Evander Mines employees currently do not belong to a union.

In terms of mining regulations, each operation has developed an SLP that must be approved by the DMR. During 2019, Barberton Mines submitted its SLP for the next five years to the DMR and is awaiting its approval. Evander Mines is currently in the process of revising its SLP in line with its reduced operational size, following the cessation of underground operations in the prior year.

## GROUP PROGRESS AGAINST 2019 TARGETS

● Substantively achieved ● Moderate progress ● Not achieved

| Our focus for 2019 | What we achieved | Self-assessment |
|---|---|---|
| Intensified stakeholder engagement to address general stakeholder unrest being experienced at our operations | ◗ We identified influential stakeholders within our surrounding communities with whom we regularly engage<br>◗ Evander Mines has developed and implemented a community engagement policy | Substantively achieved |
| Adherence to approved SLP requirements | ◗ Evander Mines is currently in the process of revising its SLP in line with reduced operational size, following the cessation of underground operations in the prior year | Moderate progress |
| Improving community relations | ◗ During the current financial year, we appointed a community liaison officer at Evander Mines | Substantively achieved |
| Succession planning and training of our employees in specialised positions | ◗ Individual development plans have been developed for key employees at Evander Mines<br>◗ An external consultant has been appointed to perform a training gap analysis to further improve our training and development initiatives | Substantively achieved |

## PERFORMANCE

### Key performance indicators

| | Unit | 2019 | 2018 |
|---|---|---|---|
| Employees | (number) | 3,641 | 4,840 |
| – Permanent | (number) | 2,148 | 2,069 |
| – Contractors | (number) | 1,493 | 2,771 |
| % of permanent employees from South Africa | (%) | 96 | 96 |
| Employee turnover | (%) | 10.6 | 8.6[1] |
| Human resources development spend | (USD million) | 1.0 | 1.8 |
| Permanently employed female employees | (%) | 10.4 | 9.7 |
| Total number of permanent employees by age group | | | |
| 20 – 30 years | (number) | 287 | 384 |
| 30 – 40 years | (number) | 792 | 748 |
| 40 – 50 years | (number) | 507 | 438 |
| 50+ years | (number) | 562 | 499 |
| Total operations | | 2,148 | 2,069 |

| | | Barberton Mines | | Evander Mines | | Corporate | |
|---|---|---|---|---|---|---|---|
| | Unit | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Employment diversity and gender equality[2] | | | | | | | |
| Representation of historically disadvantaged South Africans (HDSAs) | | | | | | | |
| Senior management | (%) | 46 | 50 | 44 | 43 | 40 | 40 |
| Middle management | (%) | 48 | 60 | 63 | 50 | 100 | 100 |
| Junior management | (%) | 56 | 52 | 85 | 95 | 100 | 100 |
| % of workforce South African employees | (%) | 97 | 98 | 88 | 97 | 100 | 100 |
| Number of women employed | (number) | 178 | 175 | 40 | 19 | 5 | 6 |
| Percentage of women permanently employed | (%) | 9.1 | 6.8 | 22.1 | 17.8 | 29.4 | 35.3 |

[1] *The employee turnover excludes retrenched employees.*

[2] *Relates to South African registered companies within the group.*

# SOCIAL SUSTAINABILITY continued

## HUMAN CAPITAL continued

### Employee profile

The group's total staff compliment has declined to 3,641 people (2018: 4,840). The decline is attributable to the reduced number of contractors at our operations following the commissioning of Elikhulu in September 2018 and the cessation of large-scale underground operations at Evander Mines. The group's staff turnover was 10.6% (2018: 8.6%) excluding retrenched employees demonstrating the stability of the group's workforce. The employee relations environment has been stable over the past financial year with no authorised industrial action experienced at our operations.

### Employment diversity and gender equity

Pan African Resources promotes employment diversity and gender equality. We respect people from diverse backgrounds and promote a culture in which our employees feel valued, which, in turn, encourages our employees to contribute to the growth and sustainability of our company.

Pan African Resources acknowledges that delivering and contributing to genuine transformation is critical for the sustainability of our business, the communities in which we operate, and the country as a whole. We are committed to integrating real transformation throughout the group, as guided by the MPRDA, the Mining Charters and our SLPs.

The board has set the following target for its non-executive director representation:

- 25% female
- 40% HDSAs.

After year-end, we further strengthened the Pan African Resources board with the appointment of two new independent non-executive directors. We welcome Yvonne Themba and Charles Needham to the board. Yvonne Themba's appointment improves our board gender and employment equity representation for the 2020 financial year. Subsequent to the appointment of the two new directors, our board comprises seven directors, of which two are female (29%) and three are HDSAs (43%).

Permanently employed females have marginally increased to 10.4% (2018: 9.7%).

#### Recent Mining Charter developments

Mining Charter III seeks to strike a balance between improving transformation and ensuring the industry's viability in a volatile environment. Regarding ownership, it differentiates between new and existing mining rights holders.

Existing rights holders can continue to have 26% black ownership for the duration of their rights, although increased HDSA ownership is required for licence renewals and transfers. These rights remain applicable even if a BBBEE shareholder withdraws its stake, which is often a contentious point following the industry's legal battle over the 'once empowered, always empowered' principle.

Companies that applied for mining rights before the introduction of the 2018 Mining Charter require 26% black ownership and have five years to increase that percentage to 30%.

Following the successful restructuring agreements concluded in the prior year, Pan African Resources' BBBEE ownership is calculated at 26%, comprising 21% in Pan African Resources SA Holdings Proprietary Limited and 5% from its on-mine employee ownership schemes. Refer to our website for our company structure.
www.panafricanresources.com/about-overview/company-structure/)

### Skills development and training

Pan African Resources believes that ongoing and effective talent development is essential for its continued competitiveness, transformation and sustainable growth. Our skills development and training focuses on investing in our employees to ensure that we have the necessary skills to meet our strategic objectives and operational needs.

We deliver these skills through a combination of learnerships, bursaries, artisan training, Adult Basic Education and Training and other skills transfer initiatives provided to individuals in the appropriate demographic groups as defined in the amended Mining Charter III. The group spent USD1.0 million (2018: USD1.8 million) on human resources and development during the year. The spending decline results from lower employee numbers.

### Anti-corruption and anti-bribery

Pan African Resources has a zero-tolerance policy for bribery and corruption by employees, officers, directors, consultants or contractors, with even the appearance of impropriety deemed unacceptable.

We conduct internal audits of all of our business units and have robust internal financial controls and processes in place.

## LOOKING AHEAD

During the year ahead, we will align our training and talent management systems to include a greater focus on human capital development to ensure that Pan African Resources' employees and managers are able to progress their careers within the group.

We will continue to review our human resource policies to ensure that they are aligned to prevailing legislation and regulations.

# HEALTH AND SAFETY

The health and safety of our employees and contractors is of paramount importance to Pan African Resources. Mining is a physically and mentally challenging industry and, as such, mining operations present risks to the health and safety of our people. We, however, continue our efforts in creating an environment of zero harm.

## 2019 HEALTH AND SAFETY HIGHLIGHTS AND CHALLENGES

### Highlights

**Safety**

- The group's safety rates have shown significant improvement
- No fatalities
- Fairview Mine achieved 1 million fatality-free shifts on 15 July 2018
- Barberton Mines achieved 2 million fatality-free shifts during June 2019
- No Section 54 stoppages were issued by the DMR at Barberton Mines
- An independent safety expert was appointed to review and audit the operational safety systems to ensure compliance

**Health**

- Increase in the number of employees undergoing voluntary testing for tuberculosis (TB)
- Dust and noise levels below industry averages

### Challenges

**Safety**

- Safety also remains the responsibility of each and every employee and, therefore, reliance on all employees adhering to safety standards

**Health**

- Encouraging employee compliance with treatment regimes for occupational diseases
- HIV/Aids co-infection remains a challenge
- Increase in sporotrichosis cases
- Impact of increasing levels of lifestyle diseases affecting mine employees

### Looking ahead

**Safety**

- Motivational talks to continue safety improvements
- Leadership to act as safety role models
- While injury rates are well below industry average, we will continue to work on improving our safety rates and achieving our aim of zero harm to employees

**Health**

- Continued efforts to suppress dust levels
- Awareness and education on sporotrichosis

## WHY HEALTH AND SAFETY IS IMPORTANT TO PAN AFRICAN RESOURCES

We strive to create an environment of zero harm by creating a safe and healthy workplace and managing our activities in a way that eliminates accidents, minimises health and safety risks and promotes excellence in the performance of our operations.

We recognise that the better we care for the safety, health, wellness and environment of our employees, the more likely we are to attract and retain the highest calibre of people.

## MANAGEMENT APPROACH

Our board-approved SHEQC policy serves as the safety blueprint for our entire organisation. Our health and safety policy and framework is aligned with the Mine Health and Safety Act. We promote and support a culture of zero harm and minimal environmental impacts.

The board takes ultimate responsibility for the group's SHEQC performance and has allocated its direct management to the SHEQC sub-committee. This sub-committee informs the board on matters relating to SHEQC compliance, discipline and the action plans required to optimise responses to any incidents and accidents. The mine general managers are primarily accountable for SHEQC performance at their sites.

Pan African Resources continues to comply with the mining licence conditions set by the DMR, the Mine Health and Safety Act (as amended from time to time) and other relevant legal requirements. The group SHEQC manager, as well as safety, health and environmental officials, guide and advise each operation.

Legal requirements are treated as starting points for improvement and are regularly audited by group SHEQC officials. These are supported by monthly SHEQC performance reviews. Our safety performance results are reported regularly to the DMR.

Employees at Barberton Mines and Evander Mines are represented via joint management-worker health and safety representative committees.

In addition to the vital role played by our employees in our safety performance, our contractors and suppliers are pivotal to the achievement of our SHEQC objectives. As such, we encourage their buy-in to our safety ethos, as well as their active involvement in our initiatives. This is done through training, written communications and regular face-to-face meetings. We regularly visit areas utilised by contractors to ensure their compliance with health and safety standards.

# SOCIAL SUSTAINABILITY continued

## HEALTH AND SAFETY continued

### GROUP PROGRESS AGAINST 2019 TARGETS

● Substantively achieved ● Moderate progress ● Not achieved

| | Our focus for 2019 | What we achieved | Self-assessment |
|---|---|---|---|
| Safety | Maintain zero fatalities at our operations | ◗ No fatalities were reported for the year under review | Substantively achieved |
| Safety | Implement safety programmes to promote a safe working culture and reduce safety-related injuries | ◗ TRIFR and LTIFR for the group improved to 10.71 (2018: 12.71) per million man hours and 1.62 (2018: 3.73) per million man hours, respectively<br>◗ RIFR for the group improved to 0.51 (2018: 1.08) per million man hours | Substantively achieved |
| Health | Continue to drive awareness programmes for TB and HIV/Aids | ◗ 911 (2018: 3,149) employees were tested for HIV/Aids<br>◗ 21 (2018: 55) certified cases of TB for the current financial year were reported | Moderate progress |

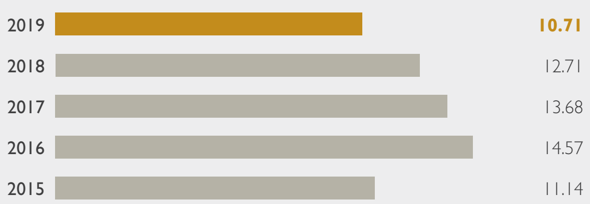
### PERFORMANCE

Key performance indicators

Health and safety

| | | Group | |
|---|---|---|---|
| | Unit | 2019 | 2018 |
| **Safety** | | | |
| Total recordable injury frequency rate (TRIFR) | (Rate/million man hours) | **10.71** | 12.71 |
| Lost-time injury frequency rate (LTIFR) | (Rate/million man hours) | **1.62** | 3.73 |
| Reportable injury frequency rate (RIFR) | (Rate/million man hours) | **0.51** | 1.08 |
| Fatal injury frequency rate (FIFR) | (Rate/million man hours) | **–** | – |
| Fatal injuries | (Number) | **–** | – |
| Lost-time injuries | (Number) | **19** | 52 |
| Reportable injuries | (Number) | **6** | 15 |
| Medical and first-aid treatment cases | (Number) | **126** | 177 |
| **Health** | | | |
| HIV/Aids tests | (Number) | **911** | 3,149 |
| TB cases | (Number) | **21** | 55 |
| Diabetes cases | (Number) | **112** | 74 |
| Hypertension cases | (Number) | **649** | 455 |
| Certified silicosis cases | (Number) | **27** | 20 |
| Sporotrichosis cases | (Number) | **4** | 1 |

Total recordable injury frequency rate*




** Per million man hours.*

### Safety

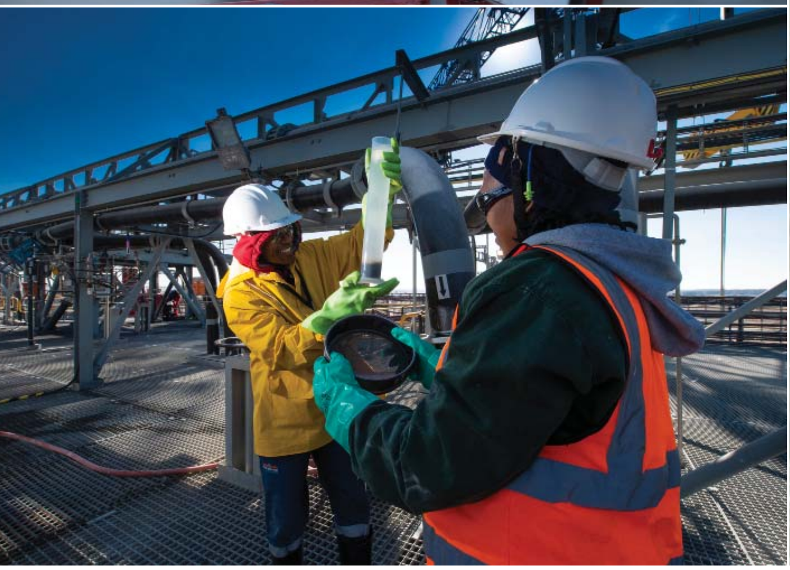
The group has experienced an encouraging improvement in its safety performance, with TRIFR showing an encouraging improvement over the past four years. The group has recorded no fatalities for the second consecutive year. We will continue to work to embed a culture of uncompromising safety at all our operations.

### Health

The health and wellness of our employees is a key component of achieving our operational objectives. By reducing health and safety-related risks, we are able to support the overall health and well-being of our employees, which enables improved productivity. Prevention and managing of TB and HIV/Aids is an area of focus for the group. Employees diagnosed with lifestyle-related diseases, such as hypertension and diabetes, are regularly monitored and provided with educational programmes.

˅ *Barberton Mines – safety notice*


˅ *Barberton Mines – Fairview 3 Incline station*

˄ *Elikhulu – carbon measurements*

Through increased awareness programmes, the number of certified diabetes and hypertension cases have increased by 51.4% and 42.6% respectively. The number of HIV/Aids tests have reduced significantly following staff reductions in recent years.

Sporotrichosis is an infection caused by a fungus called Sporothrix Schenckii, which is prevalent in tropical and sub-tropical areas and can impact miners. Due to its weather conditions and wooden supports, Barberton Mines is the only operation where this disease is a risk and this risk is actively managed through the operation's health and safety controls. During the year under review, four new cases of sporotrichosis were reported.

## LOOKING AHEAD

Our primary focus for the year ahead is to improve ongoing health and safety awareness programmes. We intend increasing these programmes through regular engagement and communication with employees at all operations. Given the success of the motivational speaker events at Barberton Mines, these will be expanded in the coming financial year at our operations.

We recognise that a healthy organisational culture starts at the top of our organisation. We will, therefore, focus on involving the group's leadership in health and safety to a greater extent, effectively positioning these leaders and executives as role models in the group.

# SOCIAL SUSTAINABILITY continued

## SOCIAL AND RELATIONSHIP CAPITAL

Mining activities make a significant contribution to the national economy and create financial opportunities for the local economies in which they operate. Pan African Resources recognises its responsibility to be a socially responsible corporate citizen.

### 2019 SOCIAL AND RELATIONSHIP CAPITAL HIGHLIGHTS AND CHALLENGES

#### Highlights

- Established a business incubation centre to support and improve business skills in Evander
- Successfully completed the construction of the Renee Clinic and officially handed it over to the Mpumalanga Department of Health in September 2018
- We enrolled 12 (2018: five) former bursary graduates into our internship programme at Barberton Mines

#### Challenges

- High expectations for employment and procurement opportunities from communities surrounding our mining operations
- Illegal mining and its impact on society

#### Looking ahead

- Continued focus on youth and small enterprise development
- Further investment in eco-tourism opportunities in Barberton
- Proactive management of community expectations through ongoing engagement and education
- Construction of the Cathyville Clinic with handover expected in December 2020
- Barberton Mines' Transformation Trust (BMTT) is in the process of establishing a business development hub to provide support for small businesses

### WHY COMMUNITIES ARE MATERIAL TO PAN AFRICAN RESOURCES

As employers and valuable contributors to the nation's economy, Pan African Resources has a key role to play in South Africa's transformation journey and a moral obligation to deliver meaningful direct and indirect social benefits for local communities. Through local community investments, we support initiatives that benefit communities and promote their sustainable development. Understanding and proactively managing the impacts of mining on communities is integral to the success of our operations.

### MANAGEMENT APPROACH

Pan African Resources operates mines in the Barberton and Evander regions of the Mpumalanga province of South Africa. Each of our operations has developed programmes aimed at optimising the benefits we offer communities by creating shared value, while at the same time anticipating and mitigating any potential negative social impacts of our activities. Our approach centres on:

- building strong relationships with community members and leaders
- upholding fundamental human rights
- investing in meaningful community upliftment and empowerment projects
- catalysing sustainable development
- respecting cultures, customs and values
- engaging in open and inclusive dialogue.

We recognise that continuous stakeholder and community engagement is key to cultivating a safe and healthy environment for all. We are working towards building better relationships with our communities over time and inviting those stakeholders to engage with us through established community forums about the issues they experience, so that we can take steps to resolve these collaboratively. Our mine representatives attend monthly and quarterly community forum meetings to address community concerns.

The community steering committee, established by the Elikhulu team to represent Evander Mines and all relevant community stakeholders, continues to engage with the Evander community to address grievances and concerns. Mine representatives attend monthly and quarterly human settlement and LED meetings of Govan Mbeki Municipality.

#### The Mining Charter and social and labour plans

The Mining Charter III sets out targets for the mining industry in terms of social development and community upliftment. We comply with the requirements of the MPRDA and submit annual progress reports on our SLPs to the DMR. To minimise any negative social

< *Emjindini Senior Secondary School science laboratory – official handover of the laboratory took place in 2013/2014*

impacts from our mining operations, we monitor, measure and manage our social and economic impact in line with approved SLPs.

All SLP processes are conducted through recognised municipal structures and we review our SLP spend regularly, based on our available financial resources and legislative requirements. In the 2019 financial year, no fines or sanctions were received for non-compliance with social or economic laws and/or regulations.

### Corporate social investment

Corporate and social responsibility is the group's overall contribution to society, including its role as social investor, employer and capacity builder. We continue to drive various community-focused development projects in the areas and communities in which we operate. The group also promotes responsible supply chain management by encouraging our suppliers to support LED projects where possible.

*Newly constructed Renee Clinic at Emjindini Trust – official handover of the clinic took place in September 2018*

## GROUP PROGRESS AGAINST 2019 TARGETS

Substantively achieved · Moderate progress · Not achieved

| Our focus for 2019 | What we achieved | Self-assessment |
|---|---|---|
| Implementation of our operations' SLPs | ◗ We invested USD1.9 million (2018: USD1.1 million) in CSI, LED projects and bursaries. We contributed USD0.2 million (2018: USD0.3 million) towards full-time bursaries for 26 (2018: 31) students<br>◗ Handed the Renee Clinic over to the Mpumalanga Department of Health in September 2018 | |
| Improving relations through regular engagement with communities surrounding our mining operations | ◗ Our operations have developed and rolled out various campaigns to create awareness of their impact and contribution to the local communities through local newspaper publications, radio interviews and social media platforms | |

## PERFORMANCE

### Key performance indicators

| | Barberton Mines | | Evander Mines | | Corporate office | | Group | |
|---|---|---|---|---|---|---|---|---|
| | 2019 USD thousand | 2018 USD thousand | 2019 USD thousand | 2018 USD thousand | 2019 USD thousand | 2018 USD thousand | 2019 USD thousand | 2018 USD thousand |
| CSI | 256.9 | 194.6 | 159.4 | 7.8 | 165.4 | – | 581.7 | 202.4 |
| LED | 1,046.4 | 365.8 | 57.1 | 225.7 | – | – | 1,103.5 | 591.5 |
| Bursaries | 190.9 | 241.2 | 32.4 | 23.3 | – | – | 223.3 | 264.5 |
| Total | 1,494.2 | 801.6 | 248.9 | 256.8 | 165.4 | – | 1,908.5 | 1,058.4 |

### Corporate social investment and local economic development

The group has maintained its contributions to CSI, LED projects and bursaries as required by legislation. The group spent USD1.9 million (2018: USD1.1 million) on CSI, LED projects and bursaries.

### Illegal mining

Illegal mining activities are a constant challenge at all Barberton mining facilities, particularly in and around the mountain range separating Fairview Mine and Sheba Mine. During recent years, the influx of illegal immigrants from neighbouring countries to the Barberton region, especially from Lesotho, Mozambique and Zimbabwe, has led to a significant increase in the number of foreign nationals being arrested for illegal mining at Barberton Mines. In addition, it has also been found that local youths are increasingly abandoning their education to join the illegal miners in their illicit activities.

During the 2019 financial year, we focused on clamping down on illegal mining to assist in addressing these social challenges. As a result, 2,900 suspected criminals have been arrested for the theft of gold-bearing material and other commodities such as copper cable and scrap metal at Barberton Mines and Evander Mines. We recognise, however, that this is an ongoing issue that has to be constantly monitored. We will continue to work with our security contractors and the South African Police Service to inhibit illegal mining and criminal activities and limit their impact on the safety and moral fibre of local communities and our operations.

# SOCIAL SUSTAINABILITY continued

## SOCIAL AND RELATIONSHIP CAPITAL continued

### Supporting our communities through our transformation trusts

Pan African Resources' investment in communities through the group's transformation trusts amounted to USD1.3 million for the current financial year (2018: USD1.0 million). This included contributions from gold mining operations and suppliers.

Wherever possible, the group promotes responsible and ethical supply chain management by encouraging suppliers to support local economic development. Barberton Mines and Evander Mines encourage their suppliers to contribute up to 1% of their contract value to these trusts.

The objective of these trusts is to improve the quality of life of the local community, create jobs and promote socio-economic development.

The BMTT is facilitating an innovative small enterprise development programme for entrepreneurs in the community. This will assist existing small, medium and micro-sized enterprises (SMMEs)in the immediate communities surrounding Barberton Mines to grow and become regionally competitive, self-sustainable businesses.

The BMTT is also in the process of establishing a business development hub to provide support for small enterprises. The hub will provide a host of services typically required by any developing business that wishes to provide services to Barberton Mines and other businesses or industries in the region. The initiative will identify up to 100 community-based businesses and coach them through a four-phase development plan.

### Preferential procurement

Our primary procurement objective is to control costs, achieve savings and manage inventory across operations through decentralised sourcing. In addition, we are committed to increasing spend with black-owned and black-women-owned businesses, as well as uplifting the communities where we operate through proactive projects and strategic sourcing.

˅ *Barberton Museum – relics of historic mining in the Barberton area*


Our operations promote responsible and ethical supply chain management by encouraging suppliers and contractors to support local economic development through the employment of community members and sourcing local products where possible.

Contributions by suppliers to our transformation trusts also count towards their BBBEE scorecard achievements.

The table below shows the allocation of procurement spend for the group's operations, relative to the Mining Charter targets:

| | Mining Charter target % | Barberton Mines 2019 % | Barberton Mines 2018 % | Evander Mines 2019 % | Evander Mines 2018 % |
|---|---|---|---|---|---|
| Capital goods | 40 | **87.8** | 91.2 | **90.7** | 80.5 |
| Services | 70 | **94.1** | 88.6 | **58.7** | 68.0 |
| Consumables | 50 | **88.4** | 85.3 | **57.7** | 60.1 |

Barberton Mines procured USD12.7 million from black-women-owned businesses in the year under review.

## LOOKING AHEAD

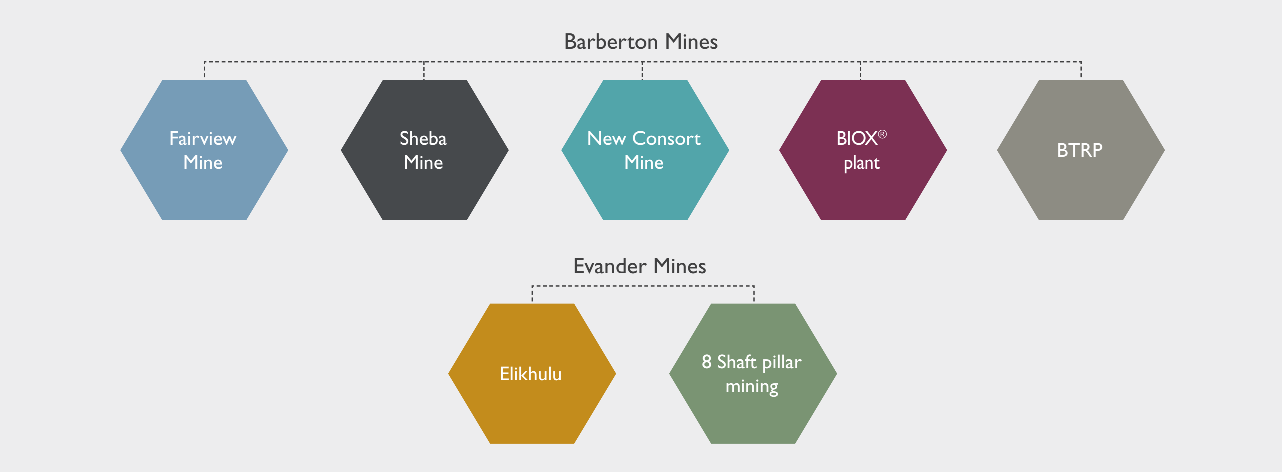
We will continue focusing on youth and small enterprise development, while proactively managing community expectations through ongoing engagement and education.

# OUR COMMERCIAL SUSTAINABILITY

## MANUFACTURED CAPITAL

Substantial financial investment in the purchase, development and maintenance of infrastructure, plant and equipment has provided the capacity to generate sustainable long-term returns. We are aware of our responsibility to maintain, refurbish and replace our manufactured capital to ensure the safety of our employees and deliver optimum results.

Pan African Resources owns an attractive portfolio of underground and surface mining assets:




### WHY MANUFACTURED CAPITAL IS MATERIAL TO PAN AFRICAN RESOURCES

Infrastructure and equipment are essential to extracting resources, processing ore and transporting the concentrate. We maintain these assets carefully to extend the life of our operations and improve our commercial sustainability.

### MANAGEMENT APPROACH

At both group and operational levels, management regularly inspects all tangible assets for evidence of deterioration. We regularly undertake improvement and upgrade initiatives to drive capital productivity and cost efficiency. Our manufactured capital comprises:

- Underground mining operations
- Surface mining operations
- Buildings, plants and milling stations
- Vehicles and equipment
- Infrastructure, pipelines and storage facilities.

Ageing infrastructure at our underground operations requires consistent maintenance and refurbishment, which forms part of operational planning and scheduling. Pan African Resources has prioritised addressing its most pressing operational challenges, which are:

- Providing safe environmental working conditions
- Maintaining mining flexibility
- Improving face time, thus enhancing productivity.

All engineering and equipment standards comply with original equipment manufacturer guidelines and the Health and Safety Act, as well as our own standard operating procedures and codes of practice.

Equipment reaching its expiration date is generally replaced with similar or improved technology equipment in keeping with our internal equipment standards and requirements.

### 2019 MANUFACTURED CAPITAL HIGHLIGHTS AND CHALLENGES

#### Highlights

- Elikhulu was successfully commissioned ahead of schedule
- Incorporating ETRP's throughput capacity of 0.2 million tonnes per month into Elikhulu was completed in December 2018
- Improved underground mining flexibility at Fairview Mine's high-grade 272 and 358 platforms
- Commenced development of the Evander Mines' 8 Shaft pillar

#### Challenges

- Although New Consort Mine is achieving its expected tonnes, its financial performance is below expectation due to its lower grade

#### Looking ahead

- Evander Mines has initiated a feasibility study into the merits of a solar-powered plant to supplement Elikhulu's power consumption
- Ongoing infrastructure upgrades, including a gravity circuit at the Fairview plant to recover the free gold
- Consort and Sheba plants upgraded to treat low-grade surface sources
- Further investigate Project Dibanisa, which would link the Sheba Mine to Fairview Mine's infrastructure, saving costs and freeing up the Sheba Mine infrastructure for the Royal Sheba project

# OUR COMMERCIAL SUSTAINABILITY continued

## MANUFACTURED CAPITAL continued

### GROUP PROGRESS AGAINST 2019 TARGETS

Substantively achieved | Moderate progress | Not achieved

| Our focus for 2019 | What we achieved | Self-assessment |
|---|---|---|
| Development of Fairview's sub-vertical shaft to improve mining flexibility, productive time at working faces and hoisting capacity<br>Establish additional platforms at Fairview's 11-block for mining flexibility<br>Incorporation of ETRP's throughput into Elikhulu's processing capacity<br>Assess the viability of mining Evander Mines' 8 Shaft pillar | Developing top and bottom access for the sub-vertical shaft is progressing according to plan<br>Improved underground mining flexibility at Fairview Mine's high-grade 272 and 358 platforms<br>ETRP's throughput was incorporated into Elikhulu's processing capacity in December 2018<br>Completion of the feasibility study into the merits of mining the Evander Mines' 8 Shaft pillar and commenced with its development | Substantively achieved |

### PERFORMANCE

#### Key performance indicators

| | Unit | 2019 USD million | 2018 USD million |
|---|---|---|---|
| Total capital expenditure | | **56.7** | 128.4 |
| Barberton Mines | | **16.2** | 16.4 |
| Evander Mines | | **2.7** | 14.1 |
| Elikhulu | | **37.7** | 97.8 |
| Corporate | | **0.1** | 0.1 |
| **Production** | | | |
| Barberton Mines | (oz) | **99,363** | 90,629 |
| Evander Mines | (oz) | **73,079** | 69,815 |

#### Evander Mines

Elikhulu was successfully commissioned during September 2018, with ETRP's throughput incorporated into Elikhulu's processing capacity in December.

The Evander Mines' 8 Shaft pillar will replace the current remnant underground mining and vamping production and will contribute approximately 20,000oz in the 2020 financial year.

#### Barberton Mines

Barberton Mines benefited from increased underground mining flexibility and higher ore grades with the 272 and 358 platforms in production in early 2019.

Fairview Mine has seen an increase in free gold being mined, thus we have invested in a gravity circuit to improve free gold recovery from this plant. The R18.0 million (USD1.3 million) investment has a repayment period of approximately two years, emphasising the added value this manufactured capital will provide to Barberton Mines.

#### Organic growth

Group growth strategies are supported by robust life-of-mine plans. Exploration drilling and activities to access and develop our orebodies were pursued during the year. To enhance our conversion strategy of Mineral Resources to Mineral Reserves, we prioritise organic growth projects within the mining value chain. Those projects that are most feasible and will enhance production are placed at the forefront.

#### Growth projects

| Evander Mines | Barberton Mines |
|---|---|
| 8 Shaft pillar mining | Royal Sheba project |
| Egoli project | New Consort exploration project |
| | Sub-vertical shaft project at Fairview |
| | Project Dibanisa |

### LOOKING AHEAD

To remain competitive, deliver on our production guidance and position Pan African Resources for the long term, we continually seek specific opportunities to enhance the performance of our manufactured capital and improve the overall efficiency and costs to optimise our operating model.

A dynamic exploration drilling programme is underway at Barberton Mines to increase minable areas by utilising our existing infrastructure to access these additional underground resources.

At Elikhulu, our focus is on further optimising operations. We are also embarking on optimisation exercises aimed at improving production and reducing water consumption.

The board of directors approved the development of Evander Mines' 8 Shaft pillar project, with first gold produced in August 2019.

# INTELLECTUAL CAPITAL

It is imperative that Pan African Resources continually innovates across every aspect of its business to ensure the sustainability of its operations. Continuous innovation will enhance our performance, ensure the safety of our people, and deliver value for all our stakeholders.

*Barberton Mines – Fairview smelting operation*

## WHY PROCESSES, SYSTEMS AND TECHNOLOGY ARE MATERIAL TO PAN AFRICAN RESOURCES

While Pan African Resources remains reliant on human resources, technology is transforming the workplace in all industries, including mining. We recognise the importance of responding swiftly to this evolution through targeted investments in people, technologies and data-driven systems.

At the same time, we are aware that in an increasingly technological world, we face a higher risk of exposure to cybercrime and related risks. We need to take all steps necessary to protect our interests and those of our stakeholders from these risks.

## MANAGEMENT APPROACH

Management's key focus areas for technology and processes are to improve safety performance, deliver quality ounces, optimise the performance of Elikhulu and identify and advance value-accretive growth opportunities.

Risk management is integral to achieving safe mining systems and efficient operations. Potential new processes and technologies are scrutinised through a risk assessment process and, if adopted, are applied in line with detailed risk-based management plans.

The board is ultimately responsible for technology and information governance, which is guided by an information technology (IT) charter and protection of personal information policy.

Each operation has formal business continuity and disaster management plans in place, which are directly overseen by mine general managers.

## PERFORMANCE

### Balancing underground and surface mining

As underground mining has become riskier and less profitable, Pan African Resources has increased its focus on low-risk, low-cost and efficient gold tailings processing. Our production is now more evenly split between underground mining and surface operations with an 53:47 split for the current year. This is a significant improvement from 2018 when underground mining accounted for 76% of our total gold output.

## 2019 INTELLECTUAL CAPITAL HIGHLIGHTS AND CHALLENGES

### Highlights

- The successful manner in which the construction of Elikhulu was completed, demonstrates our team's ability to conceptualise, plan and complete large projects
- Improved throughput and recoveries through the Barberton Mines regrind mill
- Successful upgrades of IT infrastructure and improved cybersecurity
- Installed improved technology at the BIOX® plant to monitor bacterial health

### Challenges

- Improving resource utilisation while lowering costs
- Identifying the most appropriate digital opportunities to enhance business processes
- Increasing risk of cybercrime
- BIOX® process is susceptible to hydrocarbon pollution

### Looking ahead

- The group will continue to invest in people, systems and technologies that make operations more efficient and cost effective

*Barberton Mines – Fairview Mine 42 Level onsetter station >*

# OUR COMMERCIAL SUSTAINABILITY continued

## INTELLECTUAL CAPITAL continued

### A bit about BIOX®

BIOX® is an easier and safer process than other refractory processing technologies. Barberton Mines uses tank bioleaching, a bio-hydrometallurgical process wielding a host of archaea and bacteria, to oxidise the iron and sulphur from the refractory crystal matrix to expose gold for subsequent cyanide recovery.

The bacteria used in the BIOX® technology require simple nutrient additives. They thrive on a stable diet and in a controlled temperature of approximately 42°C. Provided that the bacteria's environment is maintained at a consistent level, there is little risk to the technology's efficacy.

To protect against power interruptions that might impact on this environment, reliable backup generators are in place.

BTRP has been a major milestone for Pan African Resources as it has demonstrated its capacity to add significant low-cost ounces to the group's production profile. In 2018, a regrind mill was installed at BTRP to improve throughput and recoveries of course fraction material from the Harper and Vantage dumps. The mill has proven successful in 2019, and has already increased tonnages and improved recoveries, restoring BTRP to 20,000oz of gold per year at an all-in sustaining cost of USD552/oz.

### BIOX® processing

The BIOX® process exposes the gold in sulphide minerals for subsequent cyanidation and raises the overall recovery of gold ounces. Barberton Mines is the birthplace of BIOX®, an environmentally friendly process that uses bacteria to release gold from the sulphide that surrounds it. Given its established expertise, Barberton Mines is used as a training facility for BIOX® plants globally. The BIOX® process only works with specific ores, such as those found at Barberton and offers numerous advantages. For example, BIOX®:

- is environmentally friendly
- delivers higher gold recovery rates
- incurs significantly lower capital costs to develop and operate
- is a robust technology that is well suited to remote locations
- meets daily operational requirements suited to semi-skilled labour and on-the-job training
- offers opportunity for continuous improvement through ongoing process development.

#### Gas chromatography mass spectrometry

Maintaining the BIOX® plant at optimum bacterial health increases gold recovery. During the current financial year, we invested in gas chromatography mass spectrometry (GCMS) technology to analyse the health of bacterial cultures at the BIOX® plant. GCMS is an analytical method that combines the features of gas-liquid chromatography and mass spectrometry to identify different substances within a test sample.

The gas chromatography (GC) instrument is effective in separating compounds into their various components, while the mass spectrometry (MS) instrument provides specific results. Our laboratory analysts use the GC instrument to separate compounds before analysis with the MS instrument, giving them access to mass spectral data. This analysis facilitates the effective control of plant conditions and optimal bacterial health, to ensure the highest possible rate of sulphide oxidation.

The plant has had no serious hydrocarbon incidents since the installation of the GC, and now the GCMS, and the recovery rate has improved to more than 98%.

## INFORMATION AND TECHNOLOGY

### Underground safety monitoring

Our underground operations at Barberton Mines use advanced technology to monitor water and oxygen levels, lighting, ventilation systems, temperatures and air circulation. Automated switch control devices activate water pumps and fans before employees commence underground work, while fridge plants ensure that underground working temperatures are maintained at comfortable levels. Best practice in this field requires that underground temperatures never exceed 32.5°C and we make every effort to maintain our underground temperatures below 31.5°C.

While the abovementioned automated technology plays a massive role in ensuring the efficiency of our underground operations, we acknowledge that there can be risks associated with automation and mechanical systems. As such, operators and supervisors have the ability to manually override these systems in emergency situations.

### Information technology

We continue to see an improvement in productivity and efficiency in the administrative and management functions at Barberton Mines. This is a direct result of faster, more reliable connectivity and improved analysis of mining data.

We previously made the decision to move away from ADSL connectivity and considered fibre as an alternative option. Fibre bandwidth restrictions in the Barberton area, however, forced us to reconsider this and we have now transferred most of our connectivity to microwave technology. This affords us significantly faster and more stable connections and the combination of the two technologies should ensure that we have at least some connectivity at all times.

## GROUP PROGRESS AGAINST 2019 TARGETS

● Substantively achieved ● Moderate progress ● Not achieved

| Our focus for 2019 | What we achieved | Self-assessment |
|---|---|---|
| Balancing underground and surface mining and improving processes | ◗ Our Elikhulu tailings retreatment project is delivering low-cost ounces<br>◗ ETRP's throughput was incorporated into Elikhulu's processing capacity in December 2018<br>◗ BTRP significantly improved production following the successful commissioning of the facility's regrind mill in May 2018 | ● Substantively achieved |
| Improving technology | ◗ Monitoring technology installed at Elikhulu to optimise plant operation | ● Substantively achieved |

### Cybersecurity

The potential for cybercrime and illegal systems access is an ever-present risk that Pan African Resources recognises it needs to proactively prevent. Our entire IT and communications network is secured by means of password protection and verification, so that users wishing to access the network require authorised access certificates. We conduct regular penetration tests to identify network or system vulnerabilities and immediately address all issues found.

All Pan African Resources data is backed up onto an external, off-site server located at a data-recovery site. Should our central server be compromised in any way, or experience a fault, we are able to restore full server functionality with limited downtime using the constantly updated image on the backup server.

## LOOKING AHEAD

Challenging the way things have always been done is a priority and a value instilled in our culture. By developing new solutions, encouraging new ways of thinking and finding new ways of working, we will continue to dramatically improve our business and competitiveness.

We will continue to encourage an entrepreneurial and innovative culture across all our operations as this type of culture is essential to identifying and exploiting opportunities for the benefit of all our stakeholders.

We are in the process of improving our biometrics system with a view to better managing employee record keeping and monitoring attendance and overtime. Once completed, the enhanced system will feed into the payroll and human resource processes to improve accuracy, reliability and reporting.

# GOLD: AN INVESTMENT FOR THE AGES

## A GLIMPSE OF GOLD

Over the past five millennia, gold has earned a place as one of the planet's most precious and sought-after metals. Throughout history, mankind has pursued this often elusive source of wealth and prestige. Gold is used for creating jewellery, as a form of currency and, ultimately, a self-regulating asset that underpins modern economies.

Today, gold remains a key economic component. The precious metal is typically purchased and held as a hedge against inflation given the fact that, as a tangible asset, its value almost always increases during times of economic crisis or uncertainty. As a result, gold's appeal as an investment has grown significantly in recent times, as rising geopolitical tensions and a growing mistrust of modern financial systems drive an increasingly volatile global economy.

## THE THREE MAIN REASONS INVESTORS HOLD GOLD

While modern markets offer a plethora of options for investors, gold remains a highly sought-after investment opportunity, whether in its physical form, or indirectly through stocks, shares and tradeable investment instruments. Despite many ups and downs throughout history, gold has never lost its sheen for canny investors:

### Gold is scarce

Gold is a tangible asset that remains relatively scarce. Where it is found, it is often difficult and expensive to access. As such, it maintains its value as a durable resource and a safe haven for investment.

### Gold protects global economic value

Gold is seen as a physical store of value during times of economic deflation or even extreme inflation. To some, it is still considered a highly valued global currency.

### Gold is often 'contrarian'

The price of gold often moves in the opposite direction to equity and bond markets. In most instances, when an investment portfolio is losing value because of the poor performance of shares, any gold holdings within that portfolio will limit overall losses through better performance. This makes gold an excellent source of asset diversification.

## SO – WHAT DRIVES THE GOLD PRICE?

The most impactful factors driving price shifts are:

Monetary policy – the policies of leading economic powerhouses like the USA, UK, Europe and China are probably the biggest influencers of gold prices. In low interest rate environments, where investors are faced with nominal gains on money instruments, gold can offer a more appealing proposition.

Economic news and data – as mentioned earlier, gold is considered a good physical store of value. So, when economies and countries are seen to be faltering, investors often look to gold as a safe haven, thereby pushing up the price.

Supply and demand – gold is still extensively used for jewellery manufacturing, as well as various industrial and manufacturing purposes. As consumers and industries increase or decrease their demand for gold, the price responds accordingly.

*Barberton Mines – gold bar >*

## KRUGERRAND OPENS DOORS TO PHYSICAL GOLD OWNERSHIP

Launched in 1967, the South African Krugerrand was the very first coin in the world created specifically for investment purposes. At the time it was conceived, South Africa was the biggest gold producer in the world, and the production of the Krugerrand was considered the perfect way for the country and its economy to capitalise on this position. It offered investors a physical means of privately owning gold. So popular was it with investors that, at one time, Krugerrands accounted for nearly 90% of the global gold coin market.

## HOW TO INVEST IN GOLD

Gold is an immensely versatile asset because it offers a variety of investment options. The most popular of which of are:

### Shares in gold mining companies

Direct investing in gold mining companies is the first choice for many knowledgeable investors. Why 'knowledgeable'? Because gold mining companies are not always valued in direct correlation to the gold price, often due to their internal operational and development cycles in relation to their markets That said, gold mining and exploration remains potentially lucrative for informed investors, particularly given gold's safe-haven role in increasingly erratic global markets.

### Futures contracts

These are standardised contracts that trade on formal exchanges. They allow the contract holder to buy or sell the underlying asset at a stated future time and at a specified price.

### Gold ETFs

The first gold Exchange Traded Fund (ETF) was launched 15 years ago in 2004 and became a most popular form of gold investment. ETFs enable investors to profit from gold without physically owning the commodity.

### Collectors' coins

These gold coins are popular with a variety of investors as, in addition to their high material worth, they also deliver numismatic value. Knowledgeable investors can leverage significant long-term returns.

### Gold bullion coins

Gold bullion coins are usually issued by countries or commercial businesses. Popular examples include the Britannia, the South African Krugerrand and the American Gold Eagle. These coins typically offer little value as collectors' items and are priced purely on the weight of gold used in their manufacture.

### Gold bullion bars

Gold bars are one of the easiest ways to invest in solid gold. An investment in bullion bars means the investor typically receives and holds the actual gold bar, which can range in weight from around 10 grams to a kilogramme or more. While physical gold is still accepted as currency in some countries, gold bullion bars are not as liquid as gold shares or ETFs, as investors must physically sell bullion for monetary reward.

While gold is an asset like any other and can often be fairly volatile in terms of its price, it remains a key component of many world economies and, as such, should be an integral part of any well-structured and balanced investment portfolio.

# BOARD OF DIRECTORS

## NON-EXECUTIVE DIRECTORS

|  |  |  |  |
|---|---|---|---|
| **KEITH SPENCER** (69)<br>*Chairman* | **HESTER HICKEY** (65)<br>*Non-executive and lead independent director*[6] | **THABO MOSOLOLI** (49)<br>*Non-executive* | **ROWAN SMITH** (55)<br>*Non-executive* |
| *BSc Eng (Mining)* | *CA(SA), BCompt (Hons)* | *BCom (Hons), CA(SA)* | *BSc (Hons), BCom (Hons)* |
| Date of appointment<br>8 October 2007 | Date of appointment<br>12 April 2012 | Date of appointment<br>9 December 2013 | Date of appointment<br>8 September 2014[1] |
| | Significant directorships<br>• Northam Platinum Limited<br>• Cashbuild Limited<br>• Barloworld Limited<br>• African Dawn Capital Limited (resigned on 31 August 2019) | Significant directorship<br>• Chief operating officer of Sun International (for the South African operations) | Significant directorships<br>• Adviser to Athena Capital<br>• Director of Hlanganani Capital |
| Skills and experience<br>Keith is a qualified mining engineer with 48 years' practical mining experience. Since 1986, Keith has held senior positions in some of the largest gold mines in the world including the positions of:<br>• Managing director of Driefontein Consolidated<br>• Chairman and managing director of Deelkraal Gold Mine<br>• Director on the boards of gold mines belonging to Gold Fields, South Africa<br>• Operations director of Metorex | Skills and experience<br>Hester worked at AngloGold Ashanti, initially as group internal audit manager and later as executive officer: head of risk. Prior to this, she worked at Ernst & Young and Liberty Life and was acting head of internal audit at Transnet. In her early career she lectured at the University of Witwatersrand, was a partner at Ironside Greenwood and was the national technical and training manager at BDO Spencer Steward. Hester has also served as chairperson of SAICA | Skills and experience<br>Thabo brings a wealth of experience in financial management, corporate governance and audit, having qualified as a chartered accountant with KPMG in 1994. Since then, he has served on various boards as a member and chairman of audit committees in the resources and other industries in South Africa. He continues to operate MFT Investment Holdings, a family-owned investment company strategically placed to capitalise on BBBEE investment opportunities | Skills and experience<br>Rowan has nearly three decades of experience in the resources and investment banking industries. He was a founding shareholder and managing director of Shanduka Resources. Before Shanduka, he was a director of Investec Bank's mining finance team in Johannesburg. He also worked for Swiss-based Société Générale de Surveillance in Geneva. Rowan started his career as a valuation geologist at Harmony Mine |
| Independent | Independent | Independent | Independent |
| Experience<br>• Technical and operational<br>• Risk management<br>• Environmental and sustainability<br>• Business and strategy<br>• Leadership | Experience<br>• Finance and accounting<br>• Risk management<br>• Governance and regulation<br>• Business and strategy<br>• Leadership<br>• Taxation | Experience<br>• Finance and accounting<br>• Governance and regulation<br>• Business and strategy<br>• Leadership | Experience<br>• Technical and operational<br>• Environmental and sustainability<br>• Business and strategy<br>• Leadership |
| Committee membership<br>[2]<br>*Chairman of the SHEQC committee* | Committee membership<br>*Chairperson of the audit and risk committee* | Committee membership<br>*Chairman of the social and ethics committee* | Committee membership<br>*Chairman of the remuneration committee*[3] |

Board and committee meeting attendance

| | | | |
|---|---|---|---|
| 7/7 5/5 2/2 4/4 | 7/7 5/5 4/4 | 7/7 5/5 2/2 1/1 | 3/7 2/2 |

[1] Resigned from the board with effect from 3 April 2019.
[2] Resigned from the audit committee with effect from 10 September 2019.
[3] Resigned from the remuneration committee with effect from 3 April 2019.
[4] Appointed as chairperson of the remuneration committee with effect from 17 July 2019.
[5] Appointed to the audit committee with effect from 17 July 2019.
[6] Appointed as lead independent director with effect from 4 April 2019.

Audit committee | Remuneration committee | SHEQC committee | Social and ethics committee | Board meetings

## EXECUTIVE DIRECTORS

### YVONNE THEMBA (54)
*Non-executive*

*BA, MBA*

**Date of appointment**
17 July 2019

**Significant directorships**
- Adopt-A-School Foundation non-profit organisations
- Canadoce Investments Close Corporation
- Bo Themba Projects Proprietary Limited
- Clique Marketing Proprietary Limited
- Pfortner Solutions Proprietary Limited
- Mathomo Packhouse Proprietary Limited
- Talamati Asset Managers Proprietary Limited
- Talamati Capital Managers Proprietary Limited
- Jula Investments Proprietary Limited
- Varsbegin Proprietary Limited

**Skills and experience**
Yvonne Themba is currently the executive director of BoThemba Projects. She was previously responsible for human capital at Phembani Group and Shanduka Group. She headed the group corporate communications department at African Life Assurance Limited and the corporate social investment and corporate communications department at Sanlam. Prior to that she was deputy director of the Life Officers' Association

Independent

**Experience**
- Technical and operational
- Risk management
- Governance and regulation
- Environmental and sustainability
- Business and strategy
- Leadership

**Committee membership**

*Chairperson of the remuneration committee[4]*

### CHARLES NEEDHAM (65)
*Non-executive*

*Articles of Clerkship-Accounting, Dip in Mining Taxation*

**Date of appointment**
17 July 2019

**Significant directorships**
- Alphamin Resources Corporation
- Divitiae Holdings Limited
- Imagined Earth Proprietary Limited
- Kinsenda Copper Company SARL
- METPROP Proprietary Limited
- MetQuip Proprietary Limited
- Orpheus Property Holdings Proprietary Limited
- Ruashi Holdings Proprietary Limited

**Skills and experience**
Charles is currently the chairman of Kinsenda Mining Company and Alphamin Resource Corporation (listed on the Toronto Stock Exchange), and consults to Metorex, a subsidiary of the Jinchuan Group. Previous experience includes 31 years at Metorex, with a spread of mining operations in Namibia, South Africa, Zambia and the Democratic Republic of the Congo. Charles progressively held the positions of group accountant, financial director and ultimately chief executive officer, while at Metorex

Independent

**Experience**
- Finance and accounting
- Technical and operational
- Governance and regulation
- Business and strategy
- Leadership

**Committee membership**
[5]

### COBUS LOOTS (41)
*Chief executive officer*

*CA(SA), CFA® Charterholder*

**Date of appointment**
26 August 2009

**Skills and experience**
Cobus has many years of experience in the African mining sector. He qualified as a chartered accountant with Deloitte & Touche in South Africa. Prior to joining Pan African Resources, he held the title of managing director of Shanduka Resources. Shanduka Resources was a mining investment business and part of the Shanduka Group, which was headed by Cyril Ramaphosa prior to his move to the South African government. He has been a director of Pan African Resources since 2009. Cobus served as financial director of Pan African Resources from 2013 until his appointment as chief executive officer on 1 March 2015

Not independent

**Experience**
- Technical and operational
- Finance and accounting
- Business and strategy
- Leadership
- Technology
- Taxation

**Committee membership**

7/7 5/5 2/2 4/4

### GIDEON (DEON) LOUW (57)
*Financial director*

*CA(SA), CFA® Charterholder, H-Dip (Tax Law), AMCT (UK)*

**Date of appointment**
1 March 2015

**Skills and experience**
Deon has extensive finance and business experience, which includes investment banking, advisory and business administration in the finance and mining sectors. He was a founding member of Investec Bank's emerging market finance team and was involved in the financing of mining transactions in sub-Saharan Africa for more than a decade. He fulfilled the roles of chief financial officer of Shanduka Coal, financial director of Sentula Mining Limited, director of Resource Finance Advisers and head of resource structured finance at Investec Bank

Not independent

**Experience**
- Finance and accounting
- Risk management
- Business and strategy
- Leadership
- Technology
- Taxation

**Committee membership**

7/7 5/5 1/2 1/1

*Refer to www.panafricanresources.com/the-team for the executive and operations management team.*

# BOARD OF DIRECTORS continued

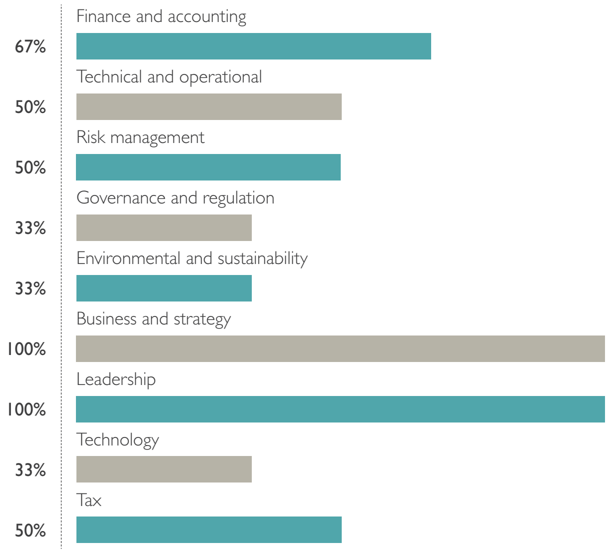
## BOARD COMPOSITION

Our board has a balance of knowledge, skills, experience, diversity and independence to objectively and effectively discharge its governance role and responsibilities.

The diversity statistics below reflect the composition of our board and include Rowan Smith who served on our board up to his resignation, effective from 3 April 2019. These statistics exclude Yvonne Themba and Charles Needham who were appointed to our board on 17 July 2019.

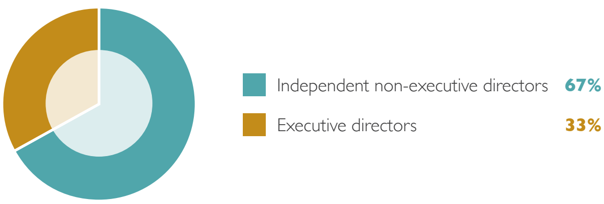
## DIVERSITY OF EXPERIENCE

Our board reflects a considerable amount of experience in mining, business and related activities and collectively has a wealth of industry knowledge.



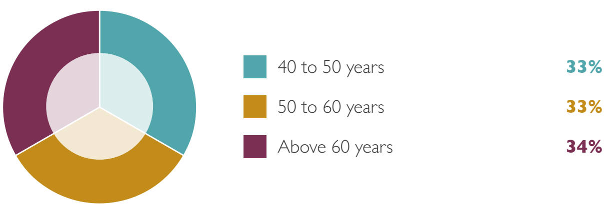

## DIRECTOR INDEPENDENCE

Independence is determined through criteria set out in King IV™, which includes an assessment of the individual directors' character and judgement, as well as any relationships or circumstances that could appear to affect their independence. Based on this assessment, the board is satisfied that its non-executive directors are independent. The board comprises a balance of executive and non-executive directors, with a majority of non-executive directors. The board's non-executive directors are independent.



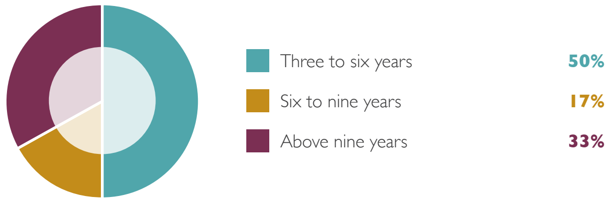

## DIVERSITY OF AGE

Executive directors retire from their positions and the board at the age of 65. Non-executive directors, 70 years or older, retire at each AGM and are proposed for re-election, if recommended by the board.




## DIVERSITY OF TENURE

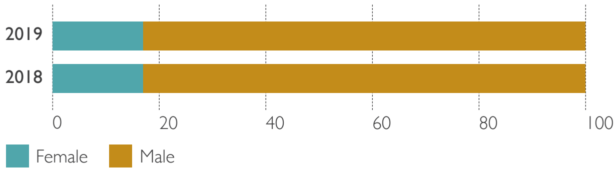
In terms of the JSE Listings Requirements and the group's constitutional documents, one-third of directors, excluding any director appointed since the previous AGM, must retire from office at each AGM on a rotational basis. Non-executive directors' performance is continually assessed and their independence reviewed if their tenure exceeds nine years.



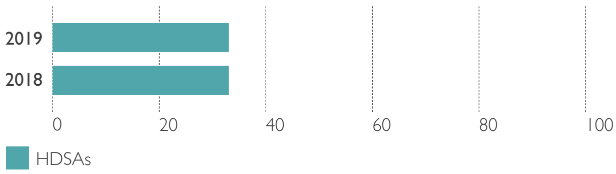

## GENDER AND EMPLOYMENT EQUITY DIVERSITY

To enable the board to discharge its duties and responsibilities effectively, the board considers the benefits of all aspects of diversity in its composition, specifically including, but not limited to, gender and employment equity diversity.

Gender



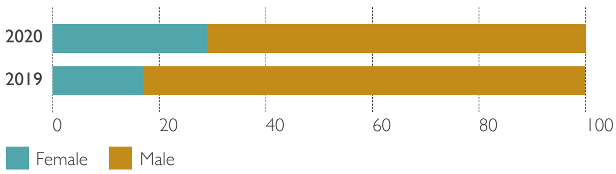

Historically disadvantaged South Africans



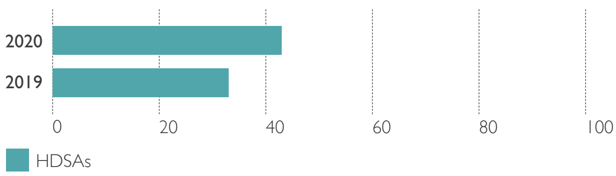

## PERFORMANCE AGAINST OUR BOARD GENDER AND DIVERSITY TARGETS

On 17 July 2019, subsequent to our financial year-end, we strengthened our board with the appointment of two new independent non-executive directors. With the appointment of Yvonne Themba, the gender and employment equity representation on our board improved for the 2020 financial year. Refer to page 86 for the board's gender and diversity targets.

Gender




Historically disadvantaged South Africans



# CORPORATE GOVERNANCE

The board is committed to responsibility, accountability, fairness and transparency through its ethical leadership. The board also integrates responsible corporate citizenship into the group's business strategy, audits and assessments and embeds sound corporate governance practices into daily operations and processes throughout the group.

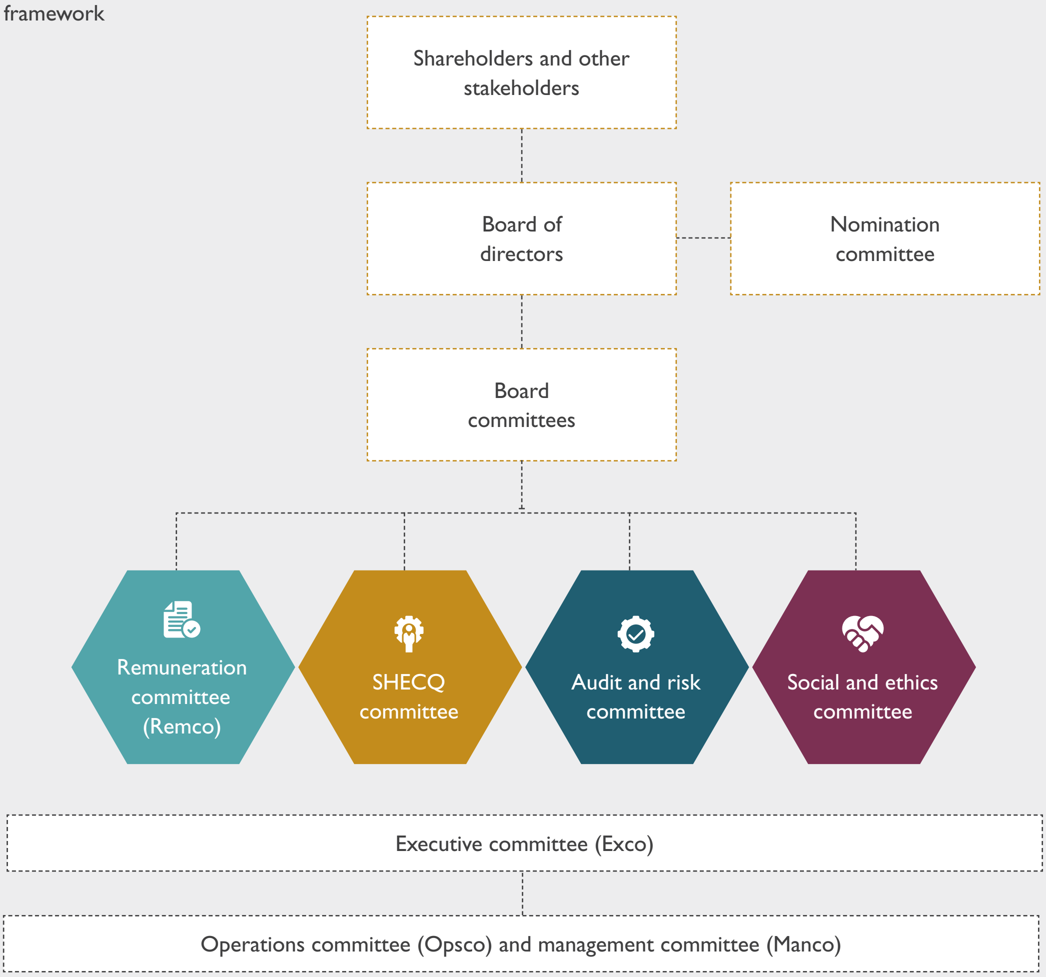
We review our corporate governance practices regularly and have adopted King IV™ as the recognised corporate governance code to ensure that we act in the best interest of our stakeholders, comply with applicable laws and regulations and quickly adapt to changes in our regulatory environment.

## GOVERNANCE FRAMEWORK

The board is ultimately responsible for the group's governance structure and framework and is supported by its four sub-committees. This framework includes a delegation of authority process where the daily management of the group is delegated to the chief executive officer and Exco, without abdicating the board's responsibility. Operationally, Exco is supported by the operations committee (Opsco), which incorporates the general managers at all mining operations and key corporate office employees.

The standards of disclosure relating to corporate governance at the group are regulated by the Companies Act 2006, the South African Companies Act[1], the AIM Rules of the LSE, the JSE Listings Requirements and King IV™. In addition, the board has considered the principles of corporate governance contained in the UK Corporate Governance Code and the guidance published by the Financial Reporting Council (FRC) concerning risk management and internal controls.

Governance framework




[1] *South African Companies Act applicable to the South African entities.*

# CORPORATE GOVERNANCE continued

## ETHICAL LEADERSHIP

Pan African Resources is committed to the highest standards of personal and professional ethical behaviour and its leadership endeavours to instil a culture of ethical behaviour that permeates throughout the group. The group's code of conduct sets out the group's values and practices over and above requirements of formal governance codes and legal requirements. It is designed to provide guidance on ethical conduct in all areas and across all activities.

Pan African Resources has a zero-tolerance approach to bribery and corruption. Further, to ensure compliance with the UK Bribery Act, a separate anti-bribery and anti-corruption policy is in place, which is communicated to all employees and to mine contractors, and to which they are all expected to fully comply. Employees working in areas identified as being particularly high-risk will receive additional training and support in identifying and preventing corrupt activities. In the event of a breach by an employee of the code of conduct, policies or practices, the group's human resources disciplinary procedures are followed. The board is notified if there are any material ethical breaches. No breaches by senior group employees were reported during the financial year.

## THE BOARD LEADERSHIP AND COMMITTEES

### The board

The board is responsible and accountable for the performance and affairs of the group and has full control over the group's subsidiaries and operations. It acts as the focal point for, and custodian of, corporate governance. In doing so, it ensures the group remains a responsible corporate citizen, cognisant of the impact its operations may have on the environment and communities in which the group operates, while acting in accordance with its own code of conduct. The group's committees assist the board in discharging its responsibility regarding corporate governance. All committees have satisfied their responsibilities during the year, in compliance with their respective charters, which have been independently reviewed in the current financial year. A copy of these charters is available from the company secretary on request.

As at the reporting date, Pan African Resources' unitary board comprised five directors, of whom three were independent non-executive directors and two executive directors. Subsequent to the group's financial year-end, two new independent non-executive directors were appointed on 15 July 2019. As of this date, the board comprised five non-executive directors and two executive directors. The executive directors are the chief executive officer and the financial director. Brief CVs of all directors are provided on pages 100 and 101. King IV™ recommends that the governing body (board) should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities effectively. The board is satisfied that the balance of knowledge, skills, experience and diversity on the board is sufficient. The board acknowledges the requirement for race and gender representation in its composition. The group has an approved diversity policy to promote race and gender diversity at board level.

### Social and ethics committee

At the reporting date, the social and ethics committee comprised of one independent non-executive director, the financial director and the chief operating officer.

Subsequent to year-end, the committee was re-constituted. The chief operating officer resigned from the committee, effective from 15 July 2019, and two non-executive directors were appointed. As of this date, the social and ethics committee comprised two non-executive directors and one executive director. Refer to pages 100 and 101 for the profile of each of the committee members.

The committee is responsible for meeting its statutory duties in accordance with King IV™ and the JSE Listings Requirements. The primary purpose of the committee is to oversee the group's activities in sustainable social development, which include, inter alia, public safety, HIV/Aids, environmental management, corporate social investment, consumer relationships, labour and employment, the promotion of equality and ethics management.

### Audit and risk committee

All members are independent non-executive directors elected by the shareholders at the AGM – refer to pages 100 and 101.

This committee reports directly to the board and has several responsibilities and duties, which have been set out in the audit committee report on page 131. The committee meets at least four times a year and makes recommendations to the board, which retains ultimate responsibility regarding risk tolerance levels. It also works closely with the internal audit function and approves and reviews the internal audit plan and its execution.

### Remuneration committee

All members are independent non-executive directors – see pages 100 and 101. The remuneration review, which includes the remuneration policy and remuneration implementation report, is included on pages 112 to 125. The committee's functions include:

- Monitoring and reviewing the setting and administering of remuneration at all levels in Pan African Resources
- Monitoring and reviewing the establishment of a remuneration policy
- Ensuring that the remuneration policy is put to a non-binding advisory vote at the AGM
- Reviewing the outcome of the implementation of the remuneration policy to ascertain whether the set objectives are being achieved
- Ensuring a mix of fixed and variable pay, in cash, shares and other elements, to meet the group's needs and strategic objectives
- Satisfying itself as to the accuracy of recorded performance measures that govern the vesting of incentives
- Ensuring that all benefits, including retirement benefits and other financial arrangements, are justified and correctly valued
- Considering the results of the evaluation of the performance of the chief executive officer, financial director and other executive directors, both as directors and as executives in determining remuneration
- Selecting an appropriate comparative group when comparing remuneration levels
- Regularly reviewing incentive schemes to ensure continued contribution to shareholder value and that these schemes are administered in terms of the rules
- Considering the appropriateness of early vesting of share-based schemes at the end of employment

- Advising on the remuneration of non-executive directors
- Ensuring accurate, transparent and complete remuneration disclosure in the integrated annual report.

### Executive committee

Members of the Exco include the chief executive officer, financial director and the executive of operations and human resources.

The Exco is responsible for managing the group's operations, developing strategy and implementing the board's directives. Its responsibilities include:

- Leading executives, management and employees
- Developing the strategy of the group
- Development, management and submission of the annual budget for the board's approval.

### Nomination committee

Non-executive directors on the board perform the function and responsibility of the nomination committee.

## ACCOUNTABILITY

The board takes overall responsibility for the success of Pan African Resources. The role of the board is to exercise leadership and sound judgement in directing the group to achieve sustainable growth and act in the best interest of shareholders.

In line with best practice, the responsibilities of the chairman and the chief executive officer are separate. The chief executive officer and financial director, supported by Exco and Opsco, are accountable for strategy implementation and the day-to-day operational decisions and business activities. Non-executive directors are not involved in the daily operations of the company.

#### The chairman's responsibilities include:

- Setting the ethical tone for the board and the group
- Providing effective leadership based on sound ethical principles
- Formulating the board's annual agenda, together with the chief executive officer, to align with the group's strategic direction
- Presiding over board meetings and encouraging robust debates and proper consideration of key matters
- Continually engaging with the chief executive officer
- Monitoring the board's effectiveness and assessing the performance of individual directors
- Fostering positive relationships with shareholders and strategic stakeholders in order to build trust and confidence in the group
- Presiding over the AGM.

#### The chief executive officer's responsibilities include:

- Developing the group's long-term strategy for board consideration and approval
- Monitoring and managing the execution of group strategy and critical deliverables
- Creating a positive and constructive working environment conducive to attracting and retaining employees
- Ensuring adequate succession planning for the executive management team
- Developing annual budgets that support the group's strategy
- Monitoring and reporting to the board on the group's performance
- Establishing an organisational structure that enables the execution of the group's strategy
- Ensuring the group complies with all relevant laws and corporate governance principles
- Ensuring constructive relationships with critical stakeholders.

A formal board charter is in place to regulate the parameters within which the board operates and to ensure the application of good corporate governance in compliance with the group's code of conduct. The board satisfied its responsibilities during the financial year in compliance with its charter. A copy of the board charter is available from the company secretary on request. The group's charters were independently reviewed in the current financial year for compliance with King IV™.

### Lead independent director

The board has appointed, Hester Hickey, an independent non-executive director as the lead independent to fulfil the following functions:

- To lead in the absence of the chairman
- To serve as a sounding board for the chairman
- To act as an intermediary between the chairman and other members of the governing body, if necessary
- To deal with shareholders' concerns where contact through normal channels has failed to resolve concerns, or where such contact is inappropriate
- To strengthen independence on the governing body if the chairman is not an independent non-executive member of the governing body
- To chair discussions and decision-making by the governing body on matters where the chairman has a conflict of interest
- To lead the performance appraisal of the chairman.

## DIRECTORS

In terms of the JSE Listings Requirements and the group's constitutional documents, one-third of the directors, excluding any director appointed since the previous AGM, must retire from office at each AGM on a rotational basis.

The directors to retire are those who have been longest in office since their last election or re-election. Retiring directors may make themselves available for re-election if they remain eligible as required by the constitutional documents and in compliance with the AIM Rules and JSE Listings Requirements. Accordingly, Hester Hickey and Thabo Mosololi retire by rotation and offer themselves for re-election.

In addition, in accordance with the group's constitutional documents, any director appointed since the conclusion of the previous AGM must retire at the next AGM and may make him/herself available for re-election, provided he/she remains eligible as required by the constitutional documents and in compliance with the AIM Rules and JSE Listings Requirements. Accordingly, Yvonne Themba and Charles Needham will retire at the upcoming AGM and, being eligible, will offer themselves for re-election.

A brief CV of each director standing for re-election at the AGM is contained on pages 100 and 101.

# CORPORATE GOVERNANCE continued

## THE CHAIRMAN

The board is comfortable that the chairman is able to perform the duties of his office effectively. Keith Spencer, an independent non-executive director, is the standing chairman of the company.

The chairman provides independent board leadership and guidance and facilitates suitable deliberation on all matters requiring the board's attention. He further ensures that the board operates efficiently and collectively.

## BOARD ACTIVITIES

The key focus areas and issues discussed during the financial year are tabled below:

| Focus areas | Key issues discussed in 2019 |
|---|---|
| Strategy and operational execution | ◗ Discussed the Egoli project and agreed on a strategy to progress the project<br>◗ Discussed progress on the study of and implementation plan for pillar extraction at Evander Mines' 8 Shaft<br>◗ Approved payment of the Elikhulu incentive<br>◗ Approved the group's plan to increase its strategic focus on security<br>◗ Reviewed and considered potential acquisitions during the course of the year<br>◗ Monitored rehabilitation initiatives implemented at Evander Mines<br>◗ Approved the development of Evander Mines' 8 Shaft pillar extraction<br>◗ Approved the identification of the material matters process<br>◗ Approved the identified material matters |
| Risk management | ◗ Considered the impact of the new Mining Charter on investment in South Africa and its impact on the group<br>◗ Monitored safety performance and improvement measures implemented at operations<br>◗ Monitored progress on Elikhulu's construction and ramp up<br>◗ Monitored progress on the incorporation of ETRP's throughput capacity of 0.2 million tonnes per month into Elikhulu<br>◗ Monitored group cash flow performance, projections and debt covenant compliance<br>◗ Monitored the group mining licence and related regulatory compliance<br>◗ Oversight of the group's hedging activities |
| Governance | ◗ Considered the King IV™ Report and listings requirements (JSE and AIM)<br>◗ Considered other relevant regulations and requirements applicable to the group<br>◗ Approved the 2018 financial year integrated annual report, annual financial statements and associated Stock Exchange News Service announcements<br>◗ Approved the December 2018 interim results<br>◗ Approved the going concern basis of accounting for the preparation of the June 2018 annual financial statements and December 2018 interim results<br>◗ Ratified the appointment of PwC as the group's auditor subject to approval by shareholders at the next AGM and Questco Corporate Advisory Proprietary Limited as the group's JSE adviser<br>◗ Assessed the performance of the audit and risk committee, the company secretary, the board and the financial director<br>◗ Ratified the audit and risk committee minutes of meetings<br>◗ Ratified the remuneration committee minutes of meetings<br>◗ Approved the 2019 financial year budgets for the group |
| Stakeholder engagement | ◗ Monitored engagement with unions, the workforce and community-related matters<br>◗ Certain non-executive directors attended the inaugural gold pour of Elikhulu<br>◗ Obtained all requisite approvals from the AGM and general meetings held during the financial year<br>◗ Non-executive directors visited the Barberton operation for a board meeting and review |

## COMMITTEE ACTIVITIES

The table below details the key issues discussed during the year under review:

| Committee | Members | Key issues discussed in 2019 |
|---|---|---|
| Audit and risk committee | ◗ Hester Hickey *(chairperson)*<br>◗ Thabo Mosololi<br>◗ Keith Spencer<br><br>Invitees<br>◗ Cobus Loots *(chief executive officer)*<br>◗ Deon Louw *(financial director)*<br>◗ External auditor, internal auditors and financial executives | ◗ Recommended the group's integrated annual report for June 2019<br>◗ Recommended the interim report for 31 December 2018 to the board for approval<br>◗ Reviewed the internal and external audit reports<br>◗ Monitored the group's risk appetite and tolerance levels<br>◗ Approved the internal and external audit fees<br>◗ Monitored the external auditors' independence<br>◗ Monitored the internal audit programme and reviewed the internal audit findings<br>◗ Evaluated the financial director and the finance department<br>◗ Recommended the appointment of PwC as the external auditor of the group to the board for shareholder approval<br>◗ Monitored the RCF restructure process<br>◗ Approved the change in the presentation currency<br>◗ Monitored the ESG strategy and compliance<br>◗ Monitored King IV™ compliance<br>◗ Considered the latest letter on the JSE's Proactive Monitoring Process |
| Remuneration committee | ◗ Rowan Smith *(chairman)*<br>◗ Thabo Mosololi<br>◗ Keith Spencer<br><br>Invitees<br>◗ Cobus Loots *(chief executive officer)*<br>◗ Deon Louw *(financial director)*<br>◗ André van den Bergh *(chief operating officer)* | ◗ Ensured that salary adjustments were in line with the group's remuneration philosophy and within the industry peer benchmarks provided by the PwC Remchannel market analysis and other sources<br>◗ Oversight of an independent review of the group's remuneration framework and policies and alignment with shareholder expectations<br>◗ Regularly reviewed, monitored and ensured compliance in terms of stipulated employment equity targets and other requirements<br>◗ Engaged with key shareholders regarding the group's remuneration policy and framework |
| Safety, health, environment, quality and community (SHEQC) committee | ◗ Keith Spencer *(chairman)*<br>◗ Hester Hickey<br>◗ Cobus Loots<br>◗ Bert van den Berg<br>◗ Mandla Ndlozi<br>◗ André van den Bergh<br>◗ Naka Hlagala<br><br>Invitees<br>◗ General managers: Barberton Mines and Evander Mines | ◗ Monitored safety performance challenges and improvements at all operations<br>◗ Reviewed quantification of specific performance measures that are required to be reported for the sustainability report<br>◗ Monitored environmental management and adherence to relevant legislation<br>◗ Monitored health indicators at all operations<br>◗ Approved independent safety contractors to review our safety controls at the mining operations<br>◗ Monitored community and SLP activities<br>◗ Monitored the progress of CSI and LED projects |
| Social and ethics committee | ◗ Thabo Mosololi *(chairman)*<br>◗ Deon Louw<br>◗ André van den Bergh | ◗ Reviewed and approved the social and ethics charter |

# CORPORATE GOVERNANCE continued

v *Barberton Mines – BTRP CIL tanks*

## INDEPENDENT ADVICE

All independent non-executive directors have unrestricted access to management and the group's external auditor. Furthermore, all directors are entitled to seek independent professional advice on any matters pertaining to the group as they deem necessary and at the group's expense.

## BOARD AND COMMITTEE MEETINGS

The board meets quarterly with additional meetings, as and when required. Attendance at board and committee meetings is set out on pages 100 and 101. In addition, ad hoc meetings and calls are held regularly. Not all these interactions are recorded, however, formal engagements are recorded on pages 100 and 101.

## BOARD EVALUATION

An annual effectiveness self-evaluation is undertaken in respect of the board and its sub-committees. For the year under review, the board is satisfied that it and its sub-committees operated effectively. The board is satisfied that the evaluation process is improving its performance and effectiveness. In addition, the chairman also ensures the board operates effectively by regularly engaging with non-executive directors on their performance and other matters that may need to be raised with Exco. Any pertinent matters of concern are conveyed by the chairman to the chief executive officer and filtered down to Exco.

## SHARE DEALINGS

All group employees at Paterson Grading D and above (which includes Exco and Opsco), with access to financial and any other price-sensitive information, are prohibited from dealing in Pan African Resources shares during closed periods, as defined by AIM and JSE Listings Requirements, or while the company is trading under a cautionary announcement. In the event that employees have access to price-sensitive information during open periods, employees are restricted from dealing in Pan African Resources shares.

An appropriate communication is sent to all such employees alerting them that the company is entering a closed period. Should any of the relevant employees wish to trade Pan African Resources shares, written permission must be obtained from either the chief executive officer or financial director and, where applicable, regulatory approval is obtained. Dealings in the company's securities by the chief executive officer are approved in writing by the chairman of the board. There were no contraventions of this policy during the year.

## NEW APPOINTMENTS

The board identifies, interviews and proposes potential new candidates. The board evaluates individuals in the context of the board's skill set and experience as a whole. The objective remains to have a board that can best perpetuate our success and represent shareholder interests through the exercise of sound judgement, using its diverse experience. The group ensures all new directors are informed of AIM and JSE rules with the assistance of the UK-based Nomad and JSE sponsor, given that all appointees are accomplished board directors and familiar with the fiduciary duties expected of them. New appointees are provided with an introductory pack, which includes the latest annual and interim results, integrated annual report and minutes of previous board meetings to assist in their understanding of the group's business.

## ONGOING DEVELOPMENT

Directors who are chartered accountants comply with SAICA's continued professional development requirements. The UK-based Nomad and company secretary ensure directors remain up to date with AIM regulations, while the South African sponsor ensures the same regarding the JSE Listings Requirements. The company secretary and the chairman of the audit and risk committee are responsible for keeping the board abreast of new legislation, recommendations and best practice.

## KING IV™

Following the release of the King IV™ Report in November 2016, the board has familiarised itself with its requirements. Pan African Resources benchmarked its governance practices against the principles of King IV™ and has included its 2019 King IV™ checklist on the group's website at:
http://www.panafricanresources.com/wp-content/uploads/Pan-African-Resources-King-IV-2019.pdf.

## COMPANY SECRETARY

Pan African Resources outsources the company secretarial function to St James's Corporate Services Limited. The company secretary advises the board of any relevant regulatory changes and/or updates. The company secretary keeps records of shareholder registers, meeting attendance registers, meeting minutes, resolutions, directors' declarations of personal interest(s), all notices and circulars issued by the company, guidance on directors' duties and good governance. The company secretary is well versed in all relevant updates to current legislation and regulation and is responsible for advising the board in this regard. Further, the company secretary reviews the rules and procedures applicable to the conduct of the board. Wherever necessary, the JSE sponsor, UK Nomad and other relevant experts are involved in ensuring that the directors have adequate information to sufficiently discharge their responsibilities in the best interests of the company.

The appointment and removal of the company secretary is a matter for the board. The audit and risk committee reviews the company secretary's qualifications and competence and provides recommendations to the board. The board is comfortable that the company secretary, St James's Corporate Services Limited, always maintains an arm's-length relationship with the board and is sufficiently qualified and skilled to act in accordance with and update directors in terms of the UK and international regulations and legislation.

## ADVISERS

The group has several advisers including Numis Securities Limited, Questco Corporate Advisory Proprietary Limited, Peel Hunt LLP and BMO Capital Markets Limited who provide advice regarding legislative requirements. Questco Corporate Advisory Proprietary Limited is the group's South African appointed sponsor in accordance with the JSE Listings Requirements and is responsible for ensuring that the company is guided and advised on the application of JSE Listings Requirements. The other advisers are UK-based and provide guidance on UK-related legislative requirements. South African and UK law firms are also regularly used to provide advice on specialised matters.

## TECHNOLOGY AND INFORMATION GOVERNANCE

The board is responsible for technology and information governance, which is governed by an IT charter. The framework consists of an IT steering committee which includes the financial director, the chief information officer, and executive: human resources. This steering committee is responsible for directing, controlling and measuring the IT activities and processes of the group. It also keeps the board apprised of the group's technology and information performance. Each operation has formal business continuity and disaster management plans in place, which are the responsibility of the respective general managers.

## COMPLIANCE

The group complies with all applicable legal acts and regulations and certain of the main acts and regulations are shown below. Compliance management and monitoring takes place at various levels within the group, including at an operational level where safety officers ensure health and safety compliance and external audits are conducted by the DMR. At a corporate office level, the company secretary and external advisers provide updates on any new legislation that may impact the group. The internal audit function provides a further layer of compliance. Management regularly updates the board and its sub-committees through its governance processes. In accordance with the Payments to Governments Regulations 2014, the group is obliged to disclose payments to government during the year under review.

# CORPORATE GOVERNANCE continued

The table below is a record of these payments:

| Payments to the South African government 2019 | Barberton Mines USD thousand | Evander Mines USD thousand | Corporate USD thousand | Total USD thousand |
|---|---|---|---|---|
| Royalties payments | 476.6 | 173.3 | – | 649.9 |
| Income taxation payments/(refunds) | 3,774.5 | – | 72.5 | 3,847.0 |
| Value-added taxation (VAT) payments/(refunds) | (11,226.2) | (15,952.9) | 645.4 | (26,533.7) |
| Withholding taxation | 31.9 | – | – | 31.9 |
| Pay as you earn income tax (PAYE) | 6,504.9 | 1,204.8 | 831.9 | 8 541.6 |
| Skills Development Levy (SDL) | 392.5 | 51.6 | 37.4 | 481.5 |
| Unemployment Insurance Fund (UIF) | 470.9 | 45.1 | 4.3 | 520.3 |
| | 425.1 | (14,478.1) | 1,591.5 | (12,461.5) |

| Payments to the South African government 2018 | Barberton Mines USD thousand | Evander Mines USD thousand | Phoenix Platinum USD thousand | Corporate USD thousand | Total USD thousand |
|---|---|---|---|---|---|
| Royalties payments/(refunds) | 535.4 | (1,285.1) | – | – | (749.7) |
| Income taxation payments/(refunds) | 798.4 | (39.6) | – | 87.0 | 845.8 |
| VAT payments/(refunds) | (5,057.5) | (22,753.9) | 65.2 | 469.0 | (27,277.2) |
| Withholding taxation | 74.5 | – | – | 772.5 | 847.0 |
| PAYE | 6,640.5 | 5,788.1 | 33.2 | 820.1 | 13,281.9 |
| SDL | 408.3 | 328.3 | 0.9 | 39.7 | 777.2 |
| UIF | 507.8 | 381.0 | 0.3 | 4.4 | 893.5 |
| Capital gains taxation | – | – | – | 1,538.2 | 1,538.2 |
| | 3,907.4 | (17,581.2) | 99.6 | 3,730.9 | (9,843.3) |

The group received VAT refunds as a result of the large capital expenditure during the year under review and the output of gold mining operations being zero-rated.

## RISK GOVERNANCE

The board is responsible for the management of risk and a formal risk governance process is in place, ensuring the board adequately discharges its responsibility. The board regularly reviews the risk reports from operations, ensuring the appropriate risk management programmes and monitoring of progress against key risk indicators are being effectively implemented and managed. The group's management approach and key risks are set out on pages 29 and 30.

## ACTS AND CODES

South Africa (Corporate)
- South African Companies Act 71 of 2008 – applicable to South African entities
- JSE Listings Requirements
- King IV™
- Labour Relations Act of 1995

United Kingdom (Corporate)
- Companies Act 2006
- AIM
- The UK Corporate Governance Code
- The Bribery Act 2010

Minerals and energy (South Africa)
- Minerals and Petroleum Resources Act of 2008
- National Energy Act of 2008
- Precious Metals Act of 2005
- Broad-based socio-economic empowerment charter for the mining and minerals industry 2018

Safety, health and environment (South Africa)
- Mine Health and Safety Act of 1996
- Occupational Health and Safety Act of 1993
- Compensation for Occupational Injuries and Diseases Act of 1993
- National Environmental Management Act of 1998 and amendments
- National Water Act of 1998
- National Nuclear Regulator Act of 1999
- National Environmental Waste Act 59 of 2008
- Air Quality Amendment Act 20 of 2004

*Elikhulu plant – acid wash column*

## STAKEHOLDER ENGAGEMENT

The board's aim is to uphold the highest standards of conduct and it expects all employees to do the same. We understand that the group's long-term sustainability is dependent on our understanding of the needs and views of our stakeholders. A summary is set out below on how the board engages with its stakeholders. Refer to pages 27 and 28 for an understanding of who our stakeholders are and what matters are of relevance to them.

| Stakeholder group | Governance responsibility | Governance activities during 2019 |
|---|---|---|
| Providers of capital | Board, Exco | • Attendance of the inaugural gold pour at Elikhulu by certain non-executive directors<br>• Attendance at the AGM by non-executive directors and participation of executive directors by conference call<br>• Executive directors attend and present at results roadshows |
| Employees | Board, SHECQ committee, remuneration committee and operations management | • Monitored safety performance and improvement measures implemented at operations |
| Unions | Board, SHECQ committee and operations management | • Monitored engagement with unions and the workforce |
| Communities | Board, SHECQ committee | • Monitored engagement in respect of community-related matters |
| Government and regulatory bodies | Board, Exco, audit and risk committee, SHECQ committee | • Evaluated regulatory impacts on health, safety and environmental matters<br>• Considered the impact of the new Mining Charter on investment in South Africa and the group<br>• Monitored the group mining licence and related regulatory compliance |
| Listing exchanges | Board, Exco | • Engagement with the LSE and JSE through the company's appointed Nomad and sponsor<br>• Direct engagement with the JSE's Issuer Regulation Department on IFRS disclosures |

# REMUNERATION POLICY AND IMPLEMENTATION

## BACKGROUND STATEMENT

### MESSAGE FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

Dear Pan African Resources' stakeholders

I am pleased to present the 2019 financial year's Remco report on behalf of our Remco and the board. This report presents a brief review of Remco's activities during the past year.

In the current financial year, management addressed key milestones that were critical to the future sustainability of Pan African Resources and were also required to deliver into our production guidance for the 2019 financial year. In addition, management delivered into the board strategy of repositioning Pan African Resources as a more sustainable, lower cost and higher margin producer.

Commendably, Barberton Mines achieved its production guidance of approximately 100,000oz during the year, and Elikhulu was successfully commissioned during the first half of the 2019 financial year, producing 46,201oz in the period from September 2018 to 30 June 2019. The complexities and difficulties in conceptualising, funding and then delivering into a project like Elikhulu were successfully managed by our team, with recent publicity referring to material delays and cost overruns on other large industrial projects, demonstrating the risks involved in executing ventures of this nature.

Remco remains satisfied that the executive directors, guided by the Pan African Resources board continue to provide exemplary leadership and remain committed to achieving the group's objectives. Our group's performance over the last year bears testament to the efforts and acumen of our senior management team. We look forward to the year ahead and further progress in positioning Pan African Resources as a sector-leading gold producer.

### ALIGNING REMUNERATION TO STRATEGY

Remco assists the board to align remuneration with the group's overall business strategy, cognisant that Pan African Resources needs to attract, incentivise and retain personnel who will create long-term value for all our stakeholders. Remco reviews compensation levels and incentive schemes regularly to ensure these remain market-related and will continue to incentivise key personnel. In this regard, Remco utilises PwC's Remchannel market analysis (Remchannel report/market analysis) and other independent benchmarking sources to ensure compensation levels and structures remain up to date with best practice in executive compensation.

The Remchannel market analysis is a report compiled from an extensive and detailed internet-based survey, customised for the differences in various sectors and the complexities of remuneration practices. This report is an independent survey used by management to inform remuneration policies.

The current Remchannel market analysis concluded that Pan African Resources generally remunerates its executives between the 25th and 50th percentile. Remco will continue to strive towards fairly remunerating the group's employees at a level which approximates market-related benchmarks, to ensure the retention of key skills and so that the group is able to attract top candidates for senior management positions.

### INDEPENDENT REVIEW OF REMUNERATION

To ensure that Pan African Resources' remuneration policies and practices remain in line with market practice, Remco mandated PwC Remchannel to perform an independent review of the remuneration levels and remuneration structures of non-executive directors, corporate executives and senior corporate management (the PwC review). The purpose of the review was to compare current remuneration levels and structures with best practice in the mining sector, and to make recommendations on improvements to Pan African Resources' remuneration levels, policies and structures, where required.

As part of this review, PwC also engaged with the group's large institutional shareholders in order to obtain their views/concerns on current remuneration policies and the implementation of these policies.

Based on the recommendations of the PwC review and the requirements of our shareholders, Remco introduced changes to the existing short-term incentive (STI) scheme as well as the introduction of a new long-term incentive scheme (Pan African Resources' Senior Management Share Scheme (PARSMSS)) for senior corporate management.

### IMPLEMENTATION OF THE NEW PAN AFRICAN RESOURCES SENIOR MANAGEMENT SHARE SCHEME (PARSMSS)

Remco has now simplified the long-term incentive structure for senior employees. For these employees, the Pan African Share Appreciation Bonus Plan (PASABP) and the Pan African Corporate Option Scheme (PACOS) have been terminated. These schemes have been replaced by the PARSMSS for senior corporate executives.

Details of the PASABP, PACOS and PARSMSS schemes are included later in this report on page 121.

### SHORT-TERM INCENTIVE SCHEME

The group's short-term incentive scheme remains in place, with its senior management participants (other than executive directors) receiving up to 60% of their total annual remuneration as short-term incentives should they meet predetermined criteria based on:

- ounces of gold produced, within cost and safety parameters
- tangible individual KPIs, linked to deliverables critical to the group's performance and success.

After consultation with shareholders and taking cognisance of the findings of the PwC review, Remco amended certain of the short-term incentive provisions. These changes are detailed later in this report.

### ANNUAL ASSESSMENT

Remco reviewed general remuneration levels and structures across the group and is satisfied that current procedures adequately ensure that employees' performance objectives are defined, progress is tracked and training and development opportunities are identified. Remco is satisfied that it acts objectively and independently to pursue a remuneration policy and philosophy that underpins the group's objectives and stakeholder aspirations. It is also satisfied that, to the extent it makes use of external consultants, these consultants are independent and objective.

Remco believes that the current remuneration policy is achieving its stated objectives, however, it will continue to consider amendments to the current policies and practices to further enhance the effectiveness of group remuneration levels and structures.

## OTHER AREAS OF REMCO'S FOCUS

Internal and external matters considered by Remco during the current financial year include:

- ratification of salary increases for operations
- approval of salary increases for corporate non-managerial staff and certain managerial staff
- amendments to selected executives' contracts
- reviewing corporate office staffing and corporate costs
- amendments to the STI scheme and setting STI parameters for the 2019/2020 financial year
- revising the long-term share option scheme for senior corporate executives and introducing the PARSMSS scheme
- reviewing non-executive directors' remuneration
- reviewing and monitoring the performance of senior executives, together with the Pan African Resources board.

## LOOKING FORWARD

In the following year, areas of focus for Remco will include a further review of operational production incentives and bonuses and group regulatory compliance.

## IN CLOSING

Remuneration is evolving into an increasingly complex and high-profile field and Remco is responsive thereto by continually benchmarking and enhancing our practices and policies to entrench a high-performance culture across the group. Remuneration should drive sustainable growth, aligned with our business strategies and shareholder aspirations.

Remco appreciates feedback from our stakeholders and notes that the group's 2018 financial year remuneration policy was only endorsed by 51.1% of shareholder votes at the AGM. Our revised remuneration policies and structures are aimed at complying with King IV™ requirements, while narrowing the alignment between key personnel rewards, group objectives and shareholder expectations. We will again engage with shareholders on issues of remuneration prior to and following the forthcoming AGM and Remco undertakes to respond in writing to any queries from material individual shareholders.

We can assure our stakeholders that we will continue to shape the remuneration policy to ensure that it fairly rewards and assists in propelling Pan African Resources into a sustainably golden future.

Yours faithfully

**Yvonne Themba**
*Remco chairperson*

18 September 2019

*Barberton Mines – BTRP plant*

# REMUNERATION POLICY AND IMPLEMENTATION continued

## REMUNERATION REVIEW

The group's remuneration framework is structured to provide remuneration that is fair, responsible and transparent. The framework is also aligned to the achievement of our strategic objectives over the short, medium and long term.

### REMUNERATION OBJECTIVES

- Facilitating the delivery of superior long-term results for the business and shareholders and promoting sound risk management principles
- Reinforcing leadership, accountability, teamwork and innovation
- Supporting the corporate values and desired culture
- Supporting the attraction, retention, motivation and alignment of the talent we require to achieve our business goals

## PART ONE: REMUNERATION POLICY

### OBJECTIVES OF THIS REPORT

**Part one** provides an overview of the group's remuneration policy, highlighting the remuneration philosophy, governance and other key elements. **Part two** details the remuneration implementation report highlighting the executive directors' and prescribed officers' remuneration for the 2019 financial and comparative year as well as their contractual arrangements. Directors' and prescribed officers' emoluments and incentives are shown in the annual financial statements section on pages 193 to 196.

### REMUNERATION PHILOSOPHY

Pan African Resources' remuneration philosophy seeks to reward executive directors, senior management and various employee levels for performance. It recognises that these individuals have the ability to significantly impact the performance of the group over the short, medium and long term. Executive directors and senior executives carry significant responsibility, statutory and otherwise, and appropriate skills are difficult to attract and retain in what is an increasingly challenging environment. It is, therefore, critical that remuneration aligns to the contribution and performance of Pan African Resources, its operating units and importantly, the contribution of key individuals. The group's key remuneration objectives are shown above.

The group's remuneration policy provides a framework for remuneration to attract, retain and motivate employees to achieve the strategic objectives of the organisation within its risk appetite and risk management framework.

The remuneration framework recognises the following principles:

**Objectivity in short-term incentives**

Comprising an annual incentive which rewards management for matters under their control and influence, but not matters outside their control, specifically commodity prices and exchange rates

**Objectivity in long-term incentives**

To align the long-term interest of the group's management and employees with that of the group's shareholders through incentives that are directly linked to the increase in the Pan African Resources share price and its performance against its peers. These awards generally vest over a period of three to four years

**Alignment to shareholders**

We believe that the combination of these incentives will achieve the objectives set out in the above philosophy by aligning the interests of employees with aspirations of our shareholders

**Application of discretion**

Remco has the authority to apply its discretion in the event where specific circumstances are outside the control of the operations or executives and these circumstances would be prejudicial to employees or management of the group

To achieve its remuneration objectives, Remco, in consultation with and oversight from the board, retains flexibility in terms of how it incentivises and rewards performance. Remco has, however, taken note of concerns raised by our shareholders and, going forward, no incentives/ discretionary bonuses will be paid to employees for successfully concluding transactions or projects. The only exception to this resolution would be in the event of a takeover or change in control of Pan African Resources, where Remco retains discretion in this instance.

## REMUNERATION GOVERNANCE

Remco, comprising only independent non-executive directors, monitors and strengthens the credibility of the group's executive remuneration system through its charter. It reviews the performance of the chief executive officer, financial director and other executives and senior management and sets the scale, structure and basis of their remuneration, as well as the terms of their employment contracts. The committee also considers and makes recommendations to the board on remuneration packages and policies in this regard. The Remco chairperson is Yvonne Themba (appointed 17 July 2019) who replaced Rowan Smith, and the membership and attendance of Remco is shown on pages 100 and 101.

The chief executive officer, financial director and the chief operating officer attend Remco meetings. None of these individuals are present when their remuneration is discussed. Some of the key focus areas discussed during the financial year are tabled below:

| Focus area | Discussion |
|---|---|
| Amendment to STI and LTI schemes | ◗ Amendment to the current senior management STI scheme to include stretch targets as well as gatekeeper clauses to ensure STI payment will only occur when specific performance and financial criteria are met<br>◗ Introduction of a new LTI scheme for senior corporate management (PARSMSS) to be in line with current best practice as well as to align senior management's interests with those of shareholders<br>◗ Malice/malfeasance provisions strengthened for both STI and LTI schemes |
| Compliance with Mining Charter and employment equity requirements related to management and employees | The group regularly reviews, monitors and ensures compliance in terms of stipulated employment equity targets and other requirements |
| Setting appropriate STI parameters for 2019/2020 | Ensuring appropriate parameters are set for the upcoming financial year. Approved the implementation of below-target, on-target and stretch targets for the 2019/2020 financial year |
| Salary adjustments and benchmarking | Ensuring that salary adjustments were in line with the group's remuneration philosophy and aligned with industry peer benchmarks provided by the PwC Remchannel market analysis and other independent sources |

## ACCESS TO INFORMATION AND ADVISERS

Remco has unrestricted access to the company's records, facilities and any other resources necessary to discharge its duties and responsibilities.

Remuneration is reviewed annually and, in the current year, PwC Remchannel was appointed to conduct a benchmarking exercise on total remuneration (guaranteed pay, short-term incentives and long-term incentives) of the group's non-executive, executive directors and senior management. This review was performed against a comparator group (both local and international) constituted by PwC Remchannel, which compares Pan African Resources' incentive levels to their comparator matrix, the South African mining and also the South African national sectors to provide Remco with a detailed view of the current South African executive remuneration environment.

The board approves remuneration proposals from Remco and submits them to shareholders for endorsement at the AGM.

## ENGAGEMENT WITH SHAREHOLDERS

Remco engages with key shareholders on an annual basis regarding the group's remuneration structures. Remco commits to engage with shareholders in the event that either the remuneration policy or the implementation report, or both, are disapproved by 25% or more of the votes exercised.

In the past financial year, Remco engaged certain large institutional shareholders regarding their concerns on the company's remuneration policies and the implementation thereof. We value these constructive engagements and, as such, we have addressed many of these concerns and implemented further improvements to our remuneration policies and structures.

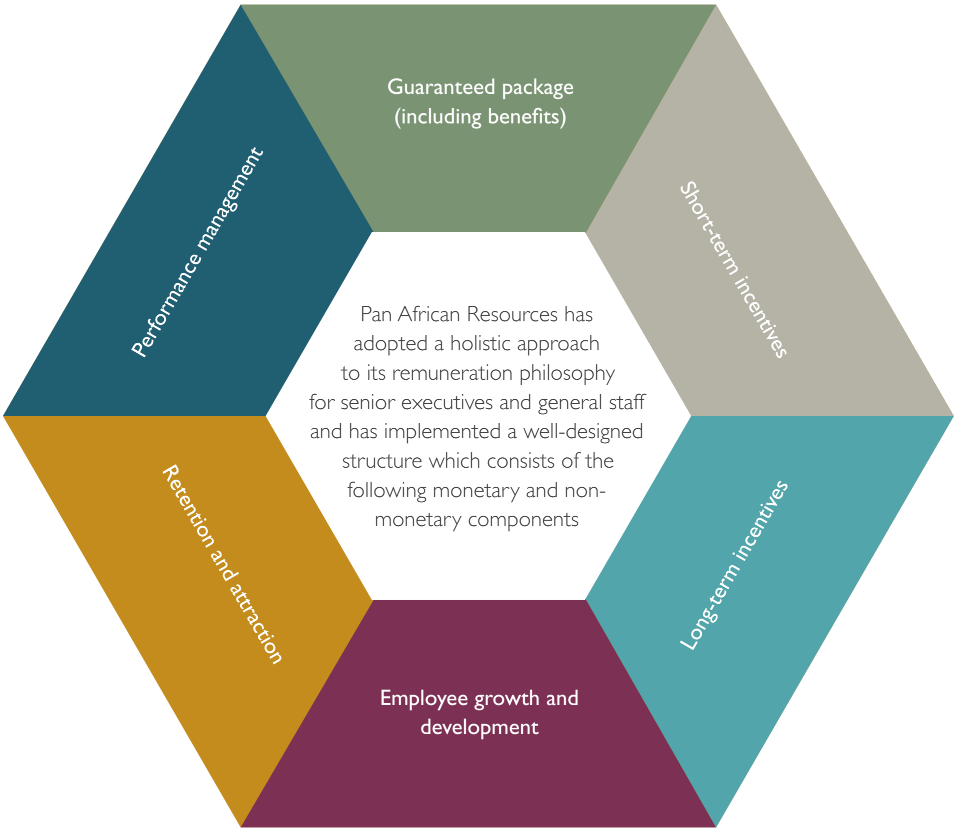
# REMUNERATION POLICY AND IMPLEMENTATION continued

## PART ONE: REMUNERATION POLICY continued

### REMUNERATION FRAMEWORK

<table>
<tr><th>Basic salary and benefits</th><th>Short-term incentives</th><th>Long-term incentives</th></tr>
<tr><td colspan="3">Key features</td></tr>
<tr><td>Reviewed annually against competitive industry peer market data supplied by PwC Remchannel</td><td>◗ Paid annually at corporate level<br>◗ Paid annually, quarterly and monthly at operations depending on the level of employee<br>◗ Measured objectively against the group's performance and personal contributions</td><td>◗ PARSMSS (effective 1 July 2019) for senior group executives/executive directors<br>◗ PACOS (effective 1 July 2018) for senior group executives/executive directors<br>◗ PASABP<br>◗ Employee share ownership programme (Barberton Mines and Evander Mines)<br>◗ Share incentive scheme for executive directors</td></tr>
<tr><td colspan="3">Criteria for eligibility</td></tr>
<tr><td rowspan="3">Employment at the group</td><td>Chief executive officer, financial director, chief operating officer and Opsco<br><br>Production and safety KPIs<br>Production and safety KPIs account for 60% of the assessment based on:<br>◗ the group's gold ounces sold/produced<br>◗ cost of production<br>◗ safety targets (objective measurement based on the group's actual achievements against set business plans for the financial year)</td><td>The main objectives of the long-term incentives are to:<br>◗ appropriately incentivise select employees who are employed at a managerial level within the group<br>◗ ensure retention of key skills required for the group's ongoing profitable performance and growth<br>◗ align management interests with those of shareholders</td></tr>
<tr><td colspan="2">Stretch targets on production<br>Stretch targets have been introduced to incentivise performance in excess of budgets. If participating management exceeds gold production targets for a financial year, they become entitled to an increase in the production bonus component of their annual STI<br><br>For achieving 105% of budgeted gold production (maximum stretch), participating management's production KPI achievement will be increased from the previous maximum of 100% to 140%, with a pro rata increase between 100% and 105% specific to the gold production KPI<br><br>An executive previously entitled to an STI of 50% of TGP could therefore, if full stretch of 105% of gold production is achieved, earn an STI of 56% of TGP<br><br>For the portion of STI that relates to stretch performance, the executive will be required to acquire Pan African Resources shares on market, with a condition that these shares are to be held for a minimum period of two years, post-acquisition<br><br>Personal KPIs<br>Personal KPIs account for 40% of the assessment and are specific to the employee concerned<br><br>These personal KPIs are clearly defined and are intended to contribute specific positive outcomes to group results</td></tr>
<tr><td colspan="2">Manco (Management committee on operations)<br><br>Production and safety KPIs account for 60% of the assessment based on:<br>◗ operational specific gold ounces sold<br>◗ cost of production<br>◗ safety targets (objective measurement based on the group's actual achievements against set business plans for the financial year)<br><br>Personal KPIs account for 40% of the assessment and are specific to the employee concerned<br><br>These personal KPIs are clearly defined and are intended to contribute specific positive outcomes to group results</td></tr>
</table>

## EMPLOYEE REMUNERATION COMPONENTS




Remuneration is currently disclosed in United States dollar (USD), however, all non-executive directors, executive directors and employees are remunerated in rand and no compensation is made in other currencies or linked to other currencies. The detailed remuneration of the group's independent non-executive directors, executive directors and prescribed officers is disclosed in the annual financial statements on pages 193 to 196.

| Elements | Key features | Purpose | Eligibility | Factors considered |
|---|---|---|---|---|
| **Guaranteed pay** | | | | |
| Exco, Opsco, Manco and heads of departments (HODs) of operations | • Pensionable salary<br>• Leave<br>• Pension/provident fund contributions<br>• Medical contributions<br>• Travel allowance<br>These items are included in the total cost to company of an employee | Aligned to the value the individual provides to the group, including:<br>• skills and competencies required to generate results<br>• sustained contribution to the group<br>• the value of the role and contribution of the individual to the group | • Exco<br>• Opsco<br>• Manco<br>• HODs | • Group performance<br>• Outlook for the next financial year<br>• Individual performance<br>• Inflation |
| Collective bargaining employees | • Pensionable salary<br>• Leave<br>• Medical contributions<br>• Overtime/housing or living-out allowance<br>• Other fixed allowances – underground allowances, rock drill operator allowances and meal allowances | Aligned to the value the individual provides to the group, including:<br>• skills and competencies required to generate results<br>• sustained contribution to the group<br>• the value of the role and contribution of the individual to the group | • Collective bargaining employees | • All relevant factors in the industry such as annual or multi-year wage agreements |

# REMUNERATION POLICY AND IMPLEMENTATION continued

## PART ONE: REMUNERATION POLICY continued

| Elements | Key features | Purpose | Eligibility | Factors considered |
|---|---|---|---|---|
| **Variable pay** | | | | |
| Short-term incentives | ◗ Paid annually at corporate level<br>◗ Paid monthly, quarterly or annually at operations, depending on the level of employee<br>◗ Measured objectively against the group's performance or personal contribution | ◗ Designed to drive and reward short- and medium-term results, reflecting the level and time horizon of risk<br>◗ This includes financial and non-financial results and metrics at an organisational, division and individual (and team) level | ◗ Exco, Opsco and Manco are paid annually<br>◗ HODs are paid quarterly | ◗ Group financial and strategic performance<br>◗ Business unit (team) financial and strategic performance<br>◗ Individual contribution to team performance<br>◗ Individual performance, including alignment with corporate values and meeting performance objectives<br>◗ Notwithstanding financial performance and the individual contribution and performance, if the individual, team or group does not meet or only partially meets risk and compliance requirements, no award or a reduced award may be made |
| | | | ◗ Collective bargaining employees | ◗ Eligibility to participate in the scheme<br>◗ The maximum variable remuneration as a percentage of total cost to company (CTC) of an individual<br>◗ The parameters for production targets to be achieved |
| Long-term incentives | ◗ Alignment to shareholders' investment horizon and aspirations<br>◗ Equity linked<br>◗ Measured objectively against the group's performance and/or personal contribution | ◗ Discretionary remuneration designed to drive and reward long-term growth with sustained company value and align the interests of shareholders and participants. These include share schemes or the like<br>◗ It is the intention to structure any form of long-term incentive in such a way as to retain and attract the necessary skills for the group and to ensure that it is market-related and promotes appropriate actions and behaviour | ◗ Exco and others approved by the board | ◗ Seniority and level of responsibility |
| Long-term incentives – equity participation in operational ownership | ◗ Alignment of the aspirations of Pan African Resources' employees at its operations with those of management and shareholders | ◗ To align the interests of employees with those of shareholders through providing direct participation in the benefits of company performance | ◗ Collective bargaining employees up to 5% ownership in gold operations | ◗ Paterson Grading C level and below on operations |

## RISK MANAGEMENT AND REMUNERATION

Pan African Resources recognises the need to fairly remunerate employees to attract, incentivise and retain talent. It is, however, cognisant of the need to ensure that effective risk management is part of its remuneration criteria to motivate the desired behaviour and avoid exposing the group to risks beyond its tolerance levels. The group's remuneration philosophy reinforces the need for the delivery of superior long-term results, while promoting sound risk management principles. Therefore, all senior management employees' KPIs include specific performance elements aligned to the group's strategic long-term objectives.

These performance elements incorporate production and personal parameters which are weighted, based on the relevant seniority level, to drive the desired behaviour. Safety is imperative to the mining operations and is included in the group's production incentive parameters.

In the past, 30% of executive directors' short-term incentives were deferred and only paid after two years. Going forward, 30% of their post-tax STI incentive is to be used to acquire Pan African Resources shares, on market, at the first opportunity to do so (taking cognisance of closed periods). These shares are required to be held for a period of two years from the date of acquisition, with clawback and malfeasance (malice) provisions being applicable.

Remco also implemented STI gatekeeper conditions going forward to protect the company from incentive payments that are unaffordable in the specific circumstances. This will ensure that no incentive is paid without a reasonable (minimum) level of financial performance being achieved.

These STI gatekeepers are:
- Unacceptable or unprofessional personal behaviour, resulting in a disciplinary judgement against the accused
- The company is in an operational loss-making situation
- Material non-compliance with regulations, with the executive being guilty of serious misconduct or negligence.

Remco also strengthened malice/malfeasance conditions for senior management STIs.

## NON-EXECUTIVE DIRECTORS' REMUNERATION

Remco advises the board on non-executive directors' fees. Non-executive fees are also reviewed by the company secretary for reasonability. In determining their fees, Remco considers the directors' responsibilities throughout the year, scarcity of skills, the group's performance, market-related conditions and local and international comparative remuneration levels. King IV™ recommends that fees should comprise a base fee and an attendance fee per meeting. The board agreed that a fixed fee for directors' services on the board and sub-committees was more appropriate as the board's input extends beyond the attendance of meetings. When non-executive directors are required to spend significantly more time and effort than is normally expected in preparing for and attending board meetings, Remco considers additional fees to compensate non-executive directors for their additional time and effort. There are no contractual arrangements for compensation for loss of office for non-executive directors. Non-executive directors' remuneration is subject to regulations which include the South African Companies Act, the Companies Act 2006, JSE Listings Requirements, King IV™ and the UK Code.

In the past year, Remco appointed PwC Remchannel to benchmark the remuneration of Pan African Resources' non-executive directors of relative to a comparator group of companies (both local and international).

## EXCO, OPSCO AND MANCO REMUNERATION

Remco is responsible for making recommendations to the board on the remuneration of the chief executive officer, financial director and senior corporate management. Remuneration of executive and senior management is reviewed on an annual basis in relation to the group's operational, financial and strategic performance as well as individual contribution thereto, alignment with the group's values and the contribution to risk management and compliance requirements.

Where the individual, team or group does not meet or only partially meets performance requirements, either all or a portion of discretionary awards are forfeited. An annual benchmarking exercise, conducted by PwC Remchannel market analysis (supplemented with other benchmarking sources), is used to determine a fair market-related remuneration package. Individual KPIs are agreed on annually and contain the elements disclosed on page 120.

Remuneration comprises fixed and variable (short-term and long-term incentives) remuneration components. STIs have certain parameters, disclosed on page 120 to ensure a performance-based culture.

The board and Exco retain a level of discretion to determine which parameters apply and their respective weighting to take cognisance of immediate priorities and align behaviour to shareholder aspirations.

# REMUNERATION POLICY AND IMPLEMENTATION continued

## PART ONE: REMUNERATION POLICY continued

### VARIABLE REMUNERATION CONDITION

| Position | 2018 maximum variable remuneration as a % of total remuneration | Qualification criteria at 100% achievement |
|---|---|---|
| Chief executive officer | Up to 110% | 60% based on the following production parameters:<br>◗ Total group gold sold – weight 50%<br>◗ Total group cost per kilogramme of gold produced – weight 30%<br>◗ Group safety record – weight 20%<br>*Stretch targets on production*<br>See remuneration framework on page 116 for details<br>40% based on personal KPIs determined by Remco and the board. KPIs relate to predetermined short-term value drivers designed to maximise shareholder value<br>The approved annual incentive is subject to 30% of after-tax proceeds being used to acquire Pan African Resources shares in the market, with a condition that these shares are to be held for a minimum period of two years, post-acquisition |
| Financial director | Up to 80% | 60% based on the following production parameters:<br>◗ Total group gold sold – weight 50%<br>◗ Total group cost per kilogramme of gold produced – weight 30%<br>◗ Group safety record – weight 20%<br>*Stretch targets on production*<br>See remuneration framework on page 116 for details<br>40% based on personal KPIs determined by the board and Remco. KPIs relate to predetermined outcomes which are aligned to shareholder value creation<br>The approved annual incentive is subject to 30% of after-tax proceeds being used to acquire Pan African Resources shares in the market, with a condition that these shares are to be held for a minimum period of two years, post-acquisition |
| Chief operating officer | Up to 60% | 60% based on the following production parameters:<br>◗ Total group gold – weight 50%<br>◗ Total group cost per kilogramme of gold produced – weight 30%<br>◗ Group safety record – weight 20%<br>*Stretch targets on production*<br>See remuneration framework on page116 for details<br>40% based on personal KPIs determined by the chief executive officer in consultation with Remco. KPIs relate to specific predetermined outcomes which are aligned to shareholder value creation |
| Senior managers at corporate level | Up to 50% | 60% based on the following production parameters:<br>◗ Total group gold sold – weight 50%<br>◗ Total group cost per kilogramme of gold produced – weight 30%<br>◗ Group safety record – weight 20%<br>*Stretch targets on production*<br>See remuneration framework on page 116 for details<br>40% based on personal KPIs which relate to predetermined outcomes set by the chief executive officer and which are aligned to shareholder value creation |
| Senior managers at operational level | Up to 50% | 60% based on the following production parameters:<br>◗ Total group gold – weight 50%<br>◗ Total group cost per kilogramme of gold produced – weight 30%<br>◗ Group safety record – weight 20%<br>*Stretch targets on production*<br>See remuneration framework on page 116 for details<br>40% based on personal KPIs which relate to predetermined outcomes set by the chief executive officer and which are aligned to shareholder value creation |

## EXECUTIVE DIRECTOR SERVICE CONTRACTS

The chief executive officer and financial director are remunerated in rand for services performed, according to their employment contracts. The current contracts terminate on 28 February 2021. In terms of these contracts, no amounts are payable at inception or termination of the contract term and there is no limitation on the number of times an executive director may stand for re-election.

The objectives of these contracts include:

- incentivising tangible performance in a clear and transparent manner
- ensuring alignment with shareholders' and other stakeholders' aspirations
- ensuring continuity and stability of senior management
- continuity in executive management to achieve group strategic initiatives.

Key elements considered by Remco in the executive directors' contracts include:

- basic remuneration
- short-term incentives linked to operational and personal performance
- long-term cash and equity-settled performance incentives to ensure individual and group performance is aligned with shareholders' interests. Such long-term incentives are linked to Pan African Resources' shareholder returns relative to the sector and achieving specific medium- and long-term tangible deliverables which will enhance group financial and operational performance.

## PRESCRIBED OFFICERS

The group's prescribed officers are those individuals who exercise general executive control over and manage a significant portion of the group's business activities or regularly participate, to a material degree, in the exercise of general executive control over a significant portion of the group's business activities.

In accordance with these requirements, Pan African Resources' prescribed officers include:

- André van den Bergh, chief operating officer, corporate office
- Bert van den Berg, group mining engineer, corporate office
- Neal Reynolds, group financial controller, corporate office
- Jonathan Irons, group metallurgist, corporate office
- Barry Naicker, group mineral resource manager, corporate office
- Niel Symington, group management accounting and IT manager, corporate office
- Mandla Ndlozi, group SHEQC manager, Barberton Mines and corporate office
- Mthandazo Dlamini, financial controller, corporate office
- Lazarus Motshwaiwa, general manager, Evander Mines
- Jan Thirion, general manager, Barberton Mines
- Oriel Shikwambana, operations manager, Elikhulu Tailings Retreatment.

## SHORT- AND LONG-TERM INCENTIVES

Pan African Resources provides both short- and long-term incentives to executives, senior management and other employees approved by the board. The short-term incentives are largely used to incentivise eligible employees, based on operational outcomes that are mainly under management's control. The long-term incentive is intended to drive performance over the longer term (three to five years) to ensure alignment with the group's strategic objectives and long-term sustainability.

### Pan African Resources' Senior Management Share Scheme (PARSMSS)

After consultation with shareholders, as well as appointing PwC Remchannel to review the current LTI schemes of the group, Remco implemented the new PARSMSS on 1 July 2019 for corporate senior managers. The primary purpose of the new scheme being further alignment of management's interests with those of our shareholders.

PARSMSS is a conditional-share type plan where actual Pan African Resources shares are awarded at the end of a vesting period, subject to the achievement of performance conditions over a defined period, provided the employee is still in the employment of Pan African Resources. The employee therefore becomes the owner of the actual shares at the end of the defined period.

### Pan African Share Appreciation Bonus Plan (PASABP) – discontinued for senior corporate management

The main objective of the PASABP is to provide appropriate incentives to select employees employed at operational managerial level within the group. The scheme ensures retention of key skills required for the ongoing operational performance, the growth of the group and to align management's interests with those of shareholders. In terms of the PASABP, select senior employees of the group are allocated notional shares in Pan African Resources. These notional shares will confer a conditional right to participant entitling the employee to be paid a cash bonus equal to the appreciation in the company's/group's share price from the date of allocation to the date of surrender or deemed surrender of his/her notional shares (share appreciation bonus).

### Senior corporate executive scheme: Pan African Corporate Option Scheme (PACOS) – discontinued for senior corporate management

PACOS replaced the PASABP scheme on 1 July 2018 for corporate senior managers, with the primary purpose being the retention of key skills for delivering into the following objectives to reposition the group on a low-cost and sustainable basis.

### Senior corporate executive scheme: PACOS cash payment

Participants are also incentivised to outperform the FTSE/JSE gold index, with cash rewards linked to the outperformance of this index over a two-year period ending on 30 June 2020. In the event that Pan African Resources' share price outperforms the index by 5% and 10%, 50% and 100%, respectively, of the cash incentive will vest.

# REMUNERATION POLICY AND IMPLEMENTATION continued

## PART ONE: REMUNERATION POLICY continued

### SUMMARY OF LONG-TERM INCENTIVES

| Details | PASABP | PACOS – Discontinued | New PARSMSS |
|---|---|---|---|
| Vesting Period | Four years | Two years (all options vest on 30 June 2020) | Three years |
| Performance criteria | Continued employment within the group for senior managers at an operational level | Delivering into the following:<br>◗ Barberton Mines' overall production stabilised at 100,000oz per annum<br>◗ Elikhulu commissioned on schedule, within budget and with the plant's performance being materially consistent with the bankable feasibility study and market guidance<br>◗ Cessation of large-scale underground operations at Evander Mines being concluded through an efficient retrenchment process<br>◗ At least one board-approved internal or external growth project must be in production or the construction of the project must have commenced. The project must be substantial enough to contribute an incremental 15% to the group's guided production ounces for the 2019 financial year. Alternatively, a value-enhancing return must be realised through a disposal, joint venture or any other similar project | ◗ The conditional share plan will be performance-linked and based on a percentage of total guaranteed package (TGP) in line with current market benchmarks<br>◗ Total shareholder return (TSR) benchmarked against our peer group (therefore relative TSR) is the most appropriate performance criteria given its accepted use within the industry and its alignment with shareholder returns<br>◗ In the event of the company's performance being equal to the index, 25% of the possible vesting will occur, with all shares vesting at an outperformance percentage of 5% or more and pro rata vesting between 0% and 5%. In the event that the company underperforms the sector, no vesting will occur |
| Measurement criteria | 30-day VWAP share price | 30-day VWAP share price | 90-day VWAP share price |
| Strike price | 30-day VWAP on date of first issue as well as on any subsequent top-up going forward | R1.21 | 90-day VWAP on date of issue |
| Change of control | All unvested options vest automatically | All unvested options vest automatically | Shares will vest on a pro rata basis based on time lapsed. In the event of death or disability, similar pro rata vesting will occur |
| Other criteria | Lapses on the sixth anniversary of the date on which the final tranche vested | ◗ Executives are required to re-invest 25% of the post-taxation proceeds arising from such exercise in Pan African Resources shares, which are to be held for the period from the exercise date to expiry of a 12-month period following the vesting date<br>◗ Should deliverables only be partially achieved by the vesting date, Remco will determine an appropriate percentage of the options to vest and may, at its discretion, impose further conditions for the vesting of the residual options<br>◗ Includes a clawback provision, which states that if any participant, wrongfully or unlawfully, influences or attempts to influence the achievement of the deliverables or the measurement by Remco of the achievement of the deliverables, Remco may, in its sole and absolute discretion:<br>– revoke all options not yet exercised by the participant<br>– claim back all amounts already paid to the participant in terms of any options already exercised | ◗ There is no mechanism to carry over unvested shares (due to underperformance)<br>◗ Malfeasance/malice and clawback clauses are included, consistent with current best practice<br>◗ In the event of vesting, Pan African Resources will acquire settlement shares on market, no primary issuance or treasury shares utilised |
| Instrument type | Notional shares linked to share price | Notional shares linked to share price | Actual Pan African Resources shares |

# PART TWO: REMUNERATION IMPLEMENTATION REPORT

## EXECUTIVE DIRECTORS' OPERATIONAL AND PERSONAL KPI PERFORMANCE ANALYSIS

### Executive director remuneration – financial year ended 30 June 2019

| | Share option taxable benefit | Basic remuneration R | Allowances 30 June 2019 R | Leave payout R | Total R | Incentives (Note 1) R |
|---|---|---|---|---|---|---|
| Mr JAJ Loots | – | 5,083,125 | 208,197 | 283,355 | 5,574,677 | 4,250,000 |
| Mr GP Louw | – | 4,416,563 | 9,171 | – | 4,425,734 | 3,700,000 |
| Total | – | 9,499,688 | 217,368 | 283,355 | 10,000,411 | 7,950,000 |

*Note 1: These incentives paid relate to the successful completion of the Elikhulu project.*

### Executive director remuneration – financial year ended 30 June 2018

| | Share option taxable benefit | Basic remuneration R | Allowances 30 June 2019 R | Leave payout R | Total R | Incentives (Note 2) R |
|---|---|---|---|---|---|---|
| Mr JAJ Loots | 5,639,077 | 4,832,500 | 196,841 | 269,920 | 10,938,338 | 4,601,469 |
| Mr GP Louw | – | 4,206,250 | 16,802 | – | 4,223,052 | 3,086,053 |
| Total | 5,639,077 | 9,038,750 | 213,643 | 269,920 | 15,161,390 | 7,687,522 |

*Note 2: During the 2018 financial year, the executive directors and senior management, in consultation with Remco, agreed to forgo any qualifying short-term incentives, because of the financial impact on the group following the cessation of underground operations at Evander Mines. The incentives disclosed were paid in the 2018 financial year but were related to and accrued for in the 30 June 2017 financial year.*

### Chief executive officer's performance for incentive purposes

**2019**

**Production parameters**

Production parameters per operation are weighted on budgeted profit contribution:

- Barberton Mines' production and safety group weighting of 59% was 38.77% (max 38.77%)
- Evander Mines' production and safety group weighting of 41% was 19.06% (max 27.23%)

**Personal KPIs**

Personal KPI approved by Remco for the 2019 financial year were the following:

- Successfully deliver into group turn-around strategy
- Progress strategic initiatives to reduce costs and increase group gold production
- Successful conclusion of three-year wage agreement at Barberton Mines

**2018**

**Production parameters**

Production parameters per operation are weighted on budgeted profit contribution:

- Barberton Mines' production and safety group weighting of 70% was 18.55% (max 45.92%)
- Evander Mines' production and safety group weighting of 30% was 8.44% (max 20.08%)

**Personal KPIs**

No personal KPI incentive was awarded by Remco for the 2018 financial year as the short- term incentives were forfeited. Remco, however, noted the following achievements during the financial year:

- Successful completion of the Evander Mines S189A process
- Successful conclusion of a one-year wage agreement at Barberton Mines
- Successful completion and commissioning of the regrind mill at the BTRP
- Barberton Mines achieving production guidance for the second half of the financial year, despite a number of community disruptions
- Initiatives implemented to improve future production performance of Barberton Mines
- Successful permitting and ground-breaking at Elikhulu
- A number of value-accretive initiatives successfully implemented, such as a tailings deposition agreement with Taung Gold

# REMUNERATION POLICY AND IMPLEMENTATION continued

## PART TWO: REMUNERATION IMPLEMENTATION REPORT continued

### Financial director's performance for incentive purposes

| 2019 | 2018 |
|---|---|
| **Production parameters**<br>Production parameters per operation are weighted on budgeted profit contribution:<br>◗ Barberton Mines' production and safety group weighting of 59% was 28.2% (max 28.2%)<br>◗ Evander Mines' production and safety group weighting of 41% was 13.86% (max 19.8%) | **Production parameters**<br>Production parameters per operation are weighted on budgeted profit contribution:<br>◗ Barberton Mines' production and safety group weighting of 70% was 13.50% (max 33.40%)<br>◗ Evander Mines' production and safety group weighting of 30% was 6.13% (max 14.60%) |
| **Personal KPIs**<br>Personal KPIs approved by Remco for the 2019 financial year were the following:<br>◗ Successfully deliver into group turn-around strategy<br>◗ Refinancing of the group's revolving credit facility | **Personal KPIs**<br>No personal KPI incentive was awarded by Remco for the 2018 financial year as the short-term incentives were forfeited. Remco, however, noted the following achievements during the financial year:<br>◗ Successful completion of the Evander Mines S189A process, with expenditure in line with budget<br>◗ Successful drawdown on banking facilities required for Elikhulu construction<br>◗ Banking facility covenants renegotiated to provide for the impact of the discontinued operations and closure costs incurred during the year<br>◗ A number of value-accretive initiatives successfully implemented, such as a tailings deposition agreement with Taung Gold and Uitkomst/MC Mining loan repayment<br>◗ A number of value-accretive initiatives successfully implemented, such as a tailings deposition agreement with Taung Gold |

## EXECUTIVE DIRECTORS' LONG-TERM INCENTIVES ANALYSIS

The executive directors' long-term incentives are cash-settled and the cost of these options is accrued annually based on independent actuarial valuations. Payment occurs when vested options are exercised, subject to Remco approval.

### 2019 financial year

| Executive director | Opening balance | Issued[2] | Exercised | Forfeited | Closing balance | Weighted average strike price R | Value of options accrued at year-end R | Value of options paid during the year R |
|---|---|---|---|---|---|---|---|---|
| Cobus Loots<br>Notional share options | – | 12,427,686 | – | – | 12,427,686 | – | – | – |
| Cobus Loots<br>Share incentive | 6,533,334 | – | – | – | 6,533,334[1] | – | – | – |
| Deon Louw<br>Notional share options | – | 8,690,599 | – | – | 8,690,599 | – | – | – |
| Deon Louw<br>Share incentive | 3,100,000 | – | – | – | 3,100,000 | – | – | – |

[1] *1,533,334 shares vested subsequent to year-end, following fulfilment of agreed vesting conditions.*

[2] *PACOS options issued as per 2018 remuneration report.*

### 2018 financial year

| Executive director | Opening balance | Issued | Exercised | Forfeited[2] | Closing balance | Weighted average strike price R | Value of options accrued at year-end R | Value of options paid during the year[1] R |
|---|---|---|---|---|---|---|---|---|
| **Cobus Loots** Notional share options | 2,500,000 | – | – | (2,500,000) | – | – | – | – |
| **Cobus Loots** Share incentive | 4,500,000 | 5,000,000 | (2,966,666) | – | 6,533,334 | – | 1,330,356 | 5,639,077 |
| **Deon Louw** Notional share options | 2,114,979 | – | – | (2,114,979) | – | – | – | – |
| **Deon Louw** Share incentive | – | 3,100,000 | – | – | 3,100,000 | – | 249,667 | – |

[1] *The share options exercised and paid of R5.6 million to the chief executive officer during the 2018 financial year were accrued at a value of R9.9 million as part of the share option scheme as at 30 June 2017.The share option payments may be different to the share option accrual due to movements in the share price of Pan African Resources from the accrual date to the redemption date.*

[2] *Forfeited as at 1 July 2018, and replaced by the new PACOS scheme.*

## SUMMARY OF KEY CONTRACTUAL ARRANGEMENTS FOR THE CHIEF EXECUTIVE OFFICER AND FINANCIAL DIRECTOR

| Term | Chief executive officer | Financial director |
|---|---|---|
| Contract duration | Three-year contract ending 28 February 2021 | Three-year contract ending on 28 February 2021 |
| Short-term annual incentive | A maximum of 110% of annual CTC of which 30% of their post-tax incentive is to be used to acquire Pan African Resources shares, on market, at the first opportunity to do so (taking cognisance of closed periods), after payment of the initial incentive.These shares are required to be held for a period of two years post the financial year to which they relate | A maximum of 80% of annual CTC of which 30% of their post-tax incentive is to be used to acquire Pan African Resources shares, on market, at the first opportunity to do so (taking cognisance of closed periods), after payment of the initial incentive.These shares are required to be held for a period of two years post the financial year to which they relate |
| Participation in the phantom share scheme (PASABP) | No further participation in the phantom share scheme (other than existing allocation) | No further participation in the phantom share scheme (other than existing allocation) |
| Participation in the corporate option scheme (PACOS) | No further participation in PACOS (other than existing allocation) | No further participation in PACOS (other than existing allocation) |
| Participation in the new PARSMSS | To participate in the new PARSMSS, effective 1 July 2019. Details of this scheme are disclosed on page 121 | To participate in the new PARSMSS, effective 1 July 2019. Details of this scheme are disclosed on page 121 |
| Minimum shareholding in Pan African Resources | Initial requirement of a minimum shareholding of R2 million, which is to be held for a minimum of two years<br>Shareholding requirements were subsequently increased – refer to amendments to STI scheme, which requires additional shares to be acquired and held for a minimum of two years post acquisition | Initial requirement of a minimum shareholding of R0.5 million, which is to be held for a minimum of two years<br>Shareholding requirements were subsequently increased – refer to amendments to STI scheme, which requires additional shares to be acquired and held for a minimum of two years post acquisition |
| Long-term share incentive | Allocation of 5,000,000 Pan African Resources shares effective on 1 March 2018, vesting over a three-year period (1 March 2018 to 28 February 2021).Vesting will occur subject to total shareholder return (defined as share price performance and dividends distributed to shareholders) exceeding that of a set of gold sector peers on an annual basis for each of the three years to 2021.These shares only vest when Pan African Resources' total shareholder return outperforms that of the peer group, with a pro rata vesting for superior performance up to 8%, whereafter all shares vest | Allocation of 3,100,000 Pan African Resources shares, effective on 1 March 2018, vesting over a three-year period (1 March 2018 to 28 February 2021).Vesting will occur subject to total shareholder return (defined as share price performance and dividends distributed to shareholders) exceeding that of a set of gold sector peers on an annual basis for each of the three years to 2021.These shares only vest when Pan African Resources' total shareholder return outperforms that of the peer group, with a pro rata vesting for superior performance up to 8%, whereafter all shares vest |

## PRESCRIBED OFFICER REMUNERATION

The prescribed officers' remuneration is disclosed in the annual financial statements on pages 195 and 196.

# A GOLDEN FUTURE FOR GOLD

Gold is a near-perfect commodity. The ancient Egyptians, who first realised gold's suitability for elaborate jewellery, doubtlessly had no idea how vital gold would become as human societies progressed.

Today, gold's unique qualities, such as its durability, corrosion resistance, chemical inertness and non-allergenic properties, mean that this incredible substance is used in a myriad of health-, electronic-, environmental-, and even space-technology applications. In fact, few other minerals taken from the earth are as useful, easy to work with, or as versatile as gold.

Many of gold's current applications only emerged recently, spurred by the pace of technological development. We have just scratched the surface of the possibilities that gold presents in the fourth industrial revolution.

## MAKING YOUR MEDICINE

Given its excellent anti-bacterial properties, for centuries gold was considered the ideal tooth repair material before today's less costly alternatives were invented.

Gold continues to rise in popularity as a sought-after component in many modern medical advances. Doctors are now using radioactive gold isotopes in some cancer treatments, while gold nanoparticles are used for rheumatoid arthritis, skin reconstruction, anti-viral applications, gene therapy and life-support devices.

## ENABLING THE SMART IN PHONES

Gold's resistance to corrosion makes it integral to many electronic components and devices.

Each modern phone contains around 50 milligrams of gold, which is likely to increase as technologies advance. Already, gold nanotechnologies are proving their functional usefulness in high-tech displays, touch-sensitive screens, solid-state drives and flash memory. With hundreds of tonnes already used in smartphone components, demand for gold by the world's memory manufacturers will continue to rise exponentially in the coming years.

## FROM GOLD TO GREEN

As a preferred metal for safe wire bonding, gold plays an increasingly relevant role in global environmental sustainability. Gold is used in electric vehicles and shows significant promise as an efficient fuel cell catalyst.

## THE FUTURE LOOKS BRIGHT

As society demands ever more sophisticated technology and materials, gold's applications will almost certainly expand. Given that there are few substitutes, natural or manmade, for this incredible material, growing demand will cause the value and importance of gold to steadily rise. In every way, gold always was – and still is – a metal of the future.

*Barberton Mines – gold bar moulds* >

# CONTENTS



ANNUAL FINANCIAL STATEMENTS

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the integrated annual report and the annual financial statements in accordance with applicable laws and regulations.

The Companies Act 2006 requires the directors to prepare such annual financial statements for each financial year. In accordance with the AIM rules, the directors are required to prepare the group annual financial statements in accordance with IFRS as adopted by the European Union (EU) (and article 4 of the IAS regulation) and have also chosen to prepare the parent company annual financial statements under IFRS as adopted by the EU. In terms of the Companies Act 2006, the directors should not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs and of the profit or loss of the group and the company for that period.

In preparing these annual financial statements, directors are legally required to:

- Properly select and apply accounting policies
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- Provide additional disclosures when compliance with the specific requirements of IFRS are insufficient to enable users to understand the impact of particular transactions, other events or conditions on the entity's financial position and financial performance
- Make an assessment of the group's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's transactions, disclose with reasonable accuracy, at any time, the financial position of the group, and ensure that the annual financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and therefore responsible for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of annual financial statements may differ from legislation in other jurisdictions.

### RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- The annual financial statements, prepared in accordance with IFRS, as adopted by the EU give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole
- The strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face
- The integrated annual report and annual financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

By order of the board

**Cobus Loots**
*Chief executive officer*

**Deon Louw**
*Financial director*

18 September 2019

# CERTIFICATE OF THE COMPANY SECRETARY

I hereby certify that Pan African Resources has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Companies Act 2006. All such returns are true, correct and up to date.

St James's Corporate Services Limited

**St James's Corporate Services Limited**
*Company secretary*

18 September 2019

# DIRECTORS' REPORT

The directors present their integrated annual report and the audited annual financial statements for the year ended 30 June 2019.

## PRINCIPAL ACTIVITIES

Pan African Resources is incorporated in the United Kingdom and registered in England and Wales under the Companies Act 2006 with the registration number 3937466. The company has a dual primary listing on South Africa's JSE and London's AIM market. The nature of the group's operations and its principal activities relate to precious mining and exploration activities. The group owns and operates a portfolio of high-quality, low-cost operations and projects located in South Africa.

A full review of the activities of the business and of its prospects is contained in the chairman's statement and chief executive officer's statement that accompanies these annual financial statements, with financial and non-financial key performance indicators shown from pages 10 to 15.

## RESULTS AND HISTORICAL DIVIDENDS

The results for the 2019 financial year are disclosed in the consolidated statement of profit and loss and other comprehensive income on page 140. The key features of these results can be found on page 38.

## DIVIDENDS

### Proposed dividend for the financial year ended 30 June 2019

The board has analysed the group performance and proposed a final dividend of R50 million or approximately USD3.4 million, equating to 2.2375 ZAR cents per share or approximately 0.12660 pence per share (0.15169 USD cents per share) (2018: 0.00 ZAR cents per share) at prevailing exchange rates. This dividend remains subject to approval at the annual general meeting on 28 November 2019.

The group suspended its dividend for the 2018 financial year in light of the cessation of large-scale underground operations at Evander Mines and the capital being spent on Elikhulu. The group's dividend policy has been disclosed on page 47 of the integrated annual report.

## POLICY FOR PAYMENT OF CREDITORS

It is the company's policy to settle all transactions within the terms established with suppliers. The company's intent is to settle creditors in less than 60 days from statement date.

## RISK MANAGEMENT

A separate risk committee is not considered necessary, as this role is fulfilled by the board, its sub-committees and executive management. The identification and management of critical risks is a strategic focus area for executive management, reviewed monthly and, together with action plans, reported regularly to the board. The group's risk management and key business risks are documented within the risk section on pages 29 to 35.

## INTERNAL CONTROL

The board is responsible for maintaining a sound system of internal controls to safeguard shareholders' investments and group assets. The directors monitor the operation of internal controls. The objective of the system is to safeguard group assets, ensure proper accounting records are maintained and that the financial information used within the business and for publication is reliable. Any such system of internal control can only provide reasonable, but not absolute, assurance against material misstatement or loss.

Internal financial control procedures undertaken by the board include:

- Review of monthly financial reports and monitoring performance
- Review of internal audit reports and follow-up action of weaknesses identified by these reports
- Review of competency and experience of senior management staff
- Prior approval of all significant expenditure, including all major investment decisions
- Review and debate of group policies.

The board has reviewed the operation and effectiveness of the group's system of internal control for the 2019 financial year and the period up to the date of approval of the annual financial statements, and are satisfied that there has been no material breakdown in the group's system of internal controls for the review period.

## GOING CONCERN

The group closely monitors and manages its liquidity risk by means of a centralised treasury function. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in commodity prices and different production profiles from the group's producing assets. The group had USD16.0 million (2018: USD35.6 million) of available debt facilities and USD5.3 million (2018: USD0.9 million) of cash and cash equivalents as at 30 June 2019. Based on the current status of the group's finances, having considered going concern forecasts and reasonable downside scenarios, including a rand gold price of R543,000/kg (USD1,190oz at a prevailing ZAR:USD average exchange rate R14.19), and reduced production volumes, the group's forecasts from current operations demonstrate it will have sufficient liquidity headroom to meet its obligations in the ordinary course of business, and will comply with financial covenants for the 12 months from the date of approval of the annual financial statements.

The board has a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the group continues to adopt the going concern basis of accounting in preparation of the 30 June 2019 annual financial statements.

# DIRECTORS' REPORT continued

## EVENTS AFTER THE REPORTING PERIOD

Subsequent to year-end, Yvonne Themba and Charles Needham were appointed as independent non-executive directors with effect from 17 July 2019.

Evander Mines concluded a gold loan for 20,000oz or USD28.3 million (R394 million) on 15 July 2019. The terms of the gold loan are as follows:

| | |
|---|---|
| Gold loan ounces | 20,000 |
| Gold loan value | USD28.3 million |
| Number of instalments | 12 |
| Ounces per instalment | 1,666.67 |
| Term of loan | 15 July 2019 – 30 June 2020 |
| First instalment date | 31 July 2019 |
| Last instalment date | 30 June 2020 |
| Effective rand gold price | R633,347/kg |

The gold loan is an IFRS 15 contract liability as Evander Mines has an obligation to transfer gold to RMB for the gold loan consideration received on 15 July 2019. The group has elected the practical expedient to not adjust the consideration amount of the gold loan for the effects of financing. The practical expedient was applied as the gold loan's term is less than 12 months and the financing component does not represent a significant financing component of the gold loan's value. The gold loan will consequently not be carrying financing costs over the 30 June 2020 financial year.

In light of the prevailing strong rand gold price environment and given our emphasis on financial risk management and de-gearing the balance sheet, the group entered into the following zero cost collar derivative hedges:

| | Unit | 1 July 2019 – 31 December 2020 |
|---|---|---|
| Gold hedged | (oz) | 120,010 |
| Average floor price | (R/kg) | 654,166 |
| Average ceiling price | (R/kg) | 828,303 |

## DIRECTORS

Directors during the year under review:

| | |
|---|---|
| KC Spencer | *(Independent non-executive chairman)* |
| JAJ Loots | *(Chief executive officer)* |
| GP Louw | *(Financial director)* |
| HH Hickey | *(Independent non-executive director)* |
| TF Mosololi | *(Independent non-executive director)* |
| RM Smith | *(Independent non-executive director)*[1] |
| Y Themba | *(Independent non-executive director)*[2] |
| C Needham | *(Independent non-executive director)*[2] |

[1] *Resigned from the board with effect from 3 April 2019.*

[2] *Appointed to the board with effect from 17 July 2019.*

The company has directors' and public officers' liability insurance in place that provides insurance cover in the event of a claim or legal action. The insurance cover was in place throughout the financial year and remains in place.

## AUDITOR

PwC was appointed as the company's external auditor, replacing Deloitte LLP. Tim McAllister is the designated audit partner for the financial year ending June 2019. PwC's appointment as external auditor was effective from 7 December 2018, and is subject to approval by shareholders at the company's next AGM.

Each of the persons who are directors, at the date of approval of this integrated annual report, confirm that:

- As far as the directors are aware, all relevant information has been provided to the group's auditor
- The directors have taken all the steps that they ought to have taken as directors to be aware of any relevant audit information and to establish that the group's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with S418 of the Companies Act 2006.

PwC has expressed its willingness to continue in office as auditor, and a resolution to reappoint it will be proposed at the forthcoming AGM.

## APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The board of directors therefore approves the integrated annual report, strategic report and associated annual financial statements.

By order of the board

**Cobus Loots**
*Chief executive officer*

18 September 2019

# AUDIT COMMITTEE REPORT

## INTRODUCTION

The principal purpose of the audit committee is to assist the board to fulfil its corporate governance and oversight responsibilities to ensure the integrity of the group's financial and corporate reporting, while ensuring adequate systems of internal control and risk management are in place and are operating effectively. The functions of a risk committee at a group level also fall within the ambit of the audit committee.

The committee has both reporting responsibilities to the shareholders and the board and is accountable to them. It operates in line with a documented charter and complies with all relevant legislation, regulation and governance codes and executes its duties in terms of the requirements of the governance codes in the UK (for the AIM market) and South Africa, and has adopted King IV™ as its code of corporate governance.

The performance of the audit committee is evaluated against its charter on an annual basis and a self-evaluation of the committee's effectiveness is performed by the members and reviewed by the board.

The committee was appointed at the AGM on 20 November 2018. In terms of King IV™, all three members of the audit committee are independent non-executive directors.

As at 30 June 2019, the audit committee comprised of two independent directors and the independent chairman of the board. Keith Spencer resigned from the audit committee with effect from 10 September 2019. Charles Needham, an independent non-executive director, was appointed to the audit committee with effect from 17 July 2019.

The independent non-executive directors of the audit committee as at the date of approval of this report were:

- Hester Hickey *(chairperson of the audit committee)*
- Thabo Mosololi
- Charles Needham.

Details on the number of meetings held and attendance by members are included on pages 100 and 101. All the members of the audit committee are considered by the board to have an independent and objective mindset. The board believes that the audit committee members collectively have the necessary skills to carry out their duties effectively and with due care. In cases where circumstances and issues arise, which are deemed outside of the scope of expertise of the audit committee members, independent services and advice from professional bodies and service providers are sourced.

## AUDIT COMMITTEE RESPONSIBILITIES AND DUTIES

The audit committee fulfils its responsibilities and duties as set out in its charter. The functions of the audit committee include:

- Reviewing the interim and year-end annual financial statements, challenging the consistency and appropriateness of accounting principles, policies and practices that have been applied in the preparation, measurement and disclosures in the financial reports, culminating with a recommendation to the board for approval
- Reviewing the integrity of the integrated annual report by ensuring its content is reliable, includes all relevant operational, financial and other non-financial information, risks and other relevant factors
- Considering significant judgements and estimates applied in the preparation of the interim results and year-end annual financial statements
- Oversight of whistleblowing procedures
- Monitoring the integrity of formal announcements relating to the group's financial performance and reviewing significant financial and other reporting judgements
- Reviewing the external audit reports
- Reviewing the effectiveness of the external audit function
- Assessing the external auditors' independence
- Determining the audit fees in respect of the interim review procedures and year-end external audit
- Making recommendations to the board on the appointment, reappointment or change of the group's external auditor, such changes are subject to shareholder approval at the company's AGM
- Specifying guidelines and authorising the award of non-audit services to the external auditor
- Reviewing the effectiveness of the internal audit function
- Reviewing the internal audit management reports with, when relevant, recommendations being made to the board
- Approving the internal audit plan
- Ensuring that a coordinated approach to all assurance activities is in place
- Monitoring the group's compliance with legal and regulatory requirements including ensuring that effective procedures are in place relating to the group's whistleblowing and anti-corruption policies
- Evaluating the appropriateness and effectiveness of risk management, internal controls and governance processes
- Dealing with concerns relating to accounting practices, internal audit, the audit or content of annual financial statements and internal financial controls
- Evaluation of the performance of the financial director and the financial department
- Review of the adequacy of the group's risk management process, policies, mitigating controls and risk register
- Review of the governance of information and technology and the effectiveness of the group's information systems
- Review of the group's going concern to determine the appropriateness of the group's annual financial statements being presented on a going concern basis.

## EXTERNAL AUDITOR

The committee is responsible for recommending the appointment or reappointment of a firm of external auditors to the board that, in turn, will recommend the appointment to shareholders. The committee is responsible for determining that the designated appointee firm and signing registered auditor have the necessary independence, experience, qualifications and skills and that the audit fee is adequate.

Following a formal tender process, PwC was appointed as the company's external auditor replacing Deloitte LLP. Tim McAllister

# AUDIT COMMITTEE REPORT continued

is the designated audit partner for the financial year ending 30 June 2019. PwC's appointment as external auditor was effective 7 December 2018, subject to approval by shareholders at the company's next AGM. The company initiated this change as a result of the adoption of an audit firm rotation process.

The audit committee is satisfied with the accreditation of PwC. The committee satisfied itself that the external auditor is independent as defined by the Companies Act 2006 and the standards stipulated by the auditing profession. The committee received the quality information from the firm regarding the individual auditor, their quality processes, their JSE accreditation and the regulator's inspection letters. The audit committee concluded it appropriate to recommend PwC to the board for shareholder approval. The audit committee held meetings with the external auditor, without the presence of management, on one occasion, and the chairman of the audit committee independently met with the external auditor on two occasions.

The audit committee, in consultation with executive management, agreed to the terms of engagement. The audit fee for the external audit has been considered and approved for the 2019 financial year-end, taking into consideration such factors as the timing of the audit, the extent of the work required and the scope. Refer to note 32 of the annual financial statements for disclosure of the audit and any non-audit fees.

The committee has a policy on the nature and extent of non-audit services. The policy allows for limited tax and corporate governance advice as well as the provision of reporting accountant services in relation to capital market transactions.

The committee monitors the external auditor's performance and the effectiveness of the audit process as provided in the terms of engagement and in respect of the audit scope and approach. The committee reviewed and approved the annual audit plan at its meeting in June 2019 including the proposed scope, materiality levels, and significant risk areas.

It was established that the approach was appropriate to be responsive to regulatory changes and organisational risks and other applicable requirements. Through the review of external audit reports, and interactions with the external audit team, the audit committee is satisfied with the quality of the external audit performed for the financial year.

The group's subsidiaries are also audited by PwC.

Tim McAllister will rotate as the audit partner after the June 2023 financial year.

## FINANCIAL REPORTING

The principal role of the audit committee in relation to financial reporting is reviewing, with senior management and the external auditor, the integrated annual report, financial results announcements and other publications to ensure statutory and regulatory compliance.

The committee has evaluated the consolidated and parent company annual financial statements for the year ended 30 June 2019 and, based on the information provided to the committee, considers that the consolidated and parent company annual financial statements comply, in all material respects, with the requirements of the Companies Act 2006 and IFRS. The consolidated and parent company annual financial statements were subsequently recommended to the board for approval. The audit committee makes its recommendation based on a comprehensive review conducted by the executive directors and other senior management. Furthermore, compliance to King IV™ requirements are continuously being assessed and improved on.

The committee reviewed the annual financial statements and the non-financial information in the integrated annual report and web-based information and concluded that the key risks have been appropriately reported on.

The company has established appropriate financial reporting procedures and the committee confirms that such procedures are operating sufficiently.

## SIGNIFICANT ISSUES CONSIDERED BY THE AUDIT COMMITTEE

Significant judgements, estimates and assumptions made by management are detailed in note 3 of the consolidated and parent company annual financial statements. Position papers were presented to the audit committee by management during the course of the financial year detailing management's critical and other significant accounting judgements and estimates. These were reviewed by the audit committee and included, but were not limited to, the following areas:

| Critical accounting judgements | Audit committee response |
|---|---|
| **Impairment of goodwill and impairment reversal of assets**<br>In accordance with IAS 36, goodwill is tested for impairment annually or earlier where an indicator of impairment becomes apparent. In addition, other long-term assets are reviewed for impairment indicators<br><br>The values of mining operations are sensitive to a range of attributes unique to each asset. Management is required to apply judgement in the estimation of:<br>◗ Mineral Reserves and Mineral Resources<br>◗ Commodity prices<br>◗ Foreign exchange rates<br>◗ Discount rates<br>◗ Operating costs, capital expenditure and other operating factors | The committee monitors the impairment review process, including the identification of impairment and impairment reversal indicators. The committee has reviewed the judgements used in the valuation and identification of cash-generating units (CGUs). During the prior financial year the following was considered:<br>◗ Evander Mines' underground operations were impaired by USD140.3 million during the 2018 financial year following the cessation of large-scale underground operations<br>◗ Following receipt of a positive feasibility study on the technical and financial merits of Evander Mines' 8 Shaft pillar project, the board approved the development of the pillar that gave rise to the impairment reversal<br>◗ On 16 May 2019, the group announced its intention to mine the pillar and has commenced with the development and equipping of the pillar. These cost have been capitalised<br><br>The audit committee considered the assessment for reversal of impairment, key assumptions and disclosure to be reasonable and appropriate |

| Other significant accounting judgements | Audit committee response |
|---|---|
| New accounting standards | The committee reviewed management's assessment of the impact of the adoption of IFRS 16: *Leases*, which will become effective in 2019. Management is currently in the process of evaluating the accounting impact of the new standard for service contracts. The committee has considered these disclosures in the notes to the consolidated and parent company annual financial statements prepared by management and concluded that these were appropriate |
| Going concern basis of accounting | The committee has reviewed the forecasted net debt levels, headroom on existing facilities and compliance with debt covenants. The going concern analysis covered the period 1 July 2019 to 30 September 2020, and considered a range of downside sensitivities, including the impact of lower commodity prices and reduced production levels. The committee concluded that it was appropriate to adopt going concern as a basis for the preparation of the annual financial statements |
| Deferred taxation | The committee has reviewed management's judgement applied in the determination of the future expected deferred taxation rate for the group's gold mining entities<br><br>The committee considered the key assumptions applied in the determination |
| Rehabilitation and decommissioning provision | The audit committee reviewed the estimate for the environmental and decommissioning provision, which was based on the work of external consultants and internal experts<br><br>The committee considered the disclosure of the rehabilitation and decommission provision in the consolidated and parent company annual financial statements and the changes in assumptions and other drivers of the movement in the provision and concluded that the recorded provision was appropriate |

## INTERNAL AUDITOR

The committee performs an oversight role of the internal audit function by approval of the internal audit plan and review of the internal auditor's findings on a regular basis. The committee satisfied itself that the internal audit function is independent and has the necessary resources, standing and authority to discharge its duties. The head of internal audit has direct access to the chairman of the audit committee and the internal auditor is invited to attend each audit committee meeting.

The committee assesses the work of internal audit on a regular basis through receipt of reports on the progress of the internal audit plan. The committee met with the head of internal audit on one occasion, which enables further evaluation of the work performed.

The committee reviewed the proposed 2019 internal audit plan and assessed whether the plan addressed the key areas of risk for the group. The committee approved the plan having discussed the scope of work in relationship to the group's risk.

## COMMITTEES' REMUNERATION

Audit committee members are remunerated in the same way as members of other board sub-committees. The fees are approved annually by the remuneration committee. No retirement fund contributions are made by the group to or on behalf of non-executive directors. Refer to page 194 of the consolidated and parent company annual financial statements for the disclosure of remuneration to audit committee members.

## SUBSIDIARY COMPANIES

The functions of the audit committee are also performed for each subsidiary company of the Pan African Resources group.

## FINANCIAL DIRECTOR

The committee considered the functioning of the company's finance department and believes that it functions effectively, with the required controls and systems in place.

The committee has assessed and is satisfied that Deon Louw has the appropriate skills, expertise and experience, for the role of financial director, as required by the JSE Listings Requirements and AIM rules.

## RISK MANAGEMENT

Risk management is the responsibility of the board and is integral to the achievement of the group's objectives. Refer to the risk section of the integrated annual report on pages 29 to 35 where the risk management approach and process has been further discussed.

The board, through the audit committee, fulfils its responsibility in reviewing the effectiveness of the group's risk management approach and internal controls through the review of reports submitted over the course of the year covering the risk management process and control environment, specifically in-depth reviews of the group's risk registers and review of internal audit reports.

The committee is satisfied that there was no material breakdown in the internal accounting controls during the financial year under review.

On behalf of the audit committee

Hester Hickey
*Chairperson, audit committee*

18 September 2019

# INDEPENDENT AUDITORS' REPORT

## TO THE MEMBERS OF PAN AFRICAN RESOURCES PLC

## REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

### OPINION

In our opinion, Pan African Resources PLC's group financial statements and parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2019 and of the group's profit and the group's and the parent company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Integrated Annual Report (the Annual Report), which comprise: the consolidated and parent company statements of financial position as at 30 June 2019; the consolidated and parent company statements of profit or loss and other comprehensive income, the consolidated and parent company statements of cash flows, and the consolidated and parent company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### OUR AUDIT APPROACH

#### Overview


**Overall group materiality**

- Overall group materiality: USD2.44 million, based on 5% of profit before tax.
- Overall parent company materiality: USD2.16 million, based on 1% of total assets.

**Group audit scope**

- We conducted a full scope audit of four significant components based on their size and risk characteristics; this included the three main operating entities and the parent company in South Africa. Specific audit procedures on certain balances and transactions were also performed on a further two reporting units relating to other expenses, borrowings and accounts payable.
- Senior members of the group audit team based in London visited South Africa during the year-end audit, including a visit to both mine sites at Barberton and Evander, in order to have sufficient oversight of the work of our component auditors in South Africa.

**Key audit matters**

- Impairment assessments of goodwill, intangible assets and property, plant and equipment (Group).

#### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

## Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Impairment assessments of goodwill, intangible assets and property, plant and equipment – Group**<br><br>Impairment assessments require significant judgement and there is the risk that the valuation of the assets may be incorrect and any potential impairment charge or reversal miscalculated. As such, this was a key area of focus for our audit due to the material nature of the respective balances.<br><br>Refer to page 131 (Audit Committee report), page 151 (significant judgements in applying accounting policies and key sources of estimation uncertainty), page 144 (significant accounting policies) and note 17 and 37.<br><br>The group has goodwill of USD21.6 million, indefinite-lived intangible assets of USD0.7 million and property, plant and equipment of USD305.4 million as at 30 June 2019, contained within four cash-generating units (CGUs).<br><br>The Barberton CGU has a carrying value of USD93.3 million and contained all of the goodwill balance and indefinite-lived intangible assets. Management has determined that the recoverable amount of the goodwill balance exceeded the carrying value and no impairment has been recognised.<br><br>The carrying values of the Barberton CGU's assets are supported by fair value less costs of disposal calculations, which are based on future cash flow forecasts using reserve and production estimates approved by the internal competent person.<br><br>In addition, management has performed an impairment trigger assessment for the other CGUs. Management identified the 8-shaft pillar project at Evander as an indicator of impairment reversal, as management is using previously impaired infrastructure assets in the three year project. Accordingly, management recorded a post-tax reversal of USD17.9 million in the Evander underground CGU using the fair value less costs to dispose of the CGU.<br><br>Management has determined that there were no triggers for impairment in either of the other CGUs, having considered factors such as long-term gold prices, interest rates, reserves and production. | In assessing the valuation of the Barberton CGU and the impairment reversal of the Evander CGU, we evaluated management's future cash flow forecasts for each CGU, and the process by which they were drawn up, including checking the mathematical accuracy of the cash flow models. We agreed future capital and operating expenditure to the latest Board approved budgets and the latest approved resources and reserves statements, forecasted life of mine production plans, capital expenditure budgets and forecast operational costs.<br><br>We assessed the competent person's skills and experience and concluded that they are appropriately qualified and experienced.<br><br>For both the Evander and Barberton CGU we used our valuation experts to assist us in evaluating the appropriateness of key market-related assumptions in management's valuation models, including gold prices, and foreign exchange, inflation and discount rates.<br><br>We assessed the reasonableness of management's future forecasts of capital and operating expenses included in the cash flow forecasts in light of the historical accuracy of such forecasts and the current operational results.<br><br>We performed sensitivity analysis around the key assumptions within the cash flow forecasts using a range of discount rates and lower long-term gold prices and exchange rates based on what, in our view, a market participant may apply.<br><br>For the Evander CGU, the estimation of recoverable amount is sensitive to changes in gold price assumptions and the effect on timing of the level of production from the pillar project. The estimated recoverable amount of this CGU exceeded the depreciated carrying value, resulting in the need for an impairment reversal. We formed an independent view of the gold price and discount rate that a market participant might use in a fair value less cost to dispose scenario.<br><br>We considered management's impairment trigger analysis and agreed that no impairment or reversal indicators existed for the other CGUs.<br><br>We examined the related disclosures in note 17 of the financial statements, including the sensitivities provided with respect to the CGUs.<br><br>Based on our analysis, we consider management's impairment conclusions, the impairment reversal recognised and the associated disclosures to be reasonable. |

We determined that there were no key audit matters applicable to the parent company to communicate in our report.

## How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the parent company, the accounting processes and controls, and the industry in which they operate.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed at the statutory reporting unit level by us, as the group audit team, or through involvement of our component auditors in South Africa. The group's assets and operations are primarily located within two mine sites in South Africa. Financial reporting is undertaken at the head office in Johannesburg.

We identified four reporting units which, in our view, required an audit of their complete financial information, either due to their size or risk characteristics. This included the three main operating subsidiaries in South Africa, as well as the parent company. Specific audit procedures on certain balances and transactions were also performed on a further two reporting units relating to other expenses, borrowings and accounts payable. Audit work was performed by our component auditors in South Africa and we determined the level of involvement we needed to have in the audit work for each reporting unit to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the group financial statements as a whole. As part of our year-end audit, the group audit team's involvement comprised of site visits, conference calls, review of component auditor work papers, attendance at component audit clearance meetings and other forms of communication as considered necessary.

This, together with additional procedures performed at the group level, gave us the evidence we needed for our opinion on the group financial statements as a whole.

# INDEPENDENT AUDITORS' REPORT continued

### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | Group financial statements | Parent company financial statements |
|---|---|---|
| Overall materiality | USD2.44 million. | USD2.16 million. |
| How we determined it | 5% of profit before tax. | 1% of total assets. |
| Rationale for benchmark applied | Based on the benchmarks used in the annual report, profit before tax is the primary measure used by shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark. | We believe that total assets is the most appropriate benchmark as the parent company is the ultimate holding company of the group therefore its operations are driven solely by its investments and inter-company loans. |

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between USD2.33 million and USD0.79 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above USD122,000 (Group audit) and USD108,090 (Parent company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

## CONCLUSIONS RELATING TO GOING CONCERN

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and parent company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

## REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

### Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 June 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

## RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

### Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Statement of Responsibilities set out on page 128, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

### Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

### Use of this report

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

# OTHER REQUIRED REPORTING

## COMPANIES ACT 2006 EXCEPTION REPORTING

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Timothy McAllister
*Senior statutory auditor*

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

18 September 2019

## CONSOLIDATED AND PARENT COMPANY

# STATEMENTS OF FINANCIAL POSITION

as at 30 June 2019

| | Notes | Consolidated<br>30 June 2019<br>USD thousand | Consolidated<br>Restated (note 1)<br>30 June 2018<br>USD thousand | Consolidated<br>Restated (note 1)<br>30 June 2017<br>USD thousand |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment and mineral rights | 17 | **305,354.7** | 254,246.7 | 292,007.6 |
| Other intangible assets | 18 | **655.2** | 41.7 | 94.1 |
| Deferred taxation | 35 | **2,141.1** | 8,186.4 | 991.0 |
| Long-term inventory | 21 | **614.5** | 748.2 | 889.5 |
| Long-term receivables | 19 | **1,021.9** | 1,746.6 | 3,295.0 |
| Goodwill (note 2) | 37 | **21,554.8** | 22,120.4 | 23,256.1 |
| Investments | 38 | **6,802.0** | 4,133.9 | 9,776.5 |
| Rehabilitation fund | 20 | **25,021.1** | 26,550.0 | 24,568.7 |
| | | **363,165.3** | 317,773.9 | 354,878.5 |
| **Current assets** | | | | |
| Inventories | 21 | **5,708.5** | 3,561.3 | 6,559.7 |
| Receivables from other group companies | | **–** | – | – |
| Current taxation asset | 34 | **1,888.6** | 910.6 | 1,388.6 |
| Trade and other receivables | 22 | **15,101.3** | 19,578.4 | 17,862.1 |
| Current portion of long-term receivables | 19 | **1,924.8** | 1,252.2 | – |
| Derivative financial asset | 29 | **–** | 289.5 | – |
| Cash and cash equivalents | 24 | **5,341.2** | 921.8 | 12,277.7 |
| | | **29,964.4** | 26,513.8 | 38,088.1 |
| Non-current assets held for sale | | **–** | – | 7,291.5 |
| **Total assets** | | **393,129.7** | 344,287.7 | 400,258.1 |
| **EQUITY AND LIABILITIES** | | | | |
| **Capital and reserves** | | | | |
| Share capital | 25 | **38,150.6** | 38,150.6 | 38,150.6 |
| Share premium | | **235,063.2** | 235,063.2 | 235,063.2 |
| Translation reserve | | **(138,857.1)** | (135,154.2) | (129,633.9) |
| Share option reserve | 27 | **2,624.7** | 2,624.7 | 2,016.4 |
| Retained earnings | | **112,984.2** | 74,942.0 | 208,414.1 |
| Realisation of equity reserve | | **(18,121.7)** | (18,121.7) | (18,121.7) |
| Treasury capital reserve | 26 | **(24,871.4)** | (24,871.4) | (36,815.7) |
| Merger reserve | | **(21,637.4)** | (21,637.4) | (21,637.4) |
| Other reserve | | **(1,753.2)** | (4,008.2) | – |
| Equity attributable to owners of the parent | | **183,581.9** | 146,987.6 | 277,435.6 |
| **Total equity** | | **183,581.9** | 146,987.6 | 277,435.6 |
| **Non-current liabilities** | | | | |
| Long-term provisions | 30 | **15,781.3** | 19,929.5 | 15,147.5 |
| Long-term liabilities – financial institutions | 28 | **109,617.7** | 112,827.4 | 13,828.5 |
| Long-term liabilities – other | 14 | **1,727.2** | 1,237.4 | 2,144.2 |
| Deferred taxation | 35 | **18,567.1** | 18,911.2 | 50,616.5 |
| | | **145,693.3** | 152,905.5 | 81,736.7 |
| **Current liabilities** | | | | |
| Trade and other payables | 23 | **35,921.3** | 36,815.3 | 35,163.2 |
| Derivative financial liabilities | 29 | **917.7** | – | – |
| Current portion of long-term liabilities – financial institutions | 28 | **24,147.7** | 6,426.2 | 1,587.2 |
| Current portion of long-term liabilities – other | 14 | **2,390.9** | 391.1 | 3,800.6 |
| Payables to other group companies | | **–** | – | – |
| Current taxation liability | 34 | **476.9** | 762.0 | 63.3 |
| | | **63,854.5** | 44,394.6 | 40,614.3 |
| Liabilities directly associated with assets held for sale | | **–** | – | 471.5 |
| **Total equity and liabilities** | | **393,129.7** | 344,287.7 | 400,258.1 |

*Note 1: The group changed its presentation currency for its 2019 financial results from GBP to USD. This change in presentation currency represents a voluntary change in an accounting policy in terms of IAS 8:* Accounting Policies, Changes in Accounting Estimates and Errors. *A change in presentation currency requires the restatement of comparatives. Refer to note 43.*

*Note 2: Goodwill has been restated in the prior financial year. Refer to note 44.*

*The above consolidated and parent company statement of financial position should be read in conjunction with the accompanying notes.*

*The annual financial statements on pages 128 to 215 were approved by the board of directors and authorised for issue on 18 September 2019 and were signed on its behalf by:*

Cobus Loots

*Chief executive officer*

18 September 2019

| Parent company | | |
|---|---|---|
| 30 June 2019 USD thousand | Restated (note 1) 30 June 2018 USD thousand | Restated (note 1) 30 June 2017 USD thousand |
| – | – | – |
| – | – | – |
| **1,593.1** | 2,016.5 | 540.2 |
| – | – | – |
| – | – | 1,915.7 |
| – | – | – |
| **162,825.6** | 160,157.4 | 238,368.6 |
| – | – | – |
| **164,418.7** | 162,173.9 | 240,824.5 |
| – | – | – |
| **93,672.9** | 95,653.6 | 118,026.7 |
| **103.4** | 99.1 | 86.4 |
| **22.4** | 6.4 | 7.2 |
| **1,108.5** | 1,027.7 | – |
| – | – | – |
| **36.3** | 269.0 | 10,409.3 |
| **94,943.5** | 97,055.8 | 128,529.6 |
| – | – | 6,819.9 |
| **259,362.2** | 259,229.7 | 376,174.0 |
| **38,150.6** | 38,150.6 | 38,150.6 |
| **235,063.2** | 235,063.2 | 235,063.2 |
| **(73,272.7)** | (70,542.5) | 8,351.0 |
| **1,616.9** | 1,616.9 | 1,616.9 |
| **54,076.8** | 55,059.6 | 69,371.6 |
| – | – | – |
| – | – | – |
| **3,153.1** | 3,153.1 | 3,153.1 |
| **(1,753.2)** | (4,008.2) | – |
| **257,034.7** | 258,492.7 | 355,706.4 |
| **257,034.7** | 258,492.7 | 355,706.4 |
| – | – | – |
| – | – | – |
| **402.3** | 47.5 | 707.9 |
| – | – | – |
| **402.3** | 47.5 | 707.9 |
| **1,024.8** | 466.3 | 1,459.9 |
| – | – | – |
| – | – | – |
| **900.4** | 223.2 | 269.1 |
| – | – | 18,030.7 |
| – | – | – |
| **1,925.2** | 689.5 | 19,759.7 |
| – | – | – |
| **259,362.2** | 259,229.7 | 376,174.0 |

**Deon Louw**
Financial director

18 September 2019

## CONSOLIDATED AND PARENT COMPANY

# STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2019

| | | Consolidated | | Parent company | |
|---|---|---|---|---|---|
| | Notes | 30 June 2019 USD thousand | Restated (note 1) 30 June 2018 USD thousand | 30 June 2019 USD thousand | Restated (note 1) 30 June 2018 USD thousand |
| **Continuing operations** | | | | | |
| Revenue | 4 | **217,374.6** | 145,828.8 | – | – |
| Other revenue | 4 | **304.4** | 146.0 | **1,973.2** | 778.2 |
| **Revenue and other revenue** | | **217,679.0** | 145,974.8 | **1,973.2** | 778.2 |
| Cost of production (note 2) | 5 | **(152,980.0)** | (107,139.9) | – | – |
| Mining depreciation and amortisation | 17,18 | **(16,227.8)** | (6,625.5) | – | – |
| **Operating profit** | | **48,471.2** | 32,209.4 | **1,973.2** | 778.2 |
| Other expenses | 7 | **(7,562.3)** | (5,903.1) | **(3,396.0)** | (3,195.9) |
| Impairment reversal/(cost) | 17, 18, 36 | **17,853.5** | (10,763.4) | – | – |
| Fair value movement on asset held for sale | 36 | – | – | – | 626.8 |
| Royalty costs | | **(354.1)** | (557.8) | – | – |
| **Net income/(loss) before finance income and finance costs** | | **58,408.3** | 14,985.1 | **(1,422.8)** | (1,790.9) |
| Finance income | 8 | **849.7** | 2,003.6 | **192.6** | 360.5 |
| Finance costs | 8 | **(13,041.8)** | (4,225.3) | **(0.1)** | (8.0) |
| **Profit/(loss) for the year from continuing operations** | | **46,216.2** | 12,763.4 | **(1,230.3)** | (1,438.4) |
| Taxation | 33 | **(8,174.0)** | 2,826.0 | **247.5** | 369.1 |
| **Profit/(loss) after taxation** | | **38,042.2** | 15,589.4 | **(982.8)** | (1,069.3) |
| **Discontinued operations** | | | | | |
| Loss after taxation from discontinued operations | 36 | – | (138,405.0) | – | – |
| **Profit/(loss) for the year** | | **38,042.2** | (122,815.6) | **(982.8)** | (1,069.3) |
| **Other comprehensive income (net of taxes)** | | | | | |
| **Items that have been or may subsequently be reclassified to the statement of profit or loss (net of taxes)** | | | | | |
| Investment measured at fair value through other comprehensive income adjustment | 38 | **2,876.3** | (5,165.2) | **2,876.3** | (5,165.2) |
| Taxation on investment measured at fair value through other comprehensive income adjustment | | **(621.3)** | 1,157.0 | **(621.3)** | 1,157.0 |
| **Items that will not be reclassified to the statement of profit or loss (net of taxes):** | | | | | |
| Foreign currency translation differences | | **(3,702.9)** | (5,520.3) | **(2,730.2)** | (78,893.5) |
| **Total comprehensive (loss)/income for the year** | | **36,594.3** | (132,344.1) | **(1,458.0)** | (83,971.0) |
| **Profit/(loss) attributable to:** | | | | | |
| Owners of the parent | | **38,042.2** | (122,815.6) | **(982.8)** | (1,069.3) |
| **Total comprehensive income attributable to:** | | | | | |
| Owners of the parent | | **36,594.3** | (132,344.1) | **(1,458.0)** | (83,971.0) |
| Earnings/(loss) per share (USD cents) | 10 | **1.97** | (6.79) | **(0.05)** | (0.06) |
| Diluted earnings/(loss) per share (USD cents) | 10 | **1.97** | (6.79) | **(0.05)** | (0.06) |
| Earnings per share from continuing operations (USD cents) | 10 | **1.97** | 0.86 | **(0.05)** | (0.06) |
| Diluted earnings per share from continuing operations (USD cents) | 10 | **1.97** | 0.86 | **(0.05)** | (0.06) |
| Weighted average number of shares in issue (thousand) | 10 | **1,928,329.5** | 1,809,726.7 | **1,928,329.5** | 1,809,726.7 |
| Diluted average number of shares in issue (thousand) | 10 | **1,928,329.5** | 1,809,726.7 | **1,928,329.5** | 1,809,726.7 |

*Note 1: The group changed its presentation currency for its 2019 financial results from GBP to USD. This change in presentation currency represents a voluntary change in an accounting policy in terms of IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors. A change in presentation currency requires the restatement of comparatives. Refer to note 43.*

*Note 2: Realisation costs have been restated in the prior financial year. Refer to note 5 and 44.*

*The above consolidated and parent company statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.*

## CONSOLIDATED AND PARENT COMPANY

# STATEMENTS OF CASH FLOWS

for the year ended 30 June 2019

| | Notes | Consolidated 30 June 2019 USD thousand | Consolidated Restated (note 1) 30 June 2018 USD thousand | Parent company 30 June 2019 USD thousand | Parent company 30 June 2018 USD thousand |
|---|---|---|---|---|---|
| **Cash flow from operating activities (note 4)** | | | | | |
| Net cash generated by/(utilised in) operating activities before dividend, taxation, royalties and net finance costs and income | 12 | **56,889.0** | 5,344.7 | **215.6** | (2,010.0) |
| Net dividend paid (note 2) | | **–** | (11,030.0) | **–** | (13,706.5) |
| Income taxation paid (note 3) | | **(3,847.0)** | (2,384.0) | **–** | (17.5) |
| Royalties (paid)/refund (note 3) | | **(649.9)** | 749.8 | **–** | – |
| Finance costs paid (note 3) | | **(15,014.8)** | (7,103.4) | **(0.1)** | – |
| Finance income received | | **329.4** | 1,027.6 | **7.0** | 128.8 |
| **Net cash generated by/(utilised in) operating activities** | | **37,706.7** | (13,395.3) | **222.5** | (15,605.2) |
| **Cash flow from investing activities** | | | | | |
| Additions to property, plant and equipment and mineral rights | | **(55,115.7)** | (124,698.6) | **–** | – |
| Additions to other intangible assets | 18 | **(16.3)** | (23.3) | **–** | – |
| Repayments/(advances) of long-term loans receivable | | **286.0** | (517.9) | **–** | – |
| Rehabilitation funds withdrawal/(contributions) | 20 | **2,585.4** | (2,038.9) | **–** | – |
| Proceeds from disposal of investment | 36 | **–** | 6,317.9 | **–** | 6,317.9 |
| Proceeds from disposals of property, plant and equipment and mineral rights | | **466.3** | 1.2 | **–** | – |
| **Net cash (utilised in)/generated by investing activities** | | **(51,794.3)** | (120,959.6) | **–** | 6,317.9 |
| **Cash flow from financing activities** | | | | | |
| Borrowings raised | 28 | **21,494.0** | 119,455.3 | **–** | – |
| Borrowings repaid | 28 | **(3,523.6)** | (7,782.1) | **–** | – |
| Advances in loans to subsidiaries | | **–** | – | **(461.4)** | (876.9) |
| Proceeds from disposal of treasury shares | 26 | **–** | 11,944.3 | **–** | – |
| **Net cash generated by/(utilised in) financing activities** | | **17,970.4** | 123,617.5 | **(461.4)** | (876.9) |
| **Net increase/(decrease) in cash and cash equivalents** | | **3,882.8** | (10,737.4) | **(238.9)** | (10,164.2) |
| Cash and cash equivalents at the beginning of the year | | **921.8** | 12,277.7 | **269.0** | 10,409.3 |
| Effect of foreign exchange rate changes | | **536.6** | (618.5) | **6.2** | 23.9 |
| **Cash and cash equivalents at the end of the year** | 24 | **5,341.2** | 921.8 | **36.3** | 269.0 |

*Note 1: The group changed its presentation currency for its 2019 financial results from GBP to USD. This change in presentation currency represents a voluntary change in an accounting policy in terms of IAS 8:* Accounting Policies, Changes in Accounting Estimates and Errors. *A change in presentation currency requires the restatement of comparatives. Refer to note 43.*

*Note 2: Net dividend paid represents the total dividend paid less the reciprocal dividend received from PAR Gold. Refer to the dividend note 11 and the related parties note 40.*

*Note 3: The income taxes, royalties and finance costs paid and received have been disclosed in the face of the statement of cash flows in the current and prior financial year.*

*Note 4: Proceeds from derivative financial instruments have been restated to cash flow from operating activities. Refer to note 44.*

*The above consolidated and parent company statement of cash flows should be read in conjunction with the accompanying notes.*

## CONSOLIDATED AND PARENT COMPANY

# STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2019

| | Consolidated | | | |
|---|---|---|---|---|
| | Share capital USD thousand | Share premium USD thousand | Translation reserve (note 1) USD thousand | Share option reserve USD thousand |
| **Balance as at 1 July 2017 (Restated) (note 8)** | 38,150.6 | 235,063.2 | (129,633.9) | 2,016.4 |
| Disposal of treasury shares | – | (1,124.2) | – | – |
| Transfer to treasury capital reserve (note 6) | – | 1,124.2 | – | – |
| Loss for the year | – | – | – | – |
| Other comprehensive loss | – | – | (5,520.3) | – |
| Dividends paid | – | – | – | – |
| Reciprocal dividends – PAR Gold (note 7) | – | – | – | – |
| Share-based payment – charge for the year | – | – | – | 608.3 |
| **Balance as at 30 June 2018 (Restated) (note 8)** | **38,150.6** | **235,063.2** | **(135,154.2)** | **2,624.7** |
| Profit for the year | – | – | – | – |
| Other comprehensive (loss)/income | – | – | (3,702.9) | – |
| **Balance as at 30 June 2019** | **38,150.6** | **235,063.2** | **(138,857.1)** | **2,624.7** |

| | Parent company | | | |
|---|---|---|---|---|
| | Share capital USD thousand | Share premium USD thousand | Translation reserve (note 1) USD thousand | Share option reserve USD thousand |
| **Balance as at 1 July 2017 (Restated) (note 8)** | 38,150.6 | 235,063.2 | 8,351.0 | 1,616.9 |
| Loss for the year | – | – | – | – |
| Other comprehensive loss | – | – | (78,893.5) | – |
| Dividends paid | – | – | – | – |
| **Balance as at 30 June 2018 (Restated) (note 8)** | **38,150.6** | **235,063.2** | **(70,542.5)** | **1,616.9** |
| Loss for the year | – | – | – | – |
| Other comprehensive (loss)/income | – | – | (2,730.2) | – |
| **Balance as at 30 June 2019** | **38,150.6** | **235,063.2** | **(73,272.7)** | **1,616.9** |

*Note 1: The translation reserve comprises of all foreign exchange differences arising from the translation of the financial results' functional currency (rand) to the group's presentational currency (USD).*

*Note 2: The merger reserve was created through the historical reverse acquisition of Barberton Mines in July 2007.*

*Note 3: The other reserves comprises of unrealised gains or losses recognised when financial assets are measured at fair value through other comprehensive income.*

*Note 4: The realisation of equity reserve was created in June 2009 through the acquisition of PAR Gold's 26% shareholding in Barberton Mines, in exchange for the issue of new ordinary shares in Pan African Resources to PAR Gold.*

*Note 5: The treasury capital reserve was created on 6 June 2016 and comprises of Funding Company's investment in PAR Gold. The PAR Gold's investment in Pan African Resources' shares eliminate on consolidation therefore reducing the group equity and the weighted average number of shares in issue (refer to note 38 and 26).*

*Note 6: The costs associated with the disposal of treasury shares were reclassified from share premium to the treasury capital reserve.*

*Note 7: Reciprocal dividend – PAR Gold is an inter-company transaction which eliminates on consolidation as disclosed above. Refer to the related party note 40.*

*Note 8: The group changed its presentation currency for its 2019 financial results from GBP to USD. This change in presentation currency represents a voluntary change in an accounting policy in terms of IAS 8:* Accounting Policies, Changes in Accounting Estimates and Errors. *A change in presentation currency requires the restatement of comparatives. Refer to note 43.*

*The above consolidated and parent company statement of changes in equity should be read in conjunction with the accompanying notes.*

## Consolidated

| Retained earnings USD thousand | Realisation of equity reserve (note 4) USD thousand | Treasury capital reserve (note 5) USD thousand | Merger reserve (note 2) USD thousand | Other reserves (note 3) USD thousand | Total USD thousand |
|---|---|---|---|---|---|
| 208,414.1 | (18,121.7) | (36,815.7) | (21,637.4) | – | 277,435.6 |
| – | – | 13,068.5 | – | – | 11,944.3 |
| – | – | (1,124.2) | – | – | – |
| (122,815.6) | – | – | – | – | (122,815.6) |
| – | – | – | – | (4,008.2) | (9,528.5) |
| (13,242.7) | – | – | – | – | (13,242.7) |
| 2,586.2 | – | – | – | – | 2,586.2 |
| – | – | – | – | – | 608.3 |
| **74,942.0** | **(18,121.7)** | **(24,871.4)** | **(21,637.4)** | **(4,008.2)** | **146,987.6** |
| **38,042.2** | **–** | **–** | **–** | **–** | **38,042.2** |
| **–** | **–** | **–** | **–** | **2,255.0** | **(1,447.9)** |
| **112,984.2** | **(18,121.7)** | **(24,871.4)** | **(21,637.4)** | **(1,753.2)** | **183,581.9** |

## Parent company

| Retained earnings USD thousand | Realisation of equity reserve USD thousand | Treasury capital reserve USD thousand | Merger reserve (note 2) USD thousand | Other reserves (note 3) USD thousand | Total USD thousand |
|---|---|---|---|---|---|
| 69,371.6 | – | – | 3,153.1 | – | 355,706.4 |
| (1,069.3) | – | – | – | – | (1,069.3) |
| – | – | – | – | (4,008.2) | (82,901.7) |
| (13,242.7) | – | – | – | – | (13,242.7) |
| **55,059.6** | **–** | **–** | **3,153.1** | **(4,008.2)** | **258,492.7** |
| **(982.8)** | **–** | **–** | **–** | **–** | **(982.8)** |
| **–** | **–** | **–** | **–** | **2,255.0** | **(475.2)** |
| **54,076.8** | **–** | **–** | **3,153.1** | **(1,753.2)** | **257,034.7** |

# NOTES TO THE CONSOLIDATED AND PARENT COMPANY ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2019

## 1. GENERAL INFORMATION

Pan African Resources is a company incorporated in the United Kingdom and registered in England and Wales under the Companies Act 2006 with the registration number 3937466. The company has a dual primary listing on the JSE and the UK's AIM market. The nature of the group's operations and its principal activities relate to commodity mining and exploration activities.

The group's presentation currency was changed in the current financial year to USD from GBP. Reporting in USD provides a more relevant presentation of the group's financial position, financial performance and cash flows. For additional information regarding the amendment, refer to note 43.

The individual financial results of each group company are maintained in their functional currencies, which are determined by reference to the primary economic environment in which the company operates. The company, and the subsidiary companies of Pan African Resources have determined their functional currency as the South African rand.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation and statement of compliance

The group's consolidated annual financial statements have been prepared in accordance with EU adopted IFRS and interpretations issued by IFRS Interpretations Committee in accordance with the provisions of the Companies Act 2006.

The consolidated and parent company annual financial statements have been prepared under the historical cost basis, except for certain financial instruments that are stated at fair value. The consolidated and parent company annual financial statements have been prepared on the going concern basis.

The consolidated and parent company annual financial statements are presented in USD and all values are rounded to the nearest thousand (USD'000), except where otherwise indicated.

The principal accounting policies are set out below and are consistent in all material respects with those applied in the previous year, except where otherwise indicated.

### Basis of consolidation

The annual financial statements incorporate a consolidation of the annual financial statements of the company and the entities controlled by the company (its subsidiaries). Entities that constitute the group are those enterprises controlled by the group regardless of the number of shares owned by the group. Control is achieved where the group has the power to govern the financial and operating policies of an investee enterprise to obtain benefits from its activities. Entities are consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control is transferred out of the group.

All inter-company balances, transactions income and expenses have been eliminated on consolidation where appropriate.

### Going concern

The group closely monitors and manages its liquidity risk by means of a centralised treasury function. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in commodity prices and different production profiles from the group's producing assets. The group had USD16.0 million (2018: USD35.6 million) of available debt facilities and USD5.3 million (2018: 0.9 million) of cash and cash equivalents as at 30 June 2019. Based on the current status of the group's finances, having considered going concern forecasts and reasonably possible downside scenarios, including a rand gold price of R543,000/kg (USD1,190/oz at a prevailing ZAR:USD average exchange rate of R14.19), and reduced production volumes, the group's forecasts from current operations demonstrate it will have sufficient liquidity headroom to meet its obligations in the ordinary course of business, and will comply with financial covenants for the 12 months from the date of approval of the annual financial statements.

The board has a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the group continues to adopt the going concern basis of accounting in preparation of the 30 June 2019 annual financial statements.

### New standards, interpretations and amendments effective for the first time as at 30 June 2019

The group applies all applicable IFRS in preparation of the consolidated and parent company annual financial statements. Consequently, all IFRS statements as adopted by the EU that were effective as at 30 June 2019 and are relevant to its operations have been applied.

At the date of authorisation of these consolidated and parent company annual financial statements, the following standards, which have been applied in these consolidated and parent company annual financial statements, for the first time, were in issue and effective as at 30 June 2019.

| Standard | Executive summary of the amendment | Effective | Impact |
| --- | --- | --- | --- |
| IFRS 2: *Share-based Payments*<br><br>Clarifying how to account for certain types of share-based payment transactions | This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority | Annual periods beginning on or after 1 January 2018 | No impact |
| IFRS 9: *Financial Instruments*<br>◗ Financial liabilities<br>◗ Derecognition of financial instruments<br>◗ Financial assets<br>◗ On general hedge accounting | This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an Expected Credit Loss (ECL) model that replaces the current incurred loss impairment model<br><br>The IASB has amended IFRS 9 to align hedge accounting more closely with an entity's risk management. The revised standard also establishes a more principles-based approach to hedge accounting and addresses inconsistencies and weaknesses in the current model in IAS 39 | Annual periods beginning on or after 1 January 2018 | Refer to note 29 and 43 of the consolidated and parent company annual financial statements |
| IFRS 15: *Revenue from Contracts with Customers* | The Financial Accounting Services Board (FASB) and IASB issued their long awaited converged standard on revenue recognition on 29 May 2014. It is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of goods or services transfer to a customer<br><br>The IASB has amended IFRS 15 to clarify the guidance, but there were no major changes to the standard itself. The amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of these areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard | Annual periods beginning on or after 1 January 2018 | Refer to note 4 and 43 of the consolidated and parent company annual financial statements |
| IFRIC 22: *Foreign Currency Transactions and Advance Consideration* | This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payment/receipts are made. The guidance aims to reduce diversity in practice | Annual periods beginning on or after 1 January 2018 | No impact |
| Annual improvements 2014 – 2016 | These amendments impact two standards:<br>◗ IFRS 1: *First-time Adoption of IFRS* regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10<br>◗ IAS 28: *Investments in Associates and Joint Ventures* regarding measuring an associate or joint venture at fair value. IAS 28 allows venture capital organisations, mutual funds, unit trusts and similar entities to elect measuring their investments in associates or joint ventures at fair value through profit or loss | Annual periods beginning on or after 1 January 2018 | No impact |

## NOTES TO THE CONSOLIDATED AND PARENT COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

### New standards, interpretations and amendments issued but not yet effective as at 30 June 2019

As at the date of authorisation of these consolidated and parent company annual financial statements, the following standards and interpretations, which have not been applied in these consolidated and parent company annual financial statements, were in issue and not yet effective as at 30 June 2019:

| Standard | Effective date |
|---|---|
| *Amendments to References to the Conceptual Framework in IFRS Standards* | Annual periods beginning on or after 1 January 2020 |
| IAS 1: *Presentation of Financial Statements*<br>IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors* on the definition of material | Annual periods beginning on or after 1 January 2020 |
| IAS 19: *Employee Benefits* on plan amendment, curtailment or settlement | Annual periods beginning on or after 1 January 2019 |
| IFRS 3: *Business Combinations* on the definition of a business | Annual periods beginning on or after 1 January 2020 |
| IFRS 17: *Insurance Contracts* | Annual periods beginning on or after 1 January 2021 |
| IFRS 9: *Financial Instruments* on prepayment features with negative compensation and modification of financial liabilities | Annual periods beginning on or after 1 January 2019 |
| IFRS 16: *Leases* | Annual periods beginning on or after 1 January 2019 |
| Annual improvements cycle 2015 – 2017 | Annual periods beginning on or after 1 January 2019 |
| IFRIC 23: *Uncertainty over Income Tax Treatments* | Annual periods beginning on or after 1 January 2019 |

The expected impact of standards other than IFRS 16: *Leases*, and interpretations, in issue and not yet effective, is not expected to have a material impact for the group.

IFRS 16: *Leases* was published in January 2016 and became effective for the group from 1 July 2019, replacing IAS 17: *Leases*.

The principal impact of IFRS 16 will be to change the accounting treatment by lessees of leases currently classified as operating leases. Lease arrangements will give rise to the recognition by the lessee of an asset, representing the right to use the leased item and a related liability for future lease payments. Lease costs will be recognised in the statement of profit and loss in the form of depreciation of the right-of-use asset over the lease term, and finance charges which represents the unwinding of the discount on the lease liability.

Based on information currently available, the group expects its lease liabilities to principally relate to the lease of corporate offices and the lease of Aachen reactors. Management is currently in the process of evaluating the accounting impact of the new standard in respect of service contracts. It is expected that the adoption of IFRS 16 will result in a material increase in lease liabilities, representing the present value of future payments under arrangements classified as operating leases, along with a corresponding increase in property, plant and equipment for a right-of-use asset, together with an increase in depreciation and finance costs.

The group will apply IFRS 16 from 1 July 2019 using the modified retrospective approach. Therefore the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings as at 1 July 2019 with no restatement of comparative information.

The group will not bring leases of low-value assets or short-term leases with 12 or fewer months remaining on the consolidated statement of financial position at 1 July 2019. In the consolidated and parent company cash flow statement for the year ended 30 June 2020 the total amount of cash paid will be separated between repayments of principal and repayment of interest. Repayments of principal will be presented within cash flows from financing activities and payment of interest in cash flows from operating activities..

### Property, plant and equipment and mineral rights

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost is the fair value of the consideration required to acquire and develop the asset and includes the purchase consideration, acquisition of mineral rights, cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner as intended by management, the initial estimate of any decommissioning obligation, for assets that take a substantial period of time to get ready for their intended use and their associated borrowing costs. Income generated from the sale of products extracted during the development or pre-commissioning phase of a mining asset is capitalised to the cost of property, plant and equipment and mineral rights as per IAS 16: *Property, Plant and Equipment.*

Gains or losses on disposal of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount. The gain or loss is recognised in the statement of profit or loss and other comprehensive income.

### Depreciation of property, plant and equipment and mineral rights

Mining rights and mining property, plant and machinery and shaft and exploration assets are depreciated over the estimated life-of-mine to their residual values using the units-of-production method based, on estimated Proven and Probable Mineral Reserves.

Buildings and infrastructure and items of plant and machinery for which the consumption is not linked to production is depreciated to their residual values at varying rates on a straight-line basis over their estimated useful lives or the life-of-mine, whichever is shorter. The estimated useful life may vary between five and 10 years.

Other non-mining assets are recorded at cost and depreciated on the straight-line basis over their expected useful lives which may vary between three and 10 years.

Capital under construction is measured at cost less any recognised impairment. Depreciation commences when the asset is capable of operating in the manner as intended by management, at which point they are transferred to the appropriate asset class.

Land is not depreciated.

Depreciation methods, residual values and estimated useful lives are reviewed at least annually.

### Other intangible assets

Other intangible assets, which excludes mining rights and exploration assets, are measured at cost less accumulated amortisation and accumulated impairment losses. Other intangible assets are amortised over their estimated useful lives, usually between three and five years, except goodwill, which is not depreciated. Amortisation methods, residual values and estimated useful lives are reviewed at least annually.

### Mineral exploration and evaluation costs

Mineral exploration and evaluation costs are expensed in the year in which they are incurred until they result in projects that the group:

- evaluates as being technically or commercially feasible
- has sufficient resources to complete development
- can demonstrate will generate future economic benefits.

Once these criteria are met, all directly attributable development costs and ongoing mineral exploration and evaluation costs are capitalised within other intangible assets. Capitalisation of pre-production expenditure ceases when the mining property is capable of commercial production.

Exploration expenditure is the cost of exploring for Mineral Resources other than that occurring at existing operations and projects and comprises geological and geophysical studies, exploratory drilling and sampling and Mineral Resources development.

Evaluation expenditure includes the cost of conceptual and pre-feasibility studies and evaluation of Mineral Resources at existing operations.

Capitalised pre-production expenditure is assessed for impairment in accordance with the group accounting policy stated below.

### Impairment

Cash-generating units (CGUs) to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the CGU may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the CGU, pro rata, based on the carrying amount of each asset in the CGU. An impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

At each statement of financial position reporting date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. Impairment losses are immediately recognised as an expense in the statement of profit or loss and other comprehensive income. A reversal of an impairment loss is recognised in the statement of comprehensive income.

Where an impairment loss subsequently reverses the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised on the asset or CGU.

### Taxation

The taxation expense includes the current taxation and deferred taxation charge recognised in the income statement.

The charge for current taxation is based on the results for the year as adjusted for items which are non-deductible or disallowed. It is calculated using taxation rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred taxation is recognised in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the annual financial statements and the corresponding amounts used for taxation purposes. In principle, deferred taxation liabilities are recognised for all taxable temporary differences, and deferred taxation assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction, which affects neither tax nor accounting profit.

Deferred taxation is calculated at the taxation rates that are expected to apply to the period when the asset is realised, or the liability is settled, based on taxation rates (and laws) that have been enacted or substantively enacted by the statement of financial position date. The measurement of deferred taxation liabilities and assets reflects the taxation consequences that would follow from the manner in which the group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred taxation is charged or credited to the statement of profit or loss and other comprehensive income, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also recorded within equity, or where they arise from the initial accounting for a business combination. In a business combination,

## NOTES TO THE CONSOLIDATED AND PARENT COMPANY ANNUAL FINANCIAL STATEMENTS continued

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the tax effect is considered in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

The carrying amount of deferred taxation assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or parts of the assets to be recovered.

Revenues, expenses and assets are recognised net of the amount of associated VAT, unless VAT incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated inclusive of the amount of VAT receivable or payable. The net amount of VAT recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated statement of financial position.

### Provision for environmental rehabilitation and decommissioning costs

An obligation to incur environmental restoration, rehabilitation and decommissioning costs arises when disturbance is caused by the development or ongoing production of a mining asset. Rehabilitation and environmental costs are estimated annually using either the work of external consultants or internal experts adjusted as appropriate for changes in legislation or technology. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalised at the start of each project as soon as the obligation to incur such costs arises.

These costs are recognised in the statement of profit or loss over the life of the operation through depreciation of the asset and the unwinding of the discount on the provision.

The amount recognised as a provision represents management's best estimate of the consideration required to complete the restoration and rehabilitation activity. These estimates are inherently uncertain and could materially change over time.

Long-term environmental obligations are based on the mining operations' environmental plans, in compliance with current environmental and regulatory requirements. The provision is based on the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the statement of financial position date. Increases due to additional environmental disturbances are capitalised and amortised over the remaining lives of the mines.

The group provides for the present value of decommissioning costs other than rehabilitation costs, if any, when the directors have prepared a detailed plan for closure of the particular operation, the remaining life of which is such that significant changes to the plan are unlikely, and the directors have raised a valid expectation in those affected that it will carry out the closure by starting to implement that plan or announcing its main features to those affected by it.

The measurement of the provision that results from subsequent changes in the estimated timing or amount of cash flows, is added back to, or deducted from the cost of the related asset in the current period. The unwinding of the discount rate on the provision is recognised as finance costs.

### Leased assets

The group leases certain property, plant and equipment. A lease is classified as a finance lease if it transfers to the group substantially all the risks and rewards incidental to ownership to the group. Other leases are classified as operating leases.

Finance lease assets are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease liability.

In addition to lease contracts, other significant contracts are assessed to determine whether in substance they are or contain a lease. This includes the assessment of whether an arrangement is dependent on a specific asset and the right to use that asset is conveyed through the contract.

### Foreign currency transactions and translation

The group's subsidiaries are incorporated in South Africa and their functional currency is the rand. The group's business is conducted in rand and the accounting records are maintained in this same currency, except for precious metal product sales, which are conducted in USD, prior to conversion into rand. The ongoing review of the results of operations conducted by executive management and the board is also performed in rand.

Foreign currency transactions by group companies are recognised in the functional currency of the company at the rates of exchange ruling on the date of the transaction.

At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange ruling at the reporting date. Gains or losses arising on translation of monetary items are recognised in the statement of profit or loss and other comprehensive income.

Non-monetary assets and liabilities are measured in terms of historical cost in a foreign currency and are translated using the exchange rates at the dates of the initial transactions.

On consolidation, the group's assets and liabilities are translated into the presentation currency (USD) of the group, at the rate of exchange prevailing at the reporting date. Income and expense items are translated at the exchange rate prevailing at the date of the significant transaction or the average rate for the period. The exchange differences arising on translation for consolidation are recognised in other comprehensive income and are recognised as income or expenses in the period in which the operation is disposed of.

### Inventories

Inventories include the commodities in their produced or concentrate form on-hand and consumable stores.

The commodities are valued at the lower of cost, determined on a weighted average basis, and net realisable value. Costs include direct mining costs and mine overheads.

Commodities in process inventories represent materials that are currently in the process of being converted to saleable commodities products. The commodities in process inventories are valued only if they are reliably measurable and are valued at the lower of the average cost, of the material fed to process plus the in-process conversion costs and net realisable value.

Consumable stores are valued at the lower of cost, determined on a weighted average basis and estimated net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Obsolete and slow-moving consumable stores are identified and are written down to their economic or realisable values.

### Retirement and pension benefits

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed schemes are dealt with as defined contribution plans where the group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan and are charged as an expense as they fall due.

### Post-retirement benefits other than pension

Historically, Barberton Mines and Evander Mines provided retirement benefits by way of medical aid scheme contributions for certain employees. The practice has been discontinued for some years. The net present value of estimated future costs of company contributions towards medical aid schemes for these retirees is recorded as a provision in the group's statement of financial position. The provision is reviewed annually with movements in the provision recorded in the statement of comprehensive income.

### Equity participation plan

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of equity instruments that will eventually vest. At each statement of financial position date, the group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the statement of comprehensive income such that the cumulative expense reflects the revised estimate, with corresponding adjustments to the equity-settled employee benefits reserve.

The BBBEE restructure transaction was historically equity-settled prior to the group's acquisition of PAR Gold and the subsequent BBBEE restructure on 15 June 2018. The transaction agreements specify that these options are to be equity-settled.

### Cash participation plan

Cash-settled share-based payments to employees are measured at the fair value of the cash instruments at the grant date. The fair value determined at the grant date of the cash-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the company's estimate of cash instruments that will eventually vest. At each statement of financial position date, the company revises its estimate of the number of cash instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the statement of comprehensive income such that the cumulative expense reflects the revised estimate, with corresponding adjustments to the cash-settled employee benefits liability.

The employee share ownership plan (ESOP) is designated as cash-settled in the event of a share buy as per the ESOP agreements.

The employee and director share options may be settled in either cash or equity. Historically, these have been settled in cash and therefore these options have been classified as cash-settled share options.

### Contributions to rehabilitation fund

Contributions are made to a dedicated environmental rehabilitation fund to provide for the estimated cost of rehabilitation during and at the end of the life of the group's mines. The funds' assets are recognised separately on the statement of financial position as non-current assets at fair value. Interest earned on the rehabilitation fund is accrued on a time proportion basis and recognised immediately in the income statement through profit or loss. Movements, other than cash contributions or deductions, in the rehabilitation fund are recognised immediately in the income statement through profit and loss.

### Revenue recognition

Revenue is recognised in a manner that depicts the pattern of transfer of goods and services to customers. The amount recognised reflects the amount to which the group expects to be entitled to in exchange for those goods and services. Sales contracts are evaluated to determine the performance obligations, the transaction price and the point at which there is transfer of control. The transaction price is the amount of the consideration due in exchange for transferring the promised goods or services to the customer, and is allocated against the performance obligations and is recognised in accordance with whether control is recognised over a defined period or at a specific point in time.

The group sells precious metals into the market through commodity trading transactions with financial institutions. Sales contracts contain a single performance obligation, to deliver gold at which time, title and risk pass to the purchaser. The group recognises revenue from the sale of precious metals when title and risk are transferred to the customer, being the date of delivery of the precious metals to Rand Refinery Limited. Payment of the commodity trade is due immediately on transfer of title and risk. Commodity sales are measured at the fair value of the consideration received or receivable after deducting discounts, volume rebates value-added taxes.

Revenue from the sale of material by-products is recognised within revenue at the point control passes.

## NOTES TO THE CONSOLIDATED AND PARENT COMPANY
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The group does not expect to have any contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the group does not adjust any of the transaction prices for the time value of money.

Revenue from services is recognised over time as the service is delivered in line with the policy above.

### Financial assets

Investments, other than investments in subsidiaries, joint arrangements and associates, are financial asset investments and are initially recognised at fair value. Transaction costs are capitalised to the instrument for instruments not classified as fair value through profit and loss. The group's financial assets are classified into the following measurement categories: instruments measured at amortised cost, instruments measured at fair value through other comprehensive income and instruments measured at fair value through profit and loss.

Financial assets are classified as measured at amortised cost only if the asset is held within a business model whose objective is to collect the contractual cash flows and contractual terms of the asset give rise to cash flows that are solely payments of principal and interest.

At subsequent reporting dates, financial assets measured at amortised cost are measured at amortised costs less any impairment losses. Other investments are classified either at fair value through profit and loss (which includes investments held for trading) or at fair value through other comprehensive income. Both these categories are subsequently measured at fair value. Where investments are held for trading purposes, unrealised gains and losses for the period are included in the statement of profit or loss and other comprehensive income within other income and expenses.

The group has elected to measure equity instruments that are neither held for trading nor are a contingent consideration in a business combination, at fair value through other comprehensive income as this better reflects the strategic nature of the group's equity investments. For equity instruments at fair value through other comprehensive income, changes in the fair value, including those related to foreign exchange, are recognised in other comprehensive income and there is no subsequent reclassification of fair value gains and losses to profit or loss.

### Impairment of financial assets

The group recognises loss allowances for expected credit losses (ECL) on financial assets measured at amortised cost. The group recognised ECL based on lifetime default events for financial assets, except for those that have not experienced a significant increase in credit risk, which are measured using 12-month default events. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the group's historical experience, informed credit assessment and including forward-looking information. The maximum period considered when estimating ECLs is the maximum contractual period over which the group is exposed to credit risk. Credit losses are measured as the difference between the cash flows due in accordance with the contract and the cash flows the group expects to receive. A financial asset is 'credit-impaired' when one or more events that have a detrimental adverse impact on the estimated future cash flows of a financial asset have occurred.

### Financial liabilities

Financial liabilities are classified and accounted for as debt according to the substance of the contractual arrangements entered into.

### Derecognition of financial assets and financial liabilities

Financial assets are derecognised when the right to receive cash flows from the asset has expired, the right to receive cash flows has been retained, but an obligation to pay them in full without material delay has been assumed or the right to receive cash flows has been transferred together with substantially all the risks and rewards of ownership.

Financial liabilities are derecognised when the associated obligation has been discharged, cancelled or has expired.

A substantial modification of the terms of a financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of the extinguished financial liability and the consideration paid is recognised in profit and loss.

The terms of a financial liability is considered substantially different if the present value of the cash flows under the new terms (including any fees paid net of fees received), differs at least 10% from the present value of the financial liability's cash flows using the original effective interest rate and term.

If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified financial liability.

### Investments

Investments in subsidiaries are measured at cost.

### Borrowing costs

Interest on borrowings directly relating to the financing of qualifying assets in the course of construction is added to the capitalised cost of those projects under 'capital under construction' until such time as assets are substantially ready for their intended use or sale. Where funds have been borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average rate applicable to the relevant borrowings of the group during the period. All other borrowing costs are recognised in the statement of profit or loss and other comprehensive income.

### Fair value measurement

The assessment of fair value is principally used in accounting for business combinations, impairment testing and the valuation of certain financial assets and liabilities. Fair value is determined based on observable market data (in the case of listed investments, the market share price as at 30 June 2019 of the respective investments are utilised) or discounted cash flow models (and other valuation techniques) using assumptions considered to be reasonable and consistent with those that would be applied by a market participant. Where discounted cash flows are used, the resulting fair value measurements are considered to be at Level 3 in the fair value hierarchy as defined in IFRS 13: *Fair Value Measurement* as they depend to a significant extent on unobservable valuation inputs.

The determination of assumptions used in assessing the fair value of identifiable assets and liabilities is subjective and the use of different valuation assumptions could have a significant impact on financial results. In particular, expected future cash flows, which are used in discounted cash flow models, are inherently uncertain and could materially change over time. They are significantly affected by several factors including Mineral Reserves and Mineral Resources, together with economic factors such as commodity prices, exchange rates, discount rates and estimates of production costs and future capital expenditure.

### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

### Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Pan African Resources' Exco. Management has determined the operating segments of the group based on the reports used to make strategic decisions that were reviewed by Exco. Exco considers the business principally according to the nature of the products and services provided, with the segment representing a strategic business unit. The reportable operating segments derive their revenue primarily from mining, extraction, production and selling of commodities.

### Non-current assets held for sale and discontinued operations

The group classifies assets and disposal groups as held for sale if the carrying amount will be recovered principally through a sale rather than continuing use. Such assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less cost to sell. Cost to sell are incremental costs directly attributable to the sale excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made. Management must be committed to the sale, expected to be finalised within one year from the date of classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal group qualifies as a discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale and:

- represents a separate major line of business or geographical area of operations
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations
- is a subsidiary acquired exclusively with a view of resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss and other comprehensive income.

Additional disclosures are provided in note 36. All other notes to the annual financial statements include amounts from continuing operations, unless otherwise mentioned.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the group's consolidated and parent company annual financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that may materially affect the carrying amounts of assets, liabilities and contingent liabilities reported at the date of the consolidated and parent company annual financial statements and the reported amounts of revenue and expenses during the current financial year.

These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances historical experience, current and expected future economic conditions and other factors. Actual results may differ from the amounts included in the consolidated and parent company annual financial statements. Further information about such judgements and estimates is included in the accounting policies and/or the notes to the consolidated and parent company annual financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods or if the revision affects both current and future periods.

## NOTES TO THE CONSOLIDATED AND PARENT COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

### Critical accounting judgements

The following are areas of judgement, apart from those involving estimations, that have the most significant effect on the amounts recognised in the consolidated and parent company annual financial statements.

#### Impairment and impairment reversals of assets

The group assesses at each reporting date whether there are any indicators that its assets and CGUs may be impaired or requires previous impairment provisions to be reversed. Operating and economic assumptions which could affect the valuation of assets using discounted cash flow models are regularly reviewed and updated as part of the group's monitoring of operational and financial performance and forecasting processes. Judgement is required in determining if operating and economic changes are significant and impact the performance potential of an asset or CGU, and therefore an indication of an impairment or an impairment reversal.

Assets (other than goodwill) that have previously been impaired must be assessed for indicators of both impairment and impairment reversal. Such assets are recorded on the statement of financial position at their recoverable amount at the date of the last impairment assessment therefore a change in operational plans, assumptions or economic conditions could result in further impairment or an impairment reversal if an indicator is identified. The group has previously impaired Evander Mines' large-scale underground operations, and during the current financial year, recorded a reversal of impairment on Evander Mines' pillar project related to the previously impaired 8 Shaft, 7 Shaft and Kinross plant infrastructure.

*Cash-generating units*

The group defines a CGU as the smallest identifiable group of assets that generate cash flows largely independent of cash flows from other assets or groups of assets. The allocation of assets to a CGU requires judgement.

Consistent with the prior financial year, our CGUs have been classified as follows:

- **Barberton Mines' underground operations:** Underground operations (Fairview, Sheba and Consort) are reliant on the Fairview BIOX® plant for processing and these operations have been grouped together and classified as a single CGU
- **BTRP:** The BTRP has the ability to treat and smelt gold independently of the Fairview BIOX® plant and is independent of the underground operations resulting in the BTRP being classified as a single CGU
- **Egoli project:** A drilling programme and a feasibility study was completed in September and November 2017, respectively. This project is independent of Evander Mines' 8 Shaft and Kinross plant infrastructure, resulting in the Egoli project being classified as a single CGU
- **Elikhulu:** Has been constructed in a manner such that it is independent of Evander Mines' underground operations resulting in Elikhulu being classified as a single CGU
- **Evander Mines' underground operations:** Includes 7 Shaft, 8 Shaft and the run-of-mine circuit in the Kinross metallurgical plant and 8 Shaft pillar mining, which are independent of Elikhulu and the Egoli project, resulting in them being classified as a single CGU.

*Cash flow projections and key assumptions*

Expected future cash flows used in discounted cash flow models are inherently uncertain and could materially change over time. Cash flow projections are significantly affected by a number of factors including Mineral Reserves and Mineral Resources together with economic factors such as commodity prices and discount rates and estimates of production costs and future capital expenditure. Where discounted cash flow models based on management's assumptions are used, the resulting fair value measurements are considered to be at Level 3 in the fair value hierarchy as defined in IFRS 13: *Fair Value Measurement*, as they depend to a significant extent on unobservable valuation inputs.

Cash flow projections are based on financial forecasts and life-of-mine plans incorporating key assumptions as detailed below:

- **Mineral Reserves and Mineral Resources:** Mineral Reserves and, where considered appropriate, Mineral Resources, are incorporated in projected cash flows, based on Mineral Reserves and Mineral Resource statements (in accordance with the SAMREC Code for South African properties) and exploration and evaluation work undertaken by appropriately qualified persons. Mineral Resources are included where management has a high degree of confidence in their economic extraction, despite additional evaluation still being required prior to meeting the required confidence to convert to Mineral Reserves. Please refer to the Abridged Mineral Reserves and Mineral Resources report on pages 56 to 75 for further disclosure of the group's Mineral Reserves and Resources and life-of-mine plans
- **Commodity prices:** Commodity prices are based on latest internal forecasts, benchmarked with external sources of information, to ensure that they are within the range of available analyst forecasts. Where existing sales contracts are in place, the effects of such contracts are considered in determining future cash flows
- **Discount rates:** Value in use and fair value less cost of disposal projections are sensitive to changes in the discount rate. Refer to note 17
- **Operating costs, capital expenditure and other operating factors:** Operating costs and capital expenditure are based on financial budgets. Cash flow projections are based on life-of-mine plans and internal management forecasts. Cost assumptions incorporate management experience and expectations, as well as the nature and location of the operation and the risks associated therewith (for example the grade of Mineral Reserves and Mineral Resources varying significantly over time and unforeseen operational issues). Refer to the unaudited Abridged Mineral Reserves and Mineral Resources report on pages 56 to 75.

Refer to note 17 where the reversal of impairment has been further disclosed.

### Discontinued operation

A component of the group is classified as a discontinued operation if it has been either disposed off or is classified as held for sale and:

- represents a separate major line of business or geographical area of operations
- it is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations
- it is a subsidiary acquired exclusively with the view of resale.

Due to the cessation of Evander Mines' large-scale underground operations in the 2018 financial year, which included 8 Shaft, 7 Shaft and the run-of-mine circuit in the Kinross metallurgical plant, the financial results from Evander Mines' large-scale underground operations were classified as a discontinued operation. Judgement was required in determining the allocation of the shared operational costs and revenue between Evander Mines' continuing and discontinued operations.

Refer to note 36 where the discontinued operations have been further disclosed.

## Critical sources of estimation uncertainty

### Impairment and impairment reversals of assets

For assets where indicators of impairment or impairment reversals are identified, the group performs an impairment review to assess the recoverable amount of its operating assets, principally with reference to fair value less costs of disposal, which is assessed using discounted cash flow models. Mining operations are large, complex assets requiring significant technical and financial resources to operate. Their value may be sensitive to characteristics unique to each asset. There is judgement in determining the assumptions that are considered to be reasonable and consistent with those that would be applied by market participants as outlined above.

*Evander Mines' underground operations*

Following an internal and external review of Evander Mines' underground operations, it was concluded that there was no realistic prospect of mining on a sustainable basis from this operation, and the decision was taken on 18 May 2018 to cease large-scale underground operations at Evander Mines and, as a result, the CGU was fully impaired. An impairment charge of USD140.3 million was recognised in the 2018 financial results.

Subsequently, an independent feasibility study into the merits of mining Evander Mines' 8 Shaft pillar and high-grade areas in proximity to the pillar was completed and the board of directors approved the development of this project on 12 June 2019. Consequently, the valuation of Evander Mines' underground operations has been assessed and the previous impairment of the Kinross plant, the 7 Shaft and 8 Shaft infrastructure has been reversed to the recoverable amount of USD17.9 million that would have been recognised had no impairment loss been recorded previously.

The carrying value based on discounted cash flow is sensitive to changes in input assumptions.

Refer to note 17 where sensitivities of key assumptions has been further disclosed.

## Other significant accounting judgements and estimates

### Elikhulu date of commissioning

Given the nature of Elikhulu, a key area of judgement was the determination of when Elikhulu was in the location and condition for it to be operating in the manner intended by management.

Pan African Resources has applied a guiding principle that once the plant achieves commercial production, it is operating in the manner as intended by management. At the beginning of the month in which the project achieved commercial production, the various assets, by major component, are recorded in the fixed asset register and are subject to depreciation over their respective useful lives.

Commercial production is assumed when management can demonstrate that the plant is able to materially achieve the technical design parameters established by the feasibility study and it is probable that future economic benefits will be generated by the plant.

Commercial production was achieved during the month of September 2018 and thus the commissioning date of Elikhulu was determined to be 1 September 2018.

Refer to note 17 for further disclosure on the Elikhulu date of commission.

### Deferred taxation rate

Deferred taxation assets and liabilities are measured at the taxation rate that is expected to apply to the period when the asset is realised or the liability settled, based on the taxation rates (and taxation laws) that have been enacted or substantively enacted at the end of the current financial year.

South African income taxation on gold mining income is determined according to a formula (the gold formula) that takes into account the taxable income and revenue from gold mining operations. Judgement was applied in the determination of the future expected deferred taxation rates in our gold mining entities.

The group prepares nominal cash flow models to calculate the expected average income taxation rate over the life-of-mine. The key assumptions in the cash flow models are the same as those noted in the cash flow projections and key assumptions section above.

Refer to note 35 for further disclosure of the deferred taxation rate.

## NOTES TO THE CONSOLIDATED AND PARENT COMPANY ANNUAL FINANCIAL STATEMENTS continued

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### Rehabilitation and decommissioning provision

At each reporting date, the group estimates the rehabilitation and decommissioning provision. There is judgement in the input assumptions used in determining the estimated rehabilitation and decommissioning provision. Inputs used that require judgement include:

- Closure costs, which are determined in accordance with regulatory requirements
- Inflation rate, which has been adjusted for a long-term view
- Risk-free rate, which is compounded annually and linked to the life-of-mine
- Life-of-mine and related Mineral Reserves and Resources. Refer to the unaudited Abridged Mineral Reserves and Mineral Resources report on pages 56 to 75.

Refer to note 30 for further disclosure on the rehabilitation and decommissioning provision.

During the current financial year, an assessment of the group's environmental rehabilitation plan identified a risk relating to the potential pollution of deep ground mine water at Barberton Mines. The group may have a potential exposure to rehabilitate Barberton Mines' groundwater. The group will undertake a detailed assessment to determine if there is an environmental contingency, and if it becomes quantifiable, we would be required to account for the groundwater rehabilitation exposure as a liability, and it may have a material impact on the annual financial statements of the group.

### Cash-settled share option liability

The company applies the requirements of IFRS 2: *Share-based Payments* to cash-settled share-based payments made to employees. These are measured at fair value at grant date and, at each subsequent reporting date, the company revised its estimated fair value in accordance with the requirements of IFRS 2 with the movement recognised in profit or loss. The determination of the fair value of cash-settled share option liability is subject to judgement.

The fair value is calculated using actuarial valuations where required. Refer to note 14 for detailed inputs used in the model and further disclosure on cash-settled share option liabilities.

### Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events. Such contingencies include, but are not limited to, litigation or regulatory procedures.

When a loss is considered probable and can be reliably estimated, a liability is recorded based on the best estimate of the expected loss. The likelihood of a loss with respect to a contingency can be difficult to predict and determining a meaningful estimate of loss or range of losses may not always be predicable based on the information available at the time and the potential effect of future events and decisions by third parties that will determine the ultimate resolution of the contingency. When a loss is probable, but a reasonable estimate cannot be made, disclosure is provided in the annual financial statements.

Refer to note 41 for further disclosure on contingent liabilities.

## 4. REVENUE AND OTHER REVENUE

### Revenue from contracts with customers

The effect of initially applying IFRS 15 to the group's revenue from contracts with customers is disclosed in note 43. The group has chosen the full retrospective adoption of IFRS 15 in the current year.

All external revenue from contracts with customers is recognised at the point of delivery to Rand Refinery in South Africa in the following major product lines:

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| Gold revenue | **217,374.6** | 145,828.8 | **–** | – |
| Silver revenue | **304.4** | 146.0 | **–** | – |
| Management fees (recognised on delivery of the service) | **–** | – | **1,973.2** | 778.2 |
| | **217,679.0** | 145,974.8 | **1,973.2** | 778.2 |
| **Liabilities related to contracts with customers** | | | | |
| Amounts received in advance of settlement of gold | **–** | – | **–** | – |
| **Gold prepayment and gold loan transactions:** | | | | |
| **Reconciliation of the movement in liabilities related to contracts with customers** | | | | |
| Opening balance | **–** | 2,041.0 | **–** | – |
| Gold prepayment transaction receipts | **8,027.3** | – | **–** | – |
| Gold prepayment transaction revenues realised | **(8,104.3)** | (2,072.8) | **–** | – |
| Foreign currency translation reserve | **77.0** | 31.8 | **–** | – |
| **Closing balance** | **–** | – | **–** | – |

As a consequence of the group entering into gold prepayment transactions, the group recognises revenue received in advance in the statement of financial position when the gold prepayment transactions are entered into with financial institutions. Revenues from these gold prepayment transactions are subsequently recognised in the statement of comprehensive income in terms of the customer contract, at the contractually agreed transaction price.

# NOTES TO THE CONSOLIDATED AND PARENT COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

## 5. COST OF PRODUCTION

Cost of production is summarised by the nature of its components and consists of the following:

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| Salaries and wages | **(46,402.4)** | (41,643.4) | – | – |
| Electricity | **(18,317.2)** | (10,308.4) | – | – |
| Mining | **(27,345.9)** | (10,036.7) | – | – |
| Processing and metallurgy | **(35,454.9)** | (26,012.1) | – | – |
| Engineering and technical services | **(11,968.6)** | (7,216.5) | – | – |
| Administration and other | **(4,780.9)** | (5,029.5) | – | – |
| Realisation costs (note 1) | **(1,466.8)** | (2,696.0) | – | – |
| Security | **(7,243.3)** | (4,197.3) | – | – |
| Cost of production | **(152,980.0)** | (107,139.9) | – | – |

*Note 1: Realisation costs have been restated and reclassified to cost of production in the prior financial year. Refer to note 44.*

## 6. SEGMENTAL ANALYSIS

The group's continuing operations are involved in gold mining activities and the operations are located in South Africa. The segment results have been presented based on the executive committee's reporting format, in accordance with the disclosures presented below.

Continuing operations in South Africa:

- Barberton Mines (including BTRP), located in Barberton
- Evander Mines (Elikhulu, 8 Shaft pillar and surface sources), located in Evander
- Corporate, comprising: Pan African Resources PLC, Pan African Resources Management Services Company Proprietary Limited, Concrete Rose Proprietary Limited, PAR SA Holding Company Proprietary Limited and PAR Gold Proprietary Limited, located in Johannesburg
- Funding Company, located in Johannesburg.

## 6. SEGMENTAL ANALYSIS continued

Discontinued operations:

- Phoenix, located near Rustenburg
- Evander Mines' underground operations (including 8 Shaft, 7 Shaft and the Kinross metallurgical plant), located in Evander.

| | 30 June 2019 | | | | |
|---|---|---|---|---|---|
| | Continuing operations | | | | |
| | Barberton Mines USD thousand | Evander Mines USD thousand | Corporate USD thousand | Funding Company USD thousand | Group USD thousand |
| Revenue (note 1) | 125,875.8 | 91,498.8 | – | – | 217,374.6 |
| Other revenue | 42.3 | 262.1 | – | – | 304.4 |
| Revenue and other revenue | 125,918.1 | 91,760.9 | – | – | 217,679.0 |
| Cost of production | (92,046.9) | (60,933.1) | – | – | (152,980.0) |
| Depreciation and amortisation | (7,301.2) | (8,926.6) | – | – | (16,227.8) |
| Operating profit | 26,570.0 | 21,901.2 | – | – | 48,471.2 |
| Other (expenses)/income (note 2) | (1,262.0) | 2,417.3 | (8,189.6) | (528.0) | (7,562.3) |
| Impairment reversal | – | 17,853.5 | – | – | 17,853.5 |
| Royalty costs | (480.4) | 126.3 | – | – | (354.1) |
| Net income/(loss) before finance income and finance costs | 24,827.6 | 42,298.3 | (8,189.6) | (528.0) | 58,408.3 |
| Finance income | 20.5 | 235.4 | 340.4 | 253.4 | 849.7 |
| Finance costs | (233.7) | 89.7 | (0.1) | (12,897.7) | (13,041.8) |
| Profit/(loss) before taxation | 24,614.4 | 42,623.4 | (7,849.3) | (13,172.3) | 46,216.2 |
| Taxation | (2,508.5) | (6,285.6) | 664.3 | (44.2) | (8,174.0) |
| Profit/(loss) after taxation before inter-company charges from continuing operations | 22,105.9 | 36,337.8 | (7,185.0) | (13,216.5) | 38,042.2 |
| Profit/(loss) for the year | 22,105.9 | 36,337.8 | (7,185.0) | (13,216.5) | 38,042.2 |
| Inter-company transactions | | | | | |
| Management fees | (2,889.8) | (2,104.7) | 5,135.4 | (140.9) | – |
| Inter-company interest charges | 696.8 | (13,217.3) | (527.3) | 13,047.8 | – |
| Profit/(loss) after taxation after inter-company charges | 19,912.9 | 21,015.8 | (2,576.9) | (309.6) | 38,042.2 |
| Segmental assets (total assets excluding goodwill) | 110,478.7 | 244,449.6 | 12,292.3 | 4,354.3 | 371,574.9 |
| Segmental liabilities | 38,744.1 | 31,325.6 | 5,577.9 | 133,900.2 | 209,547.8 |
| Goodwill | 21,554.8 | – | – | – | 21,554.8 |
| Net assets (excluding goodwill) (note 3) | 71,734.6 | 213,124.0 | 6,714.4 | (129,545.9) | 162,027.1 |
| Capital expenditure (note 4) | 16,156.3 | 40,359.1 | 151.2 | – | 56,666.6 |
| Reconciliation of adjusted EBITDA | | | | | |
| Net income/(loss) before taxation, finance income and finance costs | 24,827.6 | 42,298.3 | (8,189.6) | (528.0) | 58,408.3 |
| Adjust: Depreciation and amortisation | 7,301.2 | 8,926.6 | – | – | 16,227.8 |
| EBITDA | 32,128.8 | 51,224.9 | (8,189.6) | (528.0) | 74,636.1 |
| Adjust: Impairment reversal | – | (17,853.5) | – | – | (17,853.5) |
| Adjusted EBITDA (note 5) | 32,128.8 | 33,371.4 | (8,189.6) | (528.0) | 56,782.6 |

*Note 1: All gold sales were made in South Africa and the majority of revenue (more than 90%) was earned from sales to South African financial institutions.*
*Note 2: Other (expenses)/income exclude inter-company management fees and dividends.*
*Note 3: The segmental assets and liabilities above exclude inter-company balances.*
*Note 4: Capital expenditure comprises of additions to property, plant and equipment, mineral rights and intangible assets.*
*Note 5: In the current financial year, adjusted EBITDA is comprised of earnings before interest, taxation, depreciation, amortisation and the reversal of impairments.*

## NOTES TO THE CONSOLIDATED AND PARENT COMPANY
# ANNUAL FINANCIAL STATEMENTS continued
for the year ended 30 June 2019

## 6. SEGMENTAL ANALYSIS continued

| | 30 June 2018 | | | |
|---|---|---|---|---|
| | Continuing operations | | | |
| | Barberton Mines USD thousand | Evander Mines (note 3) USD thousand | Corporate USD thousand | Funding Company USD thousand |
| **Revenue – gold (note 1)** | 117,235.0 | 28,593.8 | – | – |
| Other revenue | – | 146.0 | – | – |
| Revenue – platinum | – | – | – | – |
| **Revenue and other revenue** | 117,235.0 | 28,739.8 | – | – |
| Cost of production | (89,159.6) | (17,980.3) | – | – |
| Depreciation and amortisation | (5,668.9) | (956.6) | – | – |
| **Operating profit** | 22,406.5 | 9,802.9 | – | – |
| Other (expenses)/income (note 2) | (988.5) | 1,014.0 | (5,369.6) | (559.0) |
| Impairment costs | – | (10,763.4) | – | – |
| Asset held for sale adjustment | – | – | – | – |
| Royalty costs | (505.7) | (52.1) | – | – |
| **Net income/(loss) before finance income and finance costs** | 20,912.3 | 1.4 | (5,369.6) | (559.0) |
| Finance income | 254.9 | 1,032.3 | 493.7 | 222.7 |
| Finance costs | (1.6) | – | (8.0) | (4,215.7) |
| **Profit/(loss) before taxation** | 21,165.6 | 1,033.7 | (4,883.9) | (4,552.0) |
| Taxation | (3,128.7) | 7,464.6 | (1,468.4) | (41.5) |
| **Profit/(loss) after taxation before inter-company charges from continuing operations** | 18,036.9 | 8,498.3 | (6,352.3) | (4,593.5) |
| Loss after taxation from discontinued operations | – | – | – | – |
| **Profit/(loss) for the year** | 18,036.9 | 8,498.3 | (6,352.3) | (4,593.5) |
| Inter-company transactions | | | | |
| Management fees | (2,645.9) | (118.5) | 3,190.7 | (155.6) |
| Inter-company interest charges | (401.9) | – | (487.4) | 4,847.9 |
| **Profit/(loss) after taxation after inter-company charges** | 14,989.1 | 8,379.8 | (3,649.0) | 98.8 |
| **Segmental assets (total assets excluding goodwill)** | 104,521.1 | 206,877.4 | 9,832.9 | 935.9 |
| **Segmental liabilities** | 35,479.2 | 40,474.7 | 2,070.1 | 119,276.1 |
| **Goodwill** | 22,120.4 | – | – | – |
| **Net assets (excluding goodwill) (note 5)** | 69,041.9 | 166,402.7 | 7,762.8 | (118,340.2) |
| **Capital expenditure (note 6)** | 16,375.4 | 97,751.4 | 172.3 | – |
| **Reconciliation of adjusted EBITDA** | | | | |
| **Net income/(loss) before taxation, finance income and finance costs** | 20,912.3 | 1.4 | (5,369.6) | (559.0) |
| Adjust: Depreciation and amortisation | 5,668.9 | 956.6 | – | – |
| **EBITDA** | 26,581.2 | 958.0 | (5,369.6) | (559.0) |
| Adjust: Impairment costs | – | 10,763.4 | – | – |
| Asset held for sale adjustment | – | – | – | – |
| **Adjusted EBITDA (note 7)** | 26,581.2 | 11,721.4 | (5,369.6) | (559.0) |

*Note 1: All gold sales were made in the South Africa and the majority of revenue (more than 90%) was earned from sales to South African financial institutions.*

*Note 2: Other (expenses)/income exclude inter-company management fees and dividends.*

*Note 3: During the prior financial year, Evander Mines' underground operations ceased on 31 May 2018. The ETRP and Kinross plant's surface sources and Elikhulu operation remained as continuing operations.*

*Note 4: The Phoenix Platinum disposal was concluded on 6 November 2017.*

*Note 5: The segmental assets and liabilities above exclude inter-company balances.*

*Note 6: Capital expenditure comprises of additions to property, plant and equipment, mineral rights and intangible assets.*

*Note 7: In the prior financial year, adjusted EBITDA is comprised of earnings before interest, taxation, depreciation, amortisation, impairments, discontinued operations and profit/(loss) on disposal of investments.*

30 June 2018

| Discontinued operations | | | |
|---|---|---|---|
| Evander Mines (note 3) USD thousand | Phoenix Platinum Mines (note 4) USD thousand | Reclassification USD thousand | Consolidated USD thousand |
| 63,141.3 | – | (63,141.3) | 145,828.8 |
| – | – | – | 146.0 |
| – | 1,921.0 | (1,921.0) | – |
| 63,141.3 | 1,921.0 | (65,062.3) | 145,974.8 |
| (80,957.3) | (2,192.3) | 83,149.6 | (107,139.9) |
| (8,260.6) | – | 8,260.6 | (6,625.5) |
| (26,076.6) | (271.3) | 26,347.9 | 32,209.4 |
| (15,411.0) | 58.3 | 15,352.7 | (5,903.1) |
| (129,537.5) | – | 129,537.5 | (10,763.4) |
| – | (346.0) | 346.0 | – |
| (315.7) | – | 315.7 | (557.8) |
| (171,340.8) | (559.0) | 171,899.8 | 14,985.1 |
| 668.3 | 3.8 | (672.1) | 2,003.6 |
| – | – | – | (4,225.3) |
| (170,672.5) | (555.2) | 171,227.7 | 12,763.4 |
| 32,764.9 | 57.8 | (32,822.7) | 2,826.0 |
| (137,907.6) | (497.4) | 138,405.0 | 15,589.4 |
| – | – | (138,405.0) | (138,405.0) |
| (137,907.6) | (497.4) | – | (122,815.6) |
| (270.7) | – | – | – |
| (3,958.6) | – | – | – |
| (142,136.9) | (497.4) | – | (122,815.6) |
| – | – | – | 322,167.3 |
| – | – | – | 197,300.1 |
| – | – | – | 22,120.4 |
| – | – | – | 124,867.2 |
| 14,122.8 | – | – | 128,421.9 |
| (171,340.8) | (559.0) | 171,899.8 | 14,985.1 |
| 8,260.6 | – | (8,260.6) | 6,625.5 |
| (163,080.2) | (559.0) | 163,639.2 | 21,610.6 |
| 129,537.5 | – | (129,537.5) | 10,763.4 |
| – | 346.0 | (346.0) | – |
| (33,542.7) | (213.0) | 33,755.7 | 32,374.0 |

## NOTES TO THE CONSOLIDATED AND PARENT COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

### 7. OTHER EXPENSES

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| Foreign exchange loss | **(10.6)** | (667.3) | **(10.4)** | (8.1) |
| Operating leases (refer to note 39) | **(314.8)** | (277.2) | **–** | – |
| Non-mining depreciation | **(93.9)** | (44.0) | **–** | – |
| Non-mining amortisation | **(3.2)** | (26.7) | **–** | – |
| Non-executive directors' emoluments | **(218.4)** | (241.3) | **(218.4)** | (241.3) |
| Executive directors' emoluments | **(704.8)** | (741.0) | **(704.8)** | (741.0) |
| Equity-settled share option expense (refer to note 27) | **–** | 608.3 | **–** | – |
| Cash-settled share option (expense)/income (refer to note 14) | **(2,350.6)** | 915.3 | **(848.3)** | 264.2 |
| Auditors' fees (refer to note 32) | **(339.3)** | (461.3) | **(129.9)** | (113.4) |
| Salaries corporate office | **(3,161.1)** | (1,925.3) | **(695.4)** | – |
| Investor and public realisations | **(208.5)** | (228.8) | **(96.6)** | (94.4) |
| Business development costs | **(260.5)** | (1,103.1) | **(260.5)** | (730.9) |
| Legal fees | **(44.9)** | (71.0) | **–** | (58.4) |
| Corporate social expenditure | **(1,743.2)** | (817.6) | **–** | – |
| Loss arising from unrealised derivative financial instruments (refer to note 29) | **(1,190.5)** | – | **–** | – |
| Profit arising from realised derivative financial instruments (refer to note 29) | **1,572.4** | – | **–** | – |
| Profit on disposal of property, plant and equipment and mineral rights | **181.4** | 1.2 | **–** | – |
| Rehabilitation funds fair value adjustment (refer to note 20) | **1,604.8** | 25.0 | **–** | – |
| Rehabilitation provision adjustment | **–** | (317.5) | **–** | – |
| Non-refundable deposition fee | **–** | 778.2 | **–** | – |
| Loss on loan modification adjustment | **(423.1)** | – | **–** | – |
| Deferred consideration provision | **(72.6)** | (1,046.4) | **(72.6)** | (1,046.4) |
| Net other income/(expenses) | **219.1** | (262.6) | **(359.1)** | (426.2) |
| Other expenses | **(7,562.3)** | (5,903.1) | **(3,396.0)** | (3,195.9) |

## 8. FINANCE (COSTS)/INCOME

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| **Finance income related to financial instruments** | | | | |
| Finance income – financial institutions | 252.9 | 781.9 | 7.0 | 120.8 |
| Finance income – other | 452.6 | 570.8 | 178.8 | 239.7 |
| Finance income – rehabilitation fund investment | 137.2 | 650.9 | – | – |
| | 842.7 | 2,003.6 | 185.8 | 360.5 |
| **Finance income – other** | | | | |
| Finance income – South African Revenue Service (SARS) | 7.0 | – | 6.8 | – |
| | 7.0 | – | 6.8 | – |
| **Finance income – total** | 849.7 | 2,003.6 | 192.6 | 360.5 |
| **Finance costs related to financial instruments** | | | | |
| Finance costs – financial institutions | (12,981.7) | (4,222.8) | (0.1) | (8.0) |
| Finance costs – other | (0.4) | (0.2) | – | – |
| | (12,982.1) | (4,223.0) | (0.1) | (8.0) |
| **Finance costs – other** | | | | |
| Finance costs – SARS | (0.1) | (2.3) | – | – |
| Finance costs – rehabilitation fund provision | (59.6) | – | – | – |
| | (59.7) | (2.3) | – | – |
| **Finance costs – total** | (13,041.8) | (4,225.3) | (0.1) | (8.0) |
| **Net finance (costs)/income** | (12,192.1) | (2,221.7) | 192.5 | 352.5 |

## 9. PROFIT/(LOSS) BEFORE TAXATION

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| **Included in profit/(loss) before taxation are the following:** | | | | |
| Equity-settled share option expense (refer to note 27) | – | (608.3) | – | – |
| Cash-settled share options (expenses)/income (refer to note 14) | (2,350.5) | 915.1 | (848.3) | 264.2 |
| Mining depreciation | (16,227.8) | (6,625.5) | – | – |
| Impairment reversal/(cost) | 17,853.5 | (10,763.4) | – | – |
| Fair value adjustment on asset held for sale | – | – | – | (626.8) |
| Staff costs | (50,281.4) | (44,325.6) | (1,413.3) | (759.7) |
| Royalty costs | (354.1) | (557.8) | – | – |
| Profits arising from realised and unrealised derivative financial instruments (note 1) | 381.9 | – | – | – |
| Business development costs | (260.5) | (1,103.1) | (260.5) | (730.9) |
| Non-refundable deposition fee | – | 778.2 | – | – |
| Deferred consideration costs | (72.6) | (1,046.4) | (72.6) | (1,046.4) |
| Operating leases | (314.8) | (277.2) | – | – |

*Note 1: In the prior year all the realised and unrealised derivative instruments' profits related to the Evander Mines' discontinued operation and was disclosed in the statement of comprehensive income's discontinued operations section.*

## NOTES TO THE CONSOLIDATED AND PARENT COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

### 10. EARNINGS PER SHARE

#### Basic and diluted earnings per share for continuing and discontinued operations

Basic and diluted earnings per share is based on the group's profit for the year attributable to owners of the parent, divided by the weighted average number of shares in issue during the year. Dilutive earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption that all potentially dilutive ordinary shares are converted to ordinary shares. Potential ordinary shares shall be treated as dilutive when their conversion to ordinary shares would decrease earnings per share or increase loss per share. There was no dilutive impact on the weighted average number of shares in issue during the current and prior year.

| | Year ended 30 June 2019 | | | Year ended 30 June 2018 | | |
|---|---|---|---|---|---|---|
| | Net profit USD thousand | Weighted average number of shares in issue | Earnings per share USD cents | Net loss USD thousand | Weighted average number of shares in issue | Loss per share USD cents |
| Basic earnings/(loss) per share | 38,042.2 | 1,928,329.5 | 1.97 | (122,815.6) | 1,809,726.7 | (6.79) |
| Dilutive potential ordinary shares | – | – | – | – | – | – |
| **Diluted earnings per share** | 38,042.2 | 1,928,329.5 | 1.97 | (122,815.6) | 1,809,726.7 | (6.79) |

#### Headline earnings per share for continuing and discontinued operations

Headline earnings per share is based on the group's headline earnings divided by the weighted average number of shares in issue during the year.

Reconciliation between earnings and headline earnings from continuing and discontinued operations (combined operations) is disclosed below:

| | Year ended 30 June 2019 | | | Year ended 30 June 2018 | | |
|---|---|---|---|---|---|---|
| | Net profit USD thousand | Weighted average number of shares in issue | Earnings per share USD cents | Net profit USD thousand | Weighted average number of shares in issue | Earnings per share USD cents |
| Basic earnings/(loss) per share | 38,042.2 | 1,928,329.5 | 1.97 | (122,815.6) | 1,809,726.7 | (6.79) |
| **Adjustments** | | | | | | |
| Profit on disposal of property, plant and equipment and mineral rights | (181.4) | – | (0.01) | (1.2) | – | – |
| Taxation on profit arising on disposal of property, plant and equipment and mineral rights | 50.8 | – | 0.02 | 0.3 | – | 0.01 |
| Fair value movement on asset held for sale | – | – | – | 383.5 | – | 0.02 |
| Impairment (reversal)/ costs | (17,853.5) | – | (0.93) | 140,300.9 | – | 7.75 |
| Taxation on impairment (reversal)/costs | 2,795.9 | – | 0.14 | – | – | – |
| **Headline earnings per share** | 22,854.0 | 1,928,329.5 | 1.19 | 17,867.9 | 1,809,726.7 | 0.99 |
| Dilutive potential ordinary shares | – | – | – | – | – | – |
| **Diluted headline earnings per share** | 22,854.0 | 1,928,329.5 | 1.19 | 17,867.9 | 1,809,726.7 | 0.99 |

## 10. EARNINGS PER SHARE continued

### Headline earnings per share for continuing and discontinued operations continued

Headline earnings per share is required in terms of the JSE Listings Requirements.

The weighted average number of shares in issue factor in the elimination of the 306.4 million PAR Gold shares. During the prior year, on 30 May 2018, 130 million Pan African Resources shares held by PAR Gold were disposed of at a price of R1.15 per share (refer to note 26).

| | Consolidated | |
|---|---|---|
| | 30 June 2019 USD cents | 30 June 2018 USD cents |
| Net asset value per share (note 1) | **9.52** | 7.62 |
| Tangible net asset value per share (note 2) | **5.14** | 3.35 |

*Note 1: Net assets is the total assets less non-current and current liabilities.*

*Note 2: Tangible net assets is the total assets less non-current liabilities, current liabilities, mineral rights, goodwill and mining properties.*

### Basic and diluted earnings per share for continuing operations

| | Year ended 30 June 2019 | | | Year ended 30 June 2018 | | |
|---|---|---|---|---|---|---|
| | Net profit USD thousand | Weighted average number of shares in issue | Earnings per share USD cents | Net profit USD thousand | Weighted average number of shares in issue | Earnings per share USD cents |
| Basic earnings per share | **38,042.2** | **1,928,329.5** | **1.97** | 15,589.4 | 1,809,726.7 | 0.86 |
| Dilutive potential ordinary shares | **–** | **–** | **–** | – | – | – |
| **Diluted earnings per share** | **38,042.2** | **1,928,329.5** | **1.97** | 15,589.4 | 1,809,726.7 | 0.86 |

## NOTES TO THE CONSOLIDATED AND PARENT COMPANY
# ANNUAL FINANCIAL STATEMENTS continued
for the year ended 30 June 2019

## 10. EARNINGS PER SHARE continued

### Headline earnings per share for continuing operations

Reconciliation between earnings and headline earnings from continuing operations is disclosed below:

| | Year ended 30 June 2019 | | | Year ended 30 June 2018 | | |
|---|---|---|---|---|---|---|
| | Net profit USD thousand | Weighted average number of shares in issue | Earnings per share USD cents | Net profit USD thousand | Weighted average number of shares in issue | Earnings per share USD cents |
| Basic earnings per share | 38,042.2 | 1,928,329.5 | 1.97 | 15,589.4 | 1,809,726.7 | 0.86 |
| **Adjustments** | | | | | | |
| Profit on disposal of property, plant and equipment and mineral rights | (181.4) | – | (0.01) | (1.2) | – | – |
| Taxation on profit arising on disposal of property, plant and equipment and mineral rights | 50.8 | – | 0.02 | 0.3 | – | 0.01 |
| Impairment (reversal)/costs | (17,853.5) | – | (0.93) | 10,763.4 | – | 0.59 |
| Taxation on impairment (reversal)/costs | 2,795.9 | – | 0.14 | – | – | – |
| **Headline earnings per share** | 22,854.0 | 1,928,329.5 | 1.19 | 26,351.9 | 1,809,726.7 | 1.46 |
| Dilutive potential ordinary shares | – | – | – | – | – | – |
| **Diluted headline earnings per share** | 22,854.0 | 1,928,329.5 | 1.19 | 26,351.9 | 1,809,726.7 | 1.46 |

## 11. DIVIDENDS

The board has analysed the group performance and proposed a final dividend of R50 million or approximately USD3.4 million equating to 2.2375 ZAR cents per share or approximately 0.12660 pence per share (0.15169 USD cents per share). This dividend is subject to approval at the AGM, which will take place on Thursday, 28 November 2019.

## 12. RECONCILIATION OF PROFIT/(LOSS) BEFORE TAXATION TO CASH GENERATED BY/(UTILISED IN) OPERATIONS

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | 30 June 2019 USD thousand | 30 June 2018 USD thousand | 30 June 2019 USD thousand | 30 June 2018 USD thousand |
| Profit before taxation from continuing operations | 46,216.2 | 12,763.4 | (1,230.3) | (1,438.4) |
| Loss before taxation from discontinued operations | – | (171,227.7) | – | – |
| Adjusted for: | 11,862.1 | 161,577.6 | 910.9 | 429.7 |
| **Adjustments from continuing operations** | | | | |
| (Reversal of impairment)/impairment | (17,853.5) | 10,763.4 | – | – |
| Cash and equity-settled share options costs | 2,350.6 | (307.0) | 848.3 | (264.2) |
| Finance income | (849.7) | (2,003.6) | (192.6) | (360.5) |
| Finance expense | 13,041.8 | 4,225.3 | 0.1 | 8.0 |
| Profit on disposal of property, plant and equipment and mineral rights | (181.4) | (1.2) | – | – |
| Royalty costs | 354.1 | 557.8 | – | – |
| Deferred compensation | 182.5 | – | 182.5 | – |
| Deferred consideration provision | 72.6 | 1,046.4 | 72.6 | 1,046.4 |
| Profits arising from realised and unrealised derivative financial instruments | (381.9) | (309.1) | – | – |
| Increase in environmental rehabilitation provision | – | 317.5 | – | – |
| Debt refinance modification adjustment | 418.2 | – | – | – |
| Fair value adjustment on rehabilitation funds | (1,604.8) | 197.8 | – | – |
| Non-mining depreciation and amortisation | 97.1 | 70.7 | – | – |
| Mining depreciation and amortisation | 16,227.8 | 6,625.5 | – | – |
| Gold loan amortisation | – | (2,072.8) | – | – |
| Fair value adjustment on post-retirement benefits | (11.3) | (7.6) | – | – |
| **Adjustments from discontinued operations** | | | | |
| Impairment | – | 129,537.5 | – | – |
| Finance income – rehabilitation fund | – | (668.3) | – | – |
| Increase in provision for environmental rehabilitation | – | 5,050.1 | – | – |
| Royalty costs | – | 315.7 | – | – |
| Fair value adjustment on rehabilitation fund | – | (13.5) | – | – |
| Mining depreciation and amortisation | – | 8,260.6 | – | – |
| Fair value adjustment on post-retirement benefits | – | (7.6) | – | – |
| **Operating cash flows before working capital changes** | 58,078.3 | 3,113.3 | (319.4) | (1,008.7) |
| Working capital changes | 1,253.8 | 2,314.2 | 535.0 | (1,001.3) |
| (Increase)/decrease in inventories | (2,013.5) | 3,139.7 | – | – |
| Decrease/(Increase) in trade and other receivables | 4,477.1 | (1,716.3) | (16.0) | 0.8 |
| (Decrease)/increase in trade and other payables | (894.0) | 1,652.1 | 558.5 | (993.6) |
| Other non-cash items | (315.8) | (761.3) | (7.5) | (8.5) |
| Settlement of cash-settled share option costs | (10.1) | (1,295.5) | – | – |
| Settlement of rehabilitation costs | (4,005.4) | – | – | – |
| Proceeds from derivative financial instruments | 1,572.4 | 1,212.7 | – | – |
| **Net cash generated by/(utilised in) operating activities before dividend, taxation, royalties and net finance costs and income** | 56,889.0 | 5,344.7 | 215.6 | (2,010.0) |

# NOTES TO THE CONSOLIDATED AND PARENT COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

## 12. RECONCILIATION OF PROFIT/(LOSS) BEFORE TAXATION TO CASH GENERATED BY/(UTILISED IN) OPERATIONS continued

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | 30 June 2019 USD thousand | 30 June 2018 USD thousand | 30 June 2019 USD thousand | 30 June 2018 USD thousand |
| **Taxation paid during the year** | | | | |
| Taxation charge per the statement of comprehensive income | 8,174.0 | (2,826.0) | (247.5) | (369.1) |
| Taxation charge from discontinued operations | – | (32,822.7) | – | – |
| *Less:* Deferred taxation | (5,312.6) | 4,946.7 | 247.5 | 369.1 |
| *Less:* Deferred taxation from discontinued operations | – | 32,822.7 | – | – |
| | 2,861.4 | 2,120.7 | – | – |
| Taxation receivable at the beginning of the year | (374.5) | (140.1) | (99.1) | (86.4) |
| Taxation receivables at the end of the year | 1,327.8 | 374.5 | 103.4 | 99.1 |
| Foreign currency translation | 32.3 | 28.9 | (4.3) | 4.8 |
| **Taxation paid during the year** | 3,847.0 | 2,384.0 | – | 17.5 |
| **Royalty paid during the year** | – | – | – | – |
| Royalty costs payable/(receivable) at the beginning of the year | 225.9 | (1,185.2) | – | – |
| Royalty costs receivable/(payable) at the end of the year | 83.9 | (225.9) | – | – |
| Royalty costs charge for the year | 354.1 | 557.8 | – | – |
| Royalty costs charge for the year from discontinued operations | – | 315.7 | – | – |
| Foreign currency translation | (14.0) | (212.2) | – | – |
| **Royalty paid/(refunded) during the year** | 649.9 | (749.8) | – | – |
| **Reconciliation of loans from subsidiaries** | – | – | – | – |
| Opening balance | – | – | – | (18,030.7) |
| Repayments | – | – | – | 4,985.7 |
| Restructuring non-cash items | – | – | – | 19,517.7 |
| Foreign currency translation | – | – | – | (6,472.7) |
| **Closing balance** | – | – | – | – |
| **Reconciliation of loans to subsidiaries** | – | – | – | – |
| Opening balance | – | – | 95,653.6 | 118,026.7 |
| Advances/(repayments) | – | – | 461.4 | (4,108.8) |
| Restructuring of non-cash items | – | – | – | (19,514.0) |
| Foreign currency translation | – | – | (2,442.1) | 1,249.7 |
| **Closing balance** | – | – | 93,672.9 | 95,653.6 |

## 13. STAFF COSTS AND COMPLEMENT

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| The group's remuneration comprised of: | | | | |
| Salaries and wages from continued operations | 50,281.4 | 44,325.6 | 1,413.3 | 759.7 |
| Salaries and wages from discontinued operations | – | 36,236.5 | – | – |
| Retrenchment costs | – | 12,525.6 | – | – |
| | 50,281.4 | 93,087.7 | 1,413.3 | 759.7 |
| Included in staff costs above is other retirement costs (refer to note 15) | 2,877.3 | 6,951.0 | – | – |

## 13. STAFF COSTS AND COMPLEMENT continued

| | Consolidated | | | |
|---|---|---|---|---|
| | Year ended 30 June 2019 Average | Year ended 30 June 2019 Closing | Year ended 30 June 2018 Average | Year ended 30 June 2018 Closing |
| **Operating cost employees** | | | | |
| Corporate | 18 | 17 | 16 | 17 |
| Evander Mines | 174 | 181 | 1,596 | 106 |
| Barberton Mines | 1,739 | 1,743 | 1,762 | 1,742 |
| | 1,931 | 1,941 | 3,374 | 1,865 |
| **Capital employees** | | | | |
| Barberton Mines | 200 | 207 | 206 | 203 |
| Evander Mines | 5 | – | 98 | 1 |
| | 205 | 207 | 304 | 204 |
| **Total number of employees** | 2,136 | 2,148 | 3,678 | 2,069 |

## 14. LONG-TERM LIABILITIES – OTHER

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| **Cash-settled share options** | | | | |
| Opening balance | 1,453.3 | 3,704.6 | 159.0 | 859.5 |
| Expense/(income) for the year from continuing operations | 2,350.6 | (915.3) | 848.3 | (264.2) |
| Payments during the year | (10.1) | (1,295.5) | – | (438.8) |
| Foreign currency translation reserve | (19.0) | (40.5) | 2.6 | 2.5 |
| **Closing balance** | 3,774.8 | 1,453.3 | 1,009.9 | 159.0 |
| *Less* current portion | (2,282.0) | (279.4) | (791.5) | (111.5) |
| Long-term portion | 1,492.8 | 1,173.9 | 218.4 | 47.5 |
| **Gold loan** | | | | |
| Opening balance | – | 2,041.0 | – | – |
| Gold loan repayments | – | (2,072.8) | – | – |
| Foreign currency translation reserve | – | 31.8 | – | – |
| **Closing balance** | – | – | – | – |
| **Post-retirement benefits (refer to note 15)** | | | | |
| Opening balance | 63.5 | 81.7 | – | – |
| Utilised for the year from continuing operations | (11.3) | (7.6) | – | – |
| Utilised for the year from discontinued operations | – | (7.6) | – | – |
| Foreign currency translation reserve | (1.7) | (3.0) | – | – |
| **Closing balance** | 50.5 | 63.5 | – | – |
| Long-term portion | 50.5 | 63.5 | – | – |
| **Deferred executive incentive payments** | | | | |
| Opening balance | 111.7 | 117.5 | 111.7 | 117.5 |
| Expense for the current year | 182.5 | – | 182.5 | – |
| Foreign currency translation reserve | (1.4) | (5.8) | (1.4) | (5.8) |
| **Closing balance** | 292.8 | 111.7 | 292.8 | 111.7 |
| *Less* current portion (note 1) | (108.9) | (111.7) | (108.9) | (111.7) |
| Long-term portion | 183.9 | – | 183.9 | – |

*Note 1: The prior year current portion was settled during July 2019.*

## NOTES TO THE CONSOLIDATED AND PARENT COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

### 14. LONG-TERM LIABILITIES – OTHER continued

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| Summary of current and non-current portions of long-term liabilities – other | | | | |
| Current portion of long-term liabilities – other | 2,390.9 | 391.1 | 900.4 | 223.2 |
| Long-term liabilities – other | 1,727.2 | 1,237.4 | 402.3 | 47.5 |
| | 4,118.1 | 1,628.5 | 1,302.7 | 270.7 |

The group recognised cash settled share option expenses across all schemes discussed below, as follows during the year.

| | Year ended 30 June 2019 | Year ended 30 June 2018 | Year ended 30 June 2019 | Year ended 30 June 2018 |
|---|---|---|---|---|
| Group cash-settled share options – Pan African Share Appreciation Bonus Plan | 483.2 | (1,849.6) | (42.4) | (226.4) |
| ESOP transactions | 72.4 | 972.1 | – | – |
| PACOS (including cash incentive) | 1,484.3 | – | 580.0 | – |
| Executive director share incentive scheme | 310.7 | (37.8) | 310.7 | (37.8) |
| Total | 2,350.6 | (915.3) | 848.3 | (264.2) |

#### Group cash-settled share options – Pan African Resources share appreciation bonus plan

Details of the share options outstanding during the year, in relation to this scheme, are:

**Group cash-settled share options**

| | Year ended 30 June 2019 | | Year ended 30 June 2018 | |
|---|---|---|---|---|
| | Weighted average price Rand | Number of options | Weighted average price Rand | Number of options |
| Outstanding at the beginning of the year | 1.78 | 67,941,916 | 1.86 | 62,628,144 |
| Granted during the year | 1.25 | 68,088,829 | 1.70 | 28,170,871 |
| Exercised during the year | 1.64 | (757,839) | 1.09 | (10,913,826) |
| Forfeited due to PACOS (refer to below) | 2.01 | (29,263,069) | 2.02 | (2,601,994) |
| Share options discounted | – | – | 2.80 | (9,341,279) |
| **Outstanding and exercisable at the end of the year** | 1.38 | 106,009,837 | 1.78 | 67,941,916 |

Cash-settled share options are valued annually at their fair value.

The weighted average share price on redemption was R1.83 (2018: R2.39).

## 14. LONG-TERM LIABILITIES – OTHER continued

Fair values were calculated using the Binomial Pricing Model of which the inputs were as follows:

| | Year ended 30 June 2019 | Year ended 30 June 2018 |
|---|---|---|
| Weighted average share price (rand) | 1.21 | 1.21 |
| Weighted average exercise/strike price (rand) | 1.84 | 2.07 |
| Exercise price (rand) | 1.15 – 3.93 | 1.15 – 3.93 |
| Expected volatility (%) | 43 | 47 |
| Expected life (years) | 3 – 6 | 3 – 6 |
| Weighted average remaining life (years) | 3.46 | 3.35 |
| Risk-free rate (%) | 7.02 – 7.45 | 7.37 – 7.74 |
| Expected dividend yield (%) | 2 | 4 |

Refer to page 121 of the remuneration policy for further details on the group's cash-settled options.

### Expected volatility is impacted by the following factors

- The historical volatility of the share price over the most recent period that is commensurate with the expected option term (taking into account the remaining contractual option life and the effect of expected early exercise)
- The length of time an entity's shares have been publicly traded.

Participation in share-based and other long-term incentive schemes is restricted to employees as described in this note.

The group has introduced employee share ownership schemes at Barberton Mines and Evander Mines which are recorded as cash-settled share options for accounting purposes. Refer to note 16.

### PACOS

As at the 2019 financial year-end, the fair values of PACOS and the cash incentive scheme were calculated using an actuarial valuation. The actuarial valuation inputs are:

| | Year ended 30 June 2019 | Year ended 30 June 2018 |
|---|---|---|
| Number of shares | 50,467,417 | – |
| Strike price (rand) | 1.21 | – |
| Grant date | 1 July 2018 | – |
| Vesting date | 1 July 2020 | – |
| Expiry date | 1 July 2022 | – |

# NOTES TO THE CONSOLIDATED AND PARENT COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

## 14. LONG-TERM LIABILITIES – OTHER continued

The following assumptions were also used in the actuarial valuation:

| | Year ended 30 June 2019 | Year ended 30 June 2018 |
|---|---|---|
| Company volatility (%) | 43.0 | – |
| Gold index volatility (%) | 38.0 | – |
| Risk-free rate | Swap curve at grant date | – |
| Spot price (rand) | 1.86 | – |
| Dividend yield (%) | 2.0 | – |
| Probability of non-market conditions (%) | 100.0 | – |
| Withdrawal decrement (%) | 10% per annum | – |

At year-end a liability of USD1,495,889 (2018: nil) was recognised in the statement of financial position for the group and USD584,577 (2018: nil) for the company pertaining to PACOS.

Refer to pages 121 to 122 of the remuneration policy for further details on the PACOS.

### Executive director share incentive scheme

To incentivise and retain the group's executive directors and align their interests with those of the group's stakeholders, the following long-term incentives were introduced and are in issue as at 30 June 2019. Refer to the remuneration committee report on pages 124 and 125 for further details of executive director share incentives.

Historically, this incentive scheme has been settled in cash and is therefore treated as a cash-settled share option scheme at year-end with a liability of USD425,326.14 (2018: USD115,162) recognised in the statement of financial position.

## 15. POST-RETIREMENT BENEFIT INFORMATION

The majority of employees are required to be members of either the Barberton Pension Umbrella Fund, the Sentinel Retirement Fund, the Mine Workers Provident Fund or the Alexander Forbes Group Provident Fund. These are defined contribution funds and are registered under and governed by the South African Pension Act 1956 as amended. The assets of the schemes are held separately from those of the group in independent funds and they are in the control of the fund's trustees. A total cost of USD2.9 million (2018: USD6.9 million) was recognised in the statement of comprehensive income at a consolidated level and USD7,563 (2018: nil) at company level. This cost represents the employer's contributions payable to the respective schemes by the group and company at rates specified in the rules of the scheme. The calculation of the provision for post-retirement medical benefits is performed internally by management using SARS' life expectancy tables as the benefits payable are a fixed amount per pensioner. The balance of post-retirement medical benefits was USD50,481 (2018: USD63,452).

## 16. ESOP TRANSACTIONS

### Evander Mines ESOP transaction

The Evander Mines' ESOP has been discontinued following the cessation of deep-level operations at 8 Shaft and after an agreement was reached with the relevant labour stakeholders to discontinue the scheme.

### Barberton Mines ESOP transaction

On 1 June 2015, Barberton Mines entered into an agreement with the Barberton Mines BEE Company Proprietary Limited and Barberton Mines BEE Trust. The agreement provided that Barberton Mines would issue 5% of its authorised share capital for a consideration of R99.5 million to Barberton Mines BEE Company Proprietary Limited who are 100% held by the Barberton Mines BEE Trust. The beneficiaries of the Barberton Mines BEE Trust are all the Barberton Mines' employees of a Paterson Grading 'C-level' and below.

The share issue was vendor financed by Barberton Mines by means of a preference share issued by Barberton Mines BEE Company Proprietary Limited to Barberton Mines for R99.5 million.

#### Notional preference share subscription terms

- Real interest rate of 2% per annum
- Vesting period of the BBBEE scheme is 10 years.

The ESOP allows for a portion of the dividends declared by Barberton Mines to be set-off against the preference shares redemption liability.

The retention percentage applied to dividends for repayment are summarised as follows:

| | Year 1 % | Year 2 % | Year 3 % | Year 4 % | Years 5 to 10 % |
|---|---|---|---|---|---|
| Percentage of ordinary dividends withheld for redemption of the preference share liability | 50 | 50 | 60 | 70 | 80 |
| Percentage of dividends accruing to the Barberton Mines BEE Trust | 50 | 50 | 40 | 30 | 20 |
| **Total dividends** | 100 | 100 | 100 | 100 | 100 |

Barberton Mines' ordinary dividends policy provides for 80% of the mine's net cash generated during a financial year to be declared as a dividend subject to compliance with the liquidity and solvency requirements of the South African Companies Act.

This scheme is classified under IFRS 2 as a cash-settled share option scheme (refer to note 14) and its liability for the Barberton Mines was valued by independent actuaries as at 30 June 2019. The liability for Evander Mines' ESOP was not valued due to the cessation of underground operations during the prior year after the scheme's discontinuation (refer to note 36).

| | Barberton Mines | | Evander Mines | |
|---|---|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| **Statement of financial position** | | | | |
| ESOP share options liability | | | | |
| Opening balance | 751.2 | 136.9 | – | 10.0 |
| Dividend accrued | – | 319.2 | – | – |
| Dividend paid | – | (319.2) | – | – |
| IFRS 2 revaluation expense | 72.4 | 663.1 | – | (10.2) |
| Foreign currency translation reserve | (18.6) | (48.8) | – | 0.2 |
| **Closing balance** | 805.0 | 751.2 | – | – |
| **Statement of comprehensive income** | | | | |
| ESOP IFRS 2 expense | 72.4 | 982.3 | – | (10.2) |

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## 17. PROPERTY, PLANT AND EQUIPMENT AND MINERAL RIGHTS

| | Land (note 1) USD thousand | Mineral rights and mining property USD thousand | Exploration assets (note 2) USD thousand | Buildings and infrastructure USD thousand | Plant and machinery USD thousand |
|---|---|---|---|---|---|
| Group | | | | | |
| Cost | | | | | |
| Balance as at 1 July 2017 | 2,829.9 | 54,914.1 | 36,082.3 | 46,442.1 | 142,428.8 |
| Transfers (note 4) | – | – | – | – | 9,943.5 |
| Additions | – | – | – | 246.1 | 9,624.6 |
| Disposals | – | – | – | – | – |
| Foreign currency translation reserve | (138.2) | (2,681.7) | (1,762.0) | (2,283.6) | (8,196.1) |
| **Balance as at 30 June 2018** | **2,691.7** | **52,232.4** | **34,320.3** | **44,404.6** | **153,800.8** |
| Transfers | – | – | – | 13,737.3 | 123,623.8 |
| Additions | – | 217.6 | – | 2,360.2 | 4,601.7 |
| Disposals | – | – | – | (422.8) | (40.7) |
| Transfer to intangible assets | – | – | – | – | – |
| Foreign currency translation reserve | (68.8) | (1,333.8) | (877.5) | (1,012.9) | (2,930.9) |
| **Balance as at 30 June 2019** | **2,622.9** | **51,116.2** | **33,442.8** | **59,066.4** | **279,054.7** |
| Accumulated depreciation and impairment | | | | | |
| Balance as at 1 July 2017 | – | (10,085.9) | – | (10,334.5) | (40,944.9) |
| Transfers | – | – | – | – | – |
| Depreciation charge for the year | – | (1,403.6) | – | (1,929.2) | (8,216.0) |
| Disposals | – | – | – | – | – |
| Impairment costs | – | (16,504.3) | – | (12,203.8) | (87,448.3) |
| Foreign currency translation reserve | – | 1,628.1 | – | 1,400.8 | 8,065.7 |
| **Balance as at 30 June 2018** | **–** | **(26,365.7)** | **–** | **(23,066.7)** | **(128,543.5)** |
| Depreciation charge for the year | – | (535.3) | – | (2,020.7) | (11,121.0) |
| Disposals | – | – | – | 139.9 | 38.8 |
| Impairment reversal | – | 4,621.4 | – | 1,262.7 | 11,960.6 |
| Foreign currency translation reserve | – | 669.9 | – | 575.2 | 3,200.1 |
| **Balance as at 30 June 2019** | **–** | **(21,609.7)** | **–** | **(23,109.6)** | **(124,465.0)** |
| Carrying amount | | | | | |
| As at 30 June 2018 | 2,691.7 | 25,866.7 | 34,320.3 | 21,337.9 | 25,257.3 |
| **As at 30 June 2019** | **2,622.9** | **29,506.5** | **33,442.8** | **35,956.8** | **154,589.7** |

*Note 1: A land register is maintained at the offices of Barberton Mines and Evander Mines, which may be inspected by a member or their duly authorised agents.*

*Note 2: Exploration assets, comprising of Evander South, Rolspruit and Poplar, were recognised on 1 March 2013 at their respective fair values in terms of IFRS 3:* Business Combinations.

*Note 3: The capital under construction decreased in the current financial year as a result of Elikhulu being commissioned on 1 September 2018 (refer to* pages 52 and 53*). The remaining capital under construction balance relates to ongoing capital projects within the group.*

*Note 4: In the prior year, the group transferred assets within capital under construction to shafts and exploration, and plant and machinery. This transfer was for proper disclosure of the capital under construction category to represent assets not yet brought into production and therefore not depreciated. The transfer had no impact on the prior year depreciation or impairment charge recognised in the statement of profit or loss and other comprehensive income and the net book value of property, plant and equipment and mineral rights disclosed in the statement of financial position.*

*Refer to note 28 for property, plant and equipment pledged as security for the group's senior debt.*

| Capital under construction (note 3) USD thousand | Shafts and exploration USD thousand | Other USD thousand | Total USD thousand |
|---|---|---|---|
| 14,056.0 | 76,755.0 | 404.8 | 373,913.0 |
| (13,707.8) | 3,764.3 | (19.0) | (19.0) |
| 111,874.3 | 6,504.6 | 149.0 | 128,398.6 |
| – | – | (5.8) | (5.8) |
| (6,911.3) | (4,399.1) | (27.7) | (26,399.7) |
| **105,311.2** | **82,624.8** | **501.3** | **475,887.1** |
| **(137,361.1)** | **–** | **–** | **–** |
| **40,358.9** | **8,976.9** | **135.0** | **56,650.3** |
| **–** | **–** | **–** | **(463.5)** |
| **(772.0)** | **–** | **–** | **(772.0)** |
| **(3,456.4)** | **(2,042.8)** | **(11.8)** | **(11,734.9)** |
| **4,080.6** | **89,558.9** | **624.5** | **519,567.0** |
| | | | |
| – | (20,242.6) | (297.5) | (81,905.4) |
| – | – | 16.0 | 16.0 |
| – | (3,317.9) | (44.0) | (14,910.7) |
| – | – | 5.8 | 5.8 |
| – | (22,420.8) | – | (138,577.2) |
| – | 2,620.7 | 15.8 | 13,731.1 |
| **–** | **(43,360.6)** | **(303.9)** | **(221,640.4)** |
| **–** | **(2,366.8)** | **(93.9)** | **(16,137.7)** |
| **–** | **–** | **–** | **178.7** |
| **–** | **–** | **–** | **17,844.7** |
| **–** | **1,090.2** | **7.0** | **5,542.4** |
| **–** | **(44,637.2)** | **(390.8)** | **(214,212.3)** |
| | | | |
| 105,311.2 | 39,264.2 | 197.4 | 254,246.7 |
| **4,080.6** | **44,921.7** | **233.7** | **305,354.7** |

## NOTES TO THE CONSOLIDATED AND PARENT COMPANY ANNUAL FINANCIAL STATEMENTS continued
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### 17. PROPERTY, PLANT AND EQUIPMENT AND MINERAL RIGHTS continued

| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
|---|---|---|
| Depreciation on property, plant and equipment and mineral rights | **(16,137.7)** | (14,910.7) |
| Amortisation on intangible assets | **(187.2)** | (46.1) |
| Non-mining depreciation and amortisation | **97.1** | 70.7 |
| Depreciation and amortisation arising from discontinued operations | **–** | 8,260.6 |
| Total mining depreciation | **(16,227.8)** | (6,625.5) |

#### Impairment considerations

In the current year, there was no change in the composition of the group's CGUs. The group's operational CGUs are as follows:

**Barberton Mines**

- Mining operations (Fairview, Sheba, Consort, BIOX®)
- Surface mining operations (BTRP).

**Evander Mines**

- Underground operations (7 Shaft and 8 Shaft and the Kinross metallurgical plant)
- Elikhulu surface mining operation
- Egoli project.

In the prior year, Evander Mines' underground operations were ceased resulting in an impairment charge recognised for those operations categorised as discontinued and certain continuing operations (refer to note 36).

As at 30 June 2019, no impairment indicators were identified on the group's CGUs for impairment testing. Goodwill, however, as disclosed in note 37 and the group's resources not included in the life-of-mine were also tested for impairment.

#### Impairment reversal

A feasibility study into the merits of mining Evander Mines' 8 Shaft Pillar and high-grade areas in proximity to the pillar (pillar project) was completed.

Development and equipping of the pillar project commenced in May 2019, with first gold expected during August 2019.

In light of the commencement of the pillar mining, Evander Mines assessed, in compliance with IAS36, the carrying value of the assets to be used in the mining of the pillar project for an impairment reversal, which resulted in a reversal of the impairment charge of USD17.8 million to the carrying value of property, plant and equipment and mineral rights, and USD8,779 to the carrying value of other intangible assets (refer to note 18).

The pillar project is a new mining project following the successful conclusion of a feasibility study during March 2019. The pillar project will mine new Mineral Reserves not previously recognised in the prior financial year, and mining will occur in a separate area from Evander Mines' historical large-scale underground discontinued operation. Although the pillar project will utilise previously impaired 8 Shaft, 7 Shaft and Kinross plant infrastructure which has resulted in the reversal of the associated impairment charge, this does not result in the need to re-present previously reported discontinued operations in the comparative numbers, for the reasons noted above.

#### Impairment assessment assumptions

The group derives the recoverable amounts of property, plant and equipment and mineral rights by calculating the value in use of the respective CGUs. Value in use is derived by discounting future cash flows of the CGUs on a nominal basis using the following key assumptions. The group prepares cash flow forecasts derived from the most recent financial forecasts approved by management and forecasts future cash flows on a nominal basis.

## 17. PROPERTY, PLANT AND EQUIPMENT AND MINERAL RIGHTS continued

| | Year ended 30 June 2019 | | | | |
|---|---|---|---|---|---|
| | Barberton Mines CGUs | | Evander Mines CGUs | | |
| | Mining operations | BTRP surface mining operations | Pillar project | Elikhulu surface mining operations | Egoli project |
| Real discount rate (post-tax) (%) | 9.80 | 9.80 | 20.70 | 7.40 | 11.80 |
| Real discount rate (pre-tax) (%) | 11.15 | 11.15 | 21.99 | 9.8 | 13.07 |
| Nominal discount rate (post-tax) (%) | 15.40 | 15.40 | 26.80 | 12.90 | 17.50 |
| Nominal discount rate (pre-tax) (%) | 16.82 | 16.82 | 28.21 | 15.49 | 18.84 |
| Real gold price (R/kg) (note 1) | 599,510 | 599,510 | 599,510 | 599,510 | 599,510 |
| Long-term cost inflation (%) | 5.1 | 5.1 | 5.1 | 5.1 | 5.1 |
| Life-of-mine (years) | 20 | 9 | 3 | 13 | 11 |

*Note 1: In the impairment assessment, the group applied a consensus rand gold price forecast which increases over a 20-year period at an effective annual compound rate of approximately 5.1%.*

| | Year ended 30 June 2018 | | | | |
|---|---|---|---|---|---|
| | Barberton Mines CGUs | | Evander Mines CGUs | | |
| | Mining operations | BTRP surface mining operations | Mining operations | Elikhulu surface mining operations | Egoli project |
| Real discount rate (post-tax) (%) | 10.25 | 10.25 | – | 7.50 | 12.40 |
| Real discount rate (pre-tax) (%) | 11.05 | 11.05 | – | 9.24 | 13.17 |
| Nominal discount rate (post-tax) (%) | 15.40 | 15.40 | – | 12.70 | 17.50 |
| Nominal discount rate (pre-tax) (%) | 16.70 | 16.70 | – | 15.20 | 18.80 |
| Real gold price (R/kg) | 550,000 | 550,000 | – | 550,000 | 550,000 |
| Life-of-mine (years) | 20 | 11 | – | 13 | 11 |

Below is a sensitivity table on the impairment reversal:

| | Unit | Sensitivity | | (Reduction)/ increase in impairment reversal USD thousand |
|---|---|---|---|---|
| Gold price | (ZAR/kg) | 5% decrease in USD gold price | 569,535 | (4,664.2) |
| South African rand | (ZAR:USD) | 5% stronger | 13.38 | (4,909.7) |
| South African rand | (ZAR:USD) | 3% weaker | 14.50 | 2,717.0 |

## NOTES TO THE CONSOLIDATED AND PARENT COMPANY
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## 18. OTHER INTANGIBLE ASSETS

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| Software costs | | | | |
| Opening balance | **41.7** | 94.1 | **–** | – |
| Transfer from property, plant and equipment and mineral rights (note 1) | **772.0** | 3.0 | **–** | – |
| Additions | **16.3** | 23.3 | **–** | – |
| Amortisation | **(187.2)** | (46.1) | **–** | – |
| Impairment reversal/(cost) (refer to notes 17 and 14) | **8.8** | (31.4) | **–** | – |
| Foreign currency translation reserve | **3.6** | (1.2) | **–** | – |
| **Closing balance** | **655.2** | 41.7 | **–** | – |

*Note 1: Following the commissioning of Elikhulu on 1 September 2018, the group transferred software costs relating to the project from capital under construction in property, plant and equipment and mineral rights. Refer to note 17 and* pages 52 and 53 *for additional information on Elikhulu.*

The group has no internally generated intangible assets at year-end.

## 19. LONG-TERM RECEIVABLES

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| Long-term receivables (note 1) | **1,021.9** | 1,746.6 | **–** | – |
| | **1,021.9** | 1,746.6 | **–** | – |
| **Current portion of long-term receivables** | **1,924.8** | 1,252.2 | **1,108.5** | 1,027.7 |
| Deferred consideration receivable (note 2) | **2,136.7** | 2,007.8 | **2,136.7** | 2,007.8 |
| Deferred consideration receivable provision (note 2) | **(1,028.2)** | (980.1) | **(1,028.2)** | (980.1) |
| Current portion of other long-term receivables | **816.3** | 224.5 | **–** | – |

*Note 1: Long-term loans receivables accrues interest at the prime rate with repayment terms of up to 24 months.*

*Note 2: The deferred consideration receivable that related to MC Mining Limited was settled in full on 1 July 2019. The deferred consideration receivable was assessed at year-end in relation to the actual settlement received on 1 July 2019. The amended deferred consideration receivable net of the provision was USD1,108,459 (2018: USD1,027,682).*

The carrying value of long-term receivables approximate their fair value given the nature of the counterparty and the historical low levels of credit default. There is no current observable data to indicate a material future default risk and as a result, the credit quality at year-end is considered high.

## 20. REHABILITATION FUND

| | Barberton Mines USD thousand | Evander Mines USD thousand | Total USD thousand |
|---|---|---|---|
| **Funds held in a trust fund** | | | |
| **Opening balance as at 1 July 2017** | 3,401.7 | 21,167.0 | 24,568.7 |
| Capital fund contribution | 282.3 | 1,756.6 | 2,038.9 |
| Transfer of rehabilitation funds to an insurance product (note 1) | – | (9,684.4) | (9,684.4) |
| Interest earned on rehabilitation funds | 182.7 | 468.2 | 650.9 |
| Interest earned on rehabilitation funds arising from discontinued operations | – | 668.3 | 668.3 |
| Fair value adjustment | 17.3 | 94.1 | 111.4 |
| Fair value adjustment arising from discontinued operations | – | 13.5 | 13.5 |
| Foreign currency translation reserve | (196.7) | (609.9) | (806.6) |
| **Closing balance as at 30 June 2018** | **3,687.3** | **13,873.4** | **17,560.7** |
| Transfer of rehabilitation funds to an insurance product (note 1) | **(3,580.7)** | **(13,535.6)** | **(17,116.3)** |
| Interest earned on rehabilitation funds | **15.5** | **121.7** | **137.2** |
| Foreign currency translation reserve | **(122.1)** | **(459.5)** | **(581.6)** |
| **Closing balance as at 30 June 2019** | **–** | **–** | **–** |
| **Funds held in an insurance product** | | | |
| **Opening balance as at 1 July 2017** | – | – | – |
| Premium contribution (note 1) | – | 9,684.4 | 9,684.4 |
| Fair value adjustment | – | (86.4) | (86.4) |
| Foreign currency translation reserve | – | (608.7) | (608.7) |
| **Closing balance as at 30 June 2018** | **–** | **8,989.3** | **8,989.3** |
| Premium contribution (note 1) | **3,580.7** | **13,535.6** | **17,116.3** |
| Drawdowns | **–** | **(2,585.4)** | **(2,585.4)** |
| Fair value adjustment | **249.4** | **1,355.4** | **1,604.8** |
| Foreign currency translation reserve | **29.9** | **(133.8)** | **(103.9)** |
| **Closing balance as at 30 June 2019** | **3,860.0** | **21,161.1** | **25,021.1** |
| **Total rehabilitation funds as at year-end (trust funds and insurance investment product)** | **3,860.0** | **21,161.1** | **25,021.1** |

*Note 1: These funds are held in a Cenviro Solutions insurance investment product and are invested in interest-bearing and equity instruments within the insurance product. Cenviro Solutions has issued guarantees to the DMR in support of the group's environmental liabilities. The group's environmental liabilities are fully funded by the investments contained in the investment product.*

The group has transferred the rehabilitation funds invested in the group's rehabilitation trust to an insurance investment product, held by Cenviro Solutions underwritten by Centriq Insurance Company Limited. The insurance policies are in the respective names of the mining operations, Evander Mines and Barberton Mines.

Refer to note 30 for the associated rehabilitation provision disclosure.

## NOTES TO THE CONSOLIDATED AND PARENT COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

### 21. INVENTORIES

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| Consumables stores | 6,640.7 | 4,640.3 | – | – |
| Current portion of long-term inventory (note 1) | 193.1 | 269.2 | – | – |
| Provision for obsolete stock | (1,125.3) | (1,348.2) | – | – |
| | 5,708.5 | 3,561.3 | – | – |
| Long-term inventory (note 1) | 614.5 | 748.2 | – | – |
| | 6,323.0 | 4,309.5 | – | – |
| Inventory recognised as cost of production | 20,638.7 | 20,545.8 | – | – |

*Note 1: The long-term inventory relates to a holding of tailings contained in Barberton Mines' Harper tailings storage facility.*

### 22. TRADE AND OTHER RECEIVABLES

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| Trade receivables | 9,168.5 | 8,697.1 | – | – |
| Provision for doubtful debts | (107.5) | (100.3) | – | – |
| Other receivables and prepayments | 3,184.8 | 2,506.1 | 22.4 | 6.4 |
| VAT receivable | 2,855.5 | 8,475.5 | – | – |
| | 15,101.3 | 19,578.4 | 22.4 | 6.4 |

The group's credit risk is deemed to be minimal as it only sells refined gold to rated South African financial institutions. Given the creditworthiness of these institutions, the likelihood of impairment is considered minimal. Due to the nature of these institutions and the historical low levels of credit default, the group has not raised a provision for doubtful debts pertaining to trade receivables. Refer to the credit risk disclosure in note 29. These financial Institutions are the major customers, representing more than 5%, of the gold mining subsidiaries. The amounts presented in the statement of financial position are net of allowances for doubtful debtors pertaining to other receivables. These are estimated by the group's management based on the current economic environment and the individual debtor's circumstances.

No interest is charged on trade receivables given their short-term nature.

It is group policy to only sell gold and transact its foreign exchange to rated South African financial institutions. The sale of gold and foreign exchange is executed on behalf of the group by Treasury One, an independent treasury consultancy firm.

The fair value of trade receivables approximates the carrying value, given their short-term nature. Trade receivables have been pledged as security in terms of the group's senior debt.

### 23. TRADE AND OTHER PAYABLES

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| Trade payables | 20,431.3 | 21,346.0 | 62.9 | 100.2 |
| Accruals and other payables | 14,843.0 | 14,933.4 | 716.0 | 288.9 |
| VAT payable | 647.0 | 535.9 | 245.9 | 77.2 |
| Total trade and other payables (note 1) | 35,921.3 | 36,815.3 | 1,024.8 | 466.3 |

*Note 1: The fair value of trade and other payables is not materially different from the carrying value presented given their short-term nature.*

## 24. CASH AND CASH EQUIVALENTS

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| Cash and cash equivalents | **5,341.2** | 921.8 | **36.3** | 269.0 |

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| **Credit facilities** | | | | |
| **Revolving credit facility (note 1)** | **71,022.7** | 72,886.3 | | |
| **Term loan facility (note 2)** | **71,022.7** | 72,886.3 | | |
| **Guarantees (note 3)** | | | | |
| Eskom Holdings SOC Limited | **1,313.9** | 1,792.5 | **–** | – |
| Department of Mineral Resources – Cenviro Solutions insurance investment product | **25,613.2** | – | **–** | – |
| Department of Mineral Resources | **852.3** | 1,019.6 | **–** | – |
| **General banking facility (note 4)** | **9,943.2** | 10,204.1 | | |
| **Pre-settlement splits** | | | | |
| FEC facilities | **2,840.9** | 2,915.5 | **–** | – |
| Precious metals hedging facility | **7,954.5** | 8,163.3 | **–** | – |
| Gold hedging facility | **19,176.1** | 19,679.3 | **–** | – |
| **USD trading and derivative facilities (note 5)** | **37,642.0** | 61,309.0 | **–** | – |
| Credit cards | **106.5** | 109.3 | **–** | – |
| Other limit | **355.1** | 364.4 | **355.1** | 364.4 |
| | **247,843.1** | 251,329.6 | **355.1** | 364.4 |
| **Available facilities** | **17,704.7** | 36,711.7 | | |
| General banking facilities | **9,943.2** | 10,204.1 | | |
| Utilisation of the general banking facilities as at year-end | **(51.0)** | (96.0) | | |
| Revolving credit facility | **71,022.7** | 72,886.3 | | |
| Utilisation of the revolving credit facility as at year-end | **(63,210.2)** | (63,046.6) | | |
| Term loan facility | **71,022.7** | 72,886.3 | | |
| Utilisation of the term loan facility as at year-end | **(71,022.7)** | (56,122.4) | | |

*Note 1: The group has a revolving credit facility from Nedbank Limited, Absa Bank Limited and Rand Merchant Bank (a division of FirstRand Bank Limited) (refer to note 28).*

*Note 2: During the prior year, the group secured a term loan facility for the funding of Elikhulu with Rand Merchant Bank, Ashburton Investments, Absa Bank Limited and Nedbank Limited (refer to note 28).*

*Note 3: The guarantees relate to USD1.3 million (2018: USD1.8 million) for Eskom Holdings SOC Limited (Electricity utility – for the provision of electricity), USD26.5 million (2018: USD1.0 million) for the Department of Mineral Resources (DMR) in support of the group's rehabilitation liabilities.*

*Note 4: The Absa Bank Limited, Nedbank Limited and Rand Merchant Bank general banking facilities are unsecured and USD0.05 million was utilised (2018: USD0.1 million) at year-end. These facilities attract interest at rates linked to the South African prime interest rate.*

*Note 5: The USD, gold and derivative trading facilities are used by the group for the purpose of trading gold inventory and subsequent conversion of USD sales proceeds into rand. The facilities are held with the following financial institutions:*

- Absa Bank Limited
- Nedbank Limited
- Rand Merchant Bank
- Investec Bank.

# NOTES TO THE CONSOLIDATED AND PARENT COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

## 25. SHARE CAPITAL

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Year ended 30 June 2019 Number | Year ended 30 June 2018 Number | Year ended 30 June 2019 Number | Year ended 30 June 2018 Number |
| Issued | | | | |
| Number of ordinary shares issued and fully paid (note 1) | **2,234,687,537** | 2,234,687,537 | **2,234,687,537** | 2,234,687,537 |
| Treasury shares (note 2) | **(306,358,058)** | (306,358,058) | **(306,358,058)** | (306,358,058) |
| | **1,928,329,479** | 1,928,329,479 | **1,928,329,479** | 1,928,329,479 |

*Note 1: No additional ordinary shares were issued during the current financial year (2018: nil).*

*Note 2: During the prior financial year, PAR Gold disposed of 130 million Pan African Resources' shares at USD0.09 per share, resulting in a decrease in the treasury shares held (refer to note 26).*

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| Share capital | **38,150.6** | 38,150.6 | **38,150.6** | 38,150.6 |

## 26. TREASURY CAPITAL RESERVE

On 7 June 2016, the group purchased shares in PAR Gold representing 23.83% or 436.4 million of its issued share capital at the time. The accounting effect of this transaction was akin to that of a share buy-back as the group acquired shares in a company that held an investment in the group's parent company.

In the prior year, on 30 May 2018, PAR Gold publicly disposed of 130 million shares in Pan African Resources PLC, as is summarised below:

| | Year ended 30 June 2018 USD thousand |
|---|---|
| Proceeds on sale of treasury shares | 11,944.3 |
| Treasury capital reserve movement – book value of shares disposed | (13,068.5) |
| Capital loss on sale of treasury shares | (1,124.2) |
| Proceeds per treasury share disposed | (0.09) |

Treasury capital reserve reconciliation at year-end:

| | Consolidated | | Number | |
|---|---|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 | Year ended 30 June 2018 |
| Opening balance | **24,871.4** | 36,815.7 | **306,358,058** | 436,358,058 |
| Disposal of treasury shares | **–** | (11,944.3) | **–** | (130,000,000) |
| **Closing balance at year-end** | **24,871.4** | 24,871.4 | **306,358,058** | 306,358,058 |

## 27. SHARE OPTION RESERVE

The share option reserve consists of historical IFRS 2 equity-settled share option schemes and BBBEE transactions.

In the prior year, on 15 January 2018, the group concluded a BBBEE restructuring exercise with Concrete Rose as the group's new BBBEE entity (refer to note 38). Concrete Rose is held 49.9% by Funding Company and 50.1% by strategic BBBEE partners through a vendor financed arrangement. The nature of the restructuring transaction gave Concrete Rose a 22.11% ownership in SA HoldCo. The BBBEE entity's ultimate shareholding in SA HoldCo will be determined by reference to the value of SA HoldCo and the increase in the vendor loan on expiry of the scheme. On the effective date of the transaction the implied option in this scheme was valued at USD608,286. The incremental value disclosed arose due to an extension of the BBBEE scheme's original term from 31 December 2018 to 31 December 2021, and an increase in the trickle dividend from 5% to 10%.

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| Opening balance | **2,624.7** | 2,016.4 | **1,616.9** | 1,616.9 |
| Charge for the year | **–** | 608.3 | **–** | – |
| **Closing balance** | **2,624.7** | 2,624.7 | **1,616.9** | 1,616.9 |

## 28. LONG-TERM LIABILITIES: FINANCIAL INSTITUTIONS

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| **Revolving credit facility** | | | | |
| Opening balance | **63,131.2** | 15,415.7 | **–** | – |
| Drawdowns | **5,285.4** | 59,533.1 | **–** | – |
| Finance costs incurred | **6,149.7** | 3,549.3 | **–** | – |
| Finance costs capitalised (note 1) | **–** | 1,190.7 | **–** | – |
| Facility arranging fee (note 2) | **(944.6)** | – | **–** | – |
| Refinancing modification adjustment (note 2) | **418.2** | – | **–** | – |
| Repayments of capital | **(3,523.6)** | (7,782.1) | **–** | – |
| Repayments of finance costs | **(6,161.8)** | (4,741.2) | **–** | – |
| Foreign currency translation reserve | **(1,650.7)** | (4,034.3) | **–** | – |
| **Closing balance** | **62,703.8** | 63,131.2 | **–** | – |
| Current portion | **(9,943.2)** | (6,426.2) | **–** | – |
| Long-term portion | **52,760.6** | 56,705.0 | **–** | – |

*Note 1: Interest incurred and capitalised relates to the term loan facility which was specifically used for the Elikhulu's construction. Capitalisation of the borrowing costs ceased on 31 August 2018 as the plant was commissioned on 1 September 2018. The capitalisation of the borrowing costs was in accordance with IAS 23:* Borrowing Costs.

*Note 2: The terms of the revolving credit facility were renegotiated on 3 June 2019 (refer to terms below). The restructure of the revolving credit facility resulted in a debt modification adjustment being recognised in terms of IFRS 9. The debt modification adjustment was calculated on the differential in the revolving credit facility's fair values based on its original and new terms.*

# NOTES TO THE CONSOLIDATED AND PARENT COMPANY ANNUAL FINANCIAL STATEMENTS continued

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## 28. LONG-TERM LIABILITIES: FINANCIAL INSTITUTIONS continued

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| **Term loan facility** | | | | |
| Opening balance | **56,122.4** | – | – | – |
| Drawdowns | **16,208.6** | 59,922.2 | – | – |
| Finance costs incurred | **6,363.7** | 451.9 | – | – |
| Finance costs incurred and capitalised (note 1) | **1,199.1** | 1,687.1 | – | – |
| Repayments of finance loan | – | – | – | – |
| Repayments of finance costs | **(7,524.1)** | (2,139.0) | – | – |
| Foreign currency translation reserve | **(1,308.1)** | (3,799.8) | – | – |
| **Closing balance** | **71,061.6** | 56,122.4 | – | – |
| Current portion | **(14,204.5)** | – | – | – |
| Long-term portion | **56,857.1** | 56,122.4 | – | – |
| **Summary of current and non-current portions of long-term liabilities** | | | | |
| Current portion | **24,147.7** | 6,426.2 | – | – |
| Long-term portion | **109,617.7** | 112,827.4 | – | – |
| | **133,765.4** | 119,253.6 | – | – |

*Note 1: Interest incurred and capitalised relates to the term loan facility which was specifically used for the Elikhulu's construction. Capitalisation of the borrowing costs ceased on 31 August 2018 as the plant was commissioned on 1 September 2018. The capitalisation of the borrowing costs was in accordance with IAS 23:* Borrowing Costs.

| | Revolving credit facility | Term loan facility |
|---|---|---|
| **Facility amount** | R1 billion | R1 billion |
| **Lenders** | Rand Merchant Bank (a division of FirstRand Bank Limited), Absa Bank Limited, Nedbank Limited | Rand Merchant Bank (a division of FirstRand Bank Limited), Absa Bank Limited, Nedbank Limited, Ashburton Investments |
| **Borrower** | Funding Company | Funding Company |
| **Interest rate** | One-month JIBAR rate | Three-month JIBAR rate |
| **Interest rate margin** | 3% (3.3% from 3 June 2019) | 3.8 % |
| **Commitment fee – prior to 3 June 2019** | A commitment fee of 35% of the margin per annum, calculated on a day-to-day basis on the undrawn portion of the maximum available commitment. Payable semi-annually | 0.95% calculated on a day-to-day basis on the undrawn portion of the maximum available commitment. Payable quarterly |
| **Commitment fee – after 3 June 2019** | A commitment fee of 1% of the aggregate of the available commitment. Payable semi-annually | A commitment fee of 0.95% calculated on a day-to-day basis on the aggregate available commitment. Payable quarterly |
| **Term of loan** | Seven years effective 17 June 2015 (previously, five years effective 17 June 2015) | Seven years effective from 15 September 2017 |

## 28. LONG-TERM LIABILITIES: FINANCIAL INSTITUTIONS continued

| | Revolving credit facility | Term loan facility |
|---|---|---|
| **Repayment period** | Fully amortising facility as follows:<br>◗ R250 million on 15 June 2020<br>◗ R25 million on 15 December 2020<br>◗ R25 million on 15 June 2021<br>◗ R50 million on 15 September 2021<br>◗ R50 million on 15 December 2021<br>◗ R50 million on 15 March 2022<br>◗ R50 million on 15 June 2022<br>◗ R500 million on 30 June 2022<br>The above reductions in the facility's capacity were re-negotiated from the original R80 million semi-annual instalment redemption profile, commencing on 17 June 2018 | Fully amortising facility over a repayment term of five years, commencing in September 2019 |
| **Final maturity date** | 30 June 2022 | 15 September 2024 |
| **Financial covenants – after 3 June 2019** | ◗ The net debt to equity ratio must be less than 1:1<br>◗ The interest cover ratio must be greater than the following ratios in the table below:<br>**Measurement date** / **Ratio**<br>30 June 2020 / 4:1<br>30 June 2021 / 4.5:1<br>30 June 2022 / 5.1:1<br>◗ The net debt to adjusted EBITDA ratio must be less than the ratios disclosed in the table below:<br>**Measurement date** / **Ratio**<br>30 June 2020 / 2.5:1<br>30 June 2021 / 2:1<br>30 June 2022 / 1.5:1<br>◗ The debt service cover ratio must be greater than 1.3 times (measured semi-annually) | |
| **Financial covenants – before 3 June 2019** | ◗ The net debt to equity ratio must be less than 1:1<br>◗ The interest cover ratio was revised to be greater than 2.3 times as at 31 December 2018 and greater than 4 times from 30 June 2019 onwards<br>◗ The net debt to adjusted EBITDA ratio must be less than 2.5:1. The ratio was considered by the lenders effective 31 December 2019 due to Elikhulu's construction<br>◗ The debt service cover ratio must be more than 1.3 times | |

## NOTES TO THE CONSOLIDATED AND PARENT COMPANY
# ANNUAL FINANCIAL STATEMENTS continued
for the year ended 30 June 2019

## 28. LONG-TERM LIABILITIES: FINANCIAL INSTITUTIONS continued

### Bonds as security for the facilities:

The following bonds were registered in favour of the lenders:

- Mortgage bond B3644/2015 – Barberton Mines/Bowwood on Main No. 40 (RF) Proprietary Limited
- Mortgage bond B1163/2016 – Evander Gold Mining/Bowwood on Main No. 40 (RF) Proprietary Limited
- Mortgage bond B4673/2015 – Evander Gold Mining/Bowwood on Main No. 40 (RF) Proprietary Limited
- Mortgage bond B7829/2015 – Evander Gold Mining/Bowwood on Main No. 40 (RF) Proprietary Limited
- Mortgage bond B3701/2015 – Evander Township Limited/Bowwood on Main No. 40 (RF) Proprietary Limited
- Mortgage bond B6665/2015 – Evander Township Limited/Bowwood on Main No. 40 (RF) Proprietary Limited
- General notarial bond BN15110/2015 – Barberton Mines/Bowwood on Main No. 40 (RF) Proprietary Limited
- General notarial bond BN15357/2015 – Evander Gold Mining/Bowwood on Main No. 40 (RF) Proprietary Limited
- Special notarial bond BN15563/2015 – Evander Gold Mining/Bowwood on Main No. 40 (RF) Proprietary Limited
- Special notarial bond BN15616/2015 – Barberton Mines/Bowwood on Main No. 40 (RF) Proprietary Limited.

### Ceded rights to the lenders as security for the facilities:

- Bank accounts
- Trade debtors
- Insurance proceeds
- Immovable property
- Shares held in subsidiaries.

## 29. FINANCIAL INSTRUMENTS

The group manages its solvency to ensure that it will be able to continue as a going concern while maximising sustainable return to shareholders through the optimisation of the debt and equity components. The group's overall financial risk management and capital structure remains unchanged relative to the prior year.

| | Consolidated | |
|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| **Components of capital and financial covenants:** | | |
| Cash and cash equivalents | **(5,341.2)** | (921.8) |
| Revolving credit facility | **62,703.8** | 63,131.2 |
| Term loan facility | **71,061.6** | 56,122.4 |
| *Add:* Derivative financial liabilities/(asset) | **917.7** | (289.5) |
| *Less:* Refinancing modification adjustment (note 1) | **(418.2)** | – |
| *Less:* Facilities arranging fees (note 1) | **944.6** | – |
| Net debt | **129,868.3** | 118,042.3 |
| Equity | **183,581.9** | 146,987.6 |
| **Net debt to equity ratio** | **0.71** | 0.80 |

*Note 1: The group's net debt excludes the refinancing modification adjustment and facilities arranging fees.*

## 29. FINANCIAL INSTRUMENTS continued

| | Consolidated | |
|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| Finance costs – revolving credit facility | 6,149.7 | 4,740.0 |
| Finance costs – term loan facility | 7,562.8 | 2,139.0 |
| Finance costs – general banking facilities | 384.3 | 142.7 |
| **Total finance costs – interest-bearing facilities** | 14,096.8 | 7,021.7 |
| Adjusted EBITDA (note 1) | 56,782.6 | 32,374.0 |
| Unrealised gains and losses from derivative financial instruments | 1,190.5 | – |
| **Net adjusted EBITDA** | 57,973.1 | 32,374.0 |
| **Interest cover ratio** | 4.1 | 4.6 |
| Net debt | 129,868.3 | 118,042.3 |
| Net adjusted EBITDA (note 2) | 57,973.1 | 32,374.0 |
| **Net debt to net adjusted EBITDA** | 2.2 | 3.6 |
| Net adjusted EBITDA (note 2) | 57,973.1 | 32,374.0 |
| Net working capital change | 1,253.8 | 2,314.2 |
| *Add:* Non-cash flow items | 1,580.5 | 6,416.3 |
| Total capital expenditure less capital funded through permitted indebtedness | (37,161.6) | – |
| *Less:* Dividends paid | – | (11,030.0) |
| *Less:* Taxation and royalty paid | (4,496.9) | (1,634.2) |
| Free cash flow | 19,148.9 | 28,440.3 |
| Finance costs from interest-bearing facilities | 14,096.8 | 7,021.7 |
| **Debt service cover ratio** | 1.4 | 4.1 |

*Note 1: Adjusted EBITDA is comprised of earnings before interest, taxation, depreciation, amortisation, loss on disposal of associate, discontinued operations, impairment reversal/(cost) and loss on disposal of assets held for sale.*

*Note 2: Net adjusted EBITDA is the adjusted EBITDA excluding unrealised gains and losses from financial instruments.*

Refer to note 28 for a summary of the financial covenants limits.

## NOTES TO THE CONSOLIDATED AND PARENT COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

### 29. FINANCIAL INSTRUMENTS continued

Categories of financial instruments

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| **Financial assets** | | | | |
| **Measured at amortised cost** | | | | |
| Cash and cash equivalents | **5,341.2** | 921.8 | **36.3** | 269.0 |
| Long-term receivables | **2,946.7** | 2,998.8 | **1,108.5** | 1,027.7 |
| Receivables (note 1) | **12,245.8** | 11,102.9 | **22.4** | 6.4 |
| **Measured at fair value through other comprehensive income** | | | | |
| Listed investment | **6,802.0** | 4,133.9 | **6,802.0** | 4,133.9 |
| **Financial assets at fair value through profit and loss** | | | | |
| Rehabilitation trust fund | **25,021.1** | 26,550.0 | **–** | – |
| Financial instruments asset | **–** | 289.5 | **–** | – |
| **Financial liabilities** | | | | |
| **Measured at fair value through profit or loss** | | | | |
| Financial instruments liabilities | **917.7** | – | **–** | – |
| **Measured at amortised cost** | | | | |
| Trade and other payables | **35,274.3** | 36,279.4 | **778.9** | 389.1 |
| Revolving credit facility | **62,703.8** | 63,131.2 | **–** | – |
| Term loan facility | **71,061.6** | 56,122.4 | **–** | – |

*Note 1: At year-end, the group did not have trade receivables that are past overdue and not impaired.*

#### Financial risk management objectives

The group seeks to minimise the adverse effects of financial risks by using derivative financial instruments to hedge risk exposures where appropriate. The use of any financial derivatives is approved by the board who also, on a continuous basis, provide guidance on managing foreign exchange, interest rate, credit and liquidity risk in terms of its treasury policy. Exposure limits are reviewed on a continuous basis. The group does not enter into financial derivative instruments for speculative use.

#### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. The group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk.

The combined maximum credit risk exposure of the group is as follows:

| | Consolidated | |
|---|---|---|
| | 30 June 2019 USD thousand | 30 June 2018 USD thousand |
| Long-term receivables | **2,946.7** | 2,998.8 |
| Trade and other receivables | **12,245.8** | 11,102.9 |
| Guarantees to the DMR and Eskom | **27,779.4** | 2,812.1 |

## 29. FINANCIAL INSTRUMENTS continued

### Categories of financial instruments continued

#### Credit risk continued

***Expected credit loss assessment as at 30 June 2019***

The group determines each exposure to credit risk based on data that is determined to be predictive of the risk of loss and the past experienced credit judgement.

*Long-term receivables*

The group's credit risk is deemed to be minimal given the nature of the counterparty and the historical low levels of credit default. There is no current observable data to indicate a material future default risk and as a result, the credit quality at year-end is considered high.

*Trade and other receivables*

The group's credit risk is deemed to be minimal as it only sells refined gold to rated South African financial institutions. Given the creditworthiness of these institutions, no provision is made for doubtful debts pertaining to trade receivables. These financial institutions are the major customers that represent more than 5% of the gold mining subsidiaries' trade and other receivables. The amounts presented in the statement of financial position are net of allowances for doubtful debtors pertaining to other receivables of USD107,475 (2018: USD100,268), estimated by the group's management based on the current economic environment and individual debtor circumstances.

*Guarantees to the DMR and Eskom*

The guarantees in favour of the DMR are represented by funds held by Cenviro Solutions in an insurance investment product and are invested in interest-bearing and equity instruments within the insurance product. Cenviro Solutions is a reputable and vetted counterparty which is also underwritten by Centriq Insurance Company Limited. Based on the nature of the counterparty, credit default is considered minimal at year-end.

The guarantees in favour of Eskom are represented by funds held by rated South African institutions. The credit risk on liquid funds is limited due to these funds being invested only with reputable financial institutions.

#### Market risk

The risk is that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, commodity prices and interest rate risk.

#### Foreign currency risk

The group undertakes certain transactions in foreign currencies, exposing the group to foreign exchange rate fluctuations. Exchange rate exposures are managed within approved policy parameters. The group specifically ensure USD gold sale receipts are converted into rand as efficiently as possible.

#### Commodity price risk

The group is affected by the price volatility of gold. The group may enter into forward contracts to hedge its exposure to fluctuations in gold prices and exchange rates on specific transactions. The contracts are matched with anticipated future cash flows from gold sales receipts.

| | 30 June 2019 | | 30 June 2018 | |
|---|---|---|---|---|
| | Closing rate | Average rate | Closing rate | Average rate |
| **Currency and gold spot price** | | | | |
| ZAR:USD exchange rate | 14.08 | 14.19 | 13.72 | 12.85 |

| | Year ended 30 June 2019 | Year ended 30 June 2018 |
|---|---|---|
| Average gold spot price received (USD/oz) | 1,266 | 1,301 |
| Average gold spot price received (R/kg) | 577,573 | 538,100 |

## NOTES TO THE CONSOLIDATED AND PARENT COMPANY
# ANNUAL FINANCIAL STATEMENTS continued
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## 29. FINANCIAL INSTRUMENTS continued
### Categories of financial instruments continued
#### Commodity price risk continued

| | Impact of 10% gold price movement on profit USD thousand |
|---|---|
| **2019** | |
| USD gold price increase or decrease sensitivity | **17,852.3** |
| **2018** | |
| USD gold price increase or decrease sensitivity | 17,697.9 |

| | Impact of 10% exchange rate movement on profit USD thousand |
|---|---|
| **2019** | |
| Increase in foreign currency sensitivity | **12,783.6** |
| Decrease in foreign currency sensitivity | **(15,624.4)** |
| **2018** | |
| Increase in foreign currency sensitivity | 14,660.0 |
| Decrease in foreign currency sensitivity | (17,917.8) |

| | USD thousand | Impact of 10% increase on exchange rate translation USD thousand | Impact of 10% decrease on exchange rate translation USD thousand |
|---|---|---|---|
| **2019** | | | |
| Current assets | **29,964.4** | **(2,724.0)** | **3,329.4** |
| Current liabilities | **63,854.5** | **(5,805.0)** | **7,094.9** |
| **2018** | | | |
| Current assets | 26,513.8 | (2,410.3) | 2,946.0 |
| Current liabilities | 44,394.6 | (4,035.9) | 4,932.7 |

## 29. FINANCIAL INSTRUMENTS continued

### Categories of financial instruments continued

#### Derivative financial instruments – zero cost collar hedges

| | Consolidated Year ended 30 June 2019 USD thousand | Consolidated Year ended 30 June 2018 USD thousand |
|---|---|---|
| **Zero cost collar hedges** | | |
| **Opening balance** | **289.5** | – |
| Financial instruments (receipts)/settlements during the year | **(1,572.4)** | (1,212.7) |
| Profit arising from unrealised financial instruments from discontinued operations | – | 309.1 |
| Losses arising from unrealised gains | **(1,083.3)** | – |
| Profit arising from realised financial instruments | **1,572.4** | – |
| Profit arising from realised financial instruments from discontinued operations | – | 1,212.7 |
| Foreign currency translation reserve | **(15.9)** | (19.6) |
| **Closing balance** | **(809.7)** | 289.5 |
| **Zero cost collar derivative losses/(gains)** | | |
| Losses/(gains) from fair value measurement | **(1,083.3)** | 309.1 |
| Profit realised on the statement of comprehensive income | **1,572.4** | 1,212.7 |
| | **489.1** | 1,521.8 |

### Interest rate risk

The group is exposed to interest rate risk as Funding Company, on behalf of the group, borrows and invests funds at both fixed and floating interest rates. Fluctuations in interest rates impact on short-term investment and financing activities, giving rise to an interest rate risk. In the ordinary course of business, the group receives cash proceeds from its operations and is required to fund working capital and capital expenditure requirements. Cash is managed to ensure that surplus funds are invested to maximise returns while ensuring that capital is safeguarded to the maximum extent by only investing with reputable financial institutions. Contractual arrangements for committed borrowing facilities are maintained to meet the group's normal and contingent funding needs. Please refer below where an interest rate sensitivity has been performed.

The group is exposed to interest rate risk as entities within the group borrow and invest funds, via Funding Company, at both fixed and floating interest rates.

### Interest rate sensitivity

The groups' revolving credit and term loan facility incurs interest based on JIBAR rates (refer to note 30). Refer to the following for the interest rate sensitivity:

| | Historical interest variation impact on the interest expense recognised for the revolving credit and term loan facilities | | | | |
|---|---|---|---|---|---|
| | Interest incurred on facilities on a 10% decrease in interest rates | Interest incurred on facilities on a 5% decrease in interest rates | Interest incurred on facilities for the year | Interest incurred on facilities on a 5% increase in interest rates | Interest incurred on facilities on a 10% increase in interest rates |
| **USD thousand 2019** | **12,341.3** | **13,026.9** | **13,712.5** | **14,398.1** | **15,083.8** |
| USD thousand 2018 | 6,191.1 | 6,535.1 | 6,879.0 | 7,223.0 | 7,566.9 |

## NOTES TO THE CONSOLIDATED AND PARENT COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

### 29. FINANCIAL INSTRUMENTS continued

Derivative financial instruments – interest rate hedge

| | Consolidated | |
|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| Interest rate hedges | | |
| Opening balance | – | – |
| Losses arising from unrealised financial instruments | (107.2) | – |
| Foreign currency translation reserve | (0.8) | – |
| Closing balance | (108.0) | – |
| Interest rate hedge derivative profit/(loss) | | |
| Gains from fair value measurement | (107.2) | |
| | (107.2) | – |

#### Interest rate hedge terms

| | |
|---|---|
| Notional amount | R750 million |
| Trade date | 5 April 2019 |
| Termination date | 6 April 2020 |
| Group entity | Pan African Resources Funding Company Proprietary Limited |
| Financial institution | Rand Merchant Bank |
| Fixed rate (yield) | 7.11% |
| Floating rate option | ZAR-JIBAR-SAFEX |
| Floating rate designated maturity | Three months |

#### Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board, but is delegated to the executive management, which has an established liquidity risk management framework for the group’s short-term funding and liquidity requirements. This framework involves daily monitoring of the group's cash position, regular review of cash flow forecasts and maturity profiles of financial assets and liabilities. Liquidity risk is managed by maintaining adequate working capital reserves and borrowing capacity on banking facilities.

The group has access to financing facilities from the revolving credit facility, term loan facility and the general banking facilities, of which USD63.2 million (2018: USD63.0 million) of revolving credit facility was utilised, and USD71.0 million (2018: USD56.1 million) was utilised on the term loan facility. The general banking facility was utilised to the extent of USD50,991 (2018: nil) at year-end. In the prior year, the group settled the Evander Mines gold loan in full (refer to note 30). The group expects to meet its obligations from its operating cash flows and the borrowing capacity on its existing banking facilities.

## 29. FINANCIAL INSTRUMENTS continued

### Liquidity risk continued

| | Weighted average interest rate % | Less than 12 months USD thousand | 1 – 5 years USD thousand | Total USD thousand |
|---|---|---|---|---|
| **Group** | | | | |
| **2019** | | | | |
| Trade and other payables | – | **35,274.3** | – | **35,274.3** |
| Long-term liabilities (interest-bearing) | **10.71** | **38,091.6** | **134,186.8** | **172,278.5** |
| Derivative financial instrument liabilities | – | **917.7** | – | **917.7** |
| **2018** | | | | |
| Trade and other payables | – | 36,279.4 | – | 36,279.4 |
| Long-term liabilities (interest-bearing) | 9.73 | 21,377.2 | 115,312.8 | 136,690.0 |
| **Parent company** | | | | |
| **2019** | | | | |
| Trade and other payables | – | **778.9** | – | **778.9** |
| **2018** | | | | |
| Trade and other payables | – | 389.1 | – | 389.1 |

### Fair value of financial instruments

The directors consider that the carrying amounts of financial assets and liabilities approximate their fair values.

### Fair value hierarchy

Financial instruments are measured at fair value and are grouped into levels 1 to 3 based on the extent to which fair value is observable.

The levels are classified as follows:

Level 1 – fair value is based on quoted prices in active markets for identical financial assets or liabilities

Level 2 – fair value is determined using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices)

Level 3 – fair value is determined on inputs not based on observable market data.

| | Level 1 USD thousand | Level 2 USD thousand | Level 3 USD thousand | Total USD thousand |
|---|---|---|---|---|
| **30 June 2019** | | | | |
| Financial assets (note 1) | **6,802.0** | – | – | **6,802.0** |
| Rehabilitation fund (note 2) | – | **25,021.1** | – | **25,021.1** |
| Derivative financial instrument liability (note 3) | – | **917.7** | – | **917.7** |
| **30 June 2018** | | | | |
| Financial assets (note 1) | 4,133.9 | – | – | 4,133.9 |
| Rehabilitation fund (note 2) | – | 26,550.0 | | 26,550.0 |
| Derivative financial instrument assets (note 3) | – | 289.5 | – | 289.5 |

*Note 1: The fair value of the listed investment is treated as Level 1 per the fair value hierarchy, as its market share price is quoted on a stock exchange.*

*Note 2: The rehabilitation fund is treated as Level 2 per the fair value hierarchy as the premiums are invested in interest-bearing short-term deposits and equity share portfolios held in an insurance investment product which is managed by independent fund managers.*

*Note 3: The derivative financial asset and liability is treated as a Level 2 per the fair value hierarchy due to the following market-related inputs used in the valuation:*

| | |
|---|---|
| *USD Gold price as at 30 June 2019* | *1,410* |
| *ZAR Gold price as at 30 June 2019* | *637,865* |

In the current and prior financial year, cash-settled share option and ESOP transactions liabilities have not been disclosed as financial instruments as they are IFRS 2 instruments. Refer to note 14.

## NOTES TO THE CONSOLIDATED AND PARENT COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

### 30. LONG-TERM PROVISIONS

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Decommissioning and rehabilitation | | | |
| | 30 June 2019 USD thousand | 30 June 2018 USD thousand | 30 June 2019 USD thousand | 30 June 2018 USD thousand |
| Opening balance | 19,929.5 | 15,147.5 | – | – |
| Rehabilitation cost incurred (note 1) | (4,005.4) | (49.0) | – | – |
| Rehabilitation provision capitalised | 338.0 | 837.8 | – | – |
| Charge for the year | – | 5,050.1 | – | – |
| Finance costs (note 2) | 59.6 | – | – | – |
| Foreign currency translation reserve | (540.4) | (1,056.9) | – | – |
| **Closing balance** | **15,781.3** | 19,929.5 | – | – |

*Note 1: During the year, Evander Mines commenced with the rehabilitation of old shafts and associated infrastructure.*

*Note 2: The finance costs relates to the unwinding of the rehabilitation provision.*

#### Rehabilitation provision

The provision includes an estimate of the costs of decommissioning, the cost of environmental and other remedial work such as reclamation costs, closure, restoration and pollution control. The provision represents the net present value of the best estimate of the expenditure to be incurred to decommission and rehabilitate environmental disturbances caused by mining operations. These costs are expected to be incurred over the respective lives of the mines. Estimates are made annually, based on the estimated life of the mine, following which any deficit is funded by means of premiums to an approved insurer.

The current year's movement in the group's rehabilitation liability has been impacted by changes in the following assumptions, relative to the prior year:

| | Year ended 30 June 2019 | | Year ended 30 June 2018 | |
|---|---|---|---|---|
| | Period to rehabilitation Years | Risk-free rate (real) % | Period to rehabilitation Years | Risk-free rate (nominal) % |
| Barberton Mines (Fairview) | 20.00 | 3.50 | 20.00 | 10.90 |
| Barberton Mines (Sheba) | 19.00 | 3.40 | 17.00 | 10.00 |
| Barberton Mines (Consort) | 6.00 | 3.00 | 7.00 | 9.00 |
| Barberton Mines (BTRP) | 9.00 | 3.20 | 11.00 | 9.70 |
| Evander Mines (8 Shaft and Kinross plant) | 3.00 | 2.60 | 2.00 | 7.70 |
| Evander Mines (Elikhulu) | 13.00 | 3.40 | 13.00 | 9.90 |

## 31. DIRECTORS' EMOLUMENTS

The key management personnel for which remuneration has been disclosed below are executive directors, non-executive directors and prescribed officers:

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| **Executive directors** | | | | |
| Emoluments | 1,265.0 | 1,339.3 | 1,265.0 | 1,339.3 |
| Share options exercised | – | 438.8 | – | 438.8 |
| **Executive directors total** | 1,265.0 | 1,778.1 | 1,265.0 | 1,778.1 |
| **Non-executive directors** | | | | |
| Emoluments | 229.4 | 241.3 | 229.4 | 241.3 |
| **Non-executive directors total** | 229.4 | 241.3 | 229.4 | 241.3 |
| **All directors total** | 1,494.4 | 2,019.4 | 1,494.4 | 2,019.4 |

| | Share option taxable benefit USD thousand | Basic remune-ration USD thousand | Retirement fund USD thousand | Life and disability plan USD thousand | Allowances USD thousand | Leave payout USD thousand | Total USD thousand | Incentives (note 1) USD thousand |
|---|---|---|---|---|---|---|---|---|
| **30 June 2019** | | | | | | | | |
| **Executive directors** | | | | | | | | |
| Mr JAJ Loots | – | 358.2 | – | – | 14.7 | 20.0 | 392.9 | 299.5 |
| Mr GP Louw | – | 311.2 | – | – | 0.7 | – | 311.9 | 260.7 |
| **Total** | – | 669.4 | – | – | 15.4 | 20.0 | 704.8 | 560.2 |

*Note 1: These incentives were approved by the remuneration committee following the successful completion of Elikhulu.*

| | Share option taxable benefit USD thousand | Basic remune-ration USD thousand | Retirement fund USD thousand | Life and disability plan USD thousand | Allowances USD thousand | Leave payout USD thousand | Total USD thousand | Incentives (note 2) USD thousand |
|---|---|---|---|---|---|---|---|---|
| **30 June 2018** | | | | | | | | |
| **Executive directors** | | | | | | | | |
| Mr JAJ Loots | 438.8 | 376.1 | – | – | 15.3 | 21.0 | 851.2 | 358.1 |
| Mr GP Louw | – | 327.3 | – | – | 1.3 | – | 328.6 | 240.2 |
| **Total** | 438.8 | 703.4 | – | – | 16.6 | 21.0 | 1,179.8 | 598.3 |

*Note 2: During the 2018 financial year, the executive directors and senior management, in consultation with the remuneration committee, agreed to forgo any qualifying short-term incentives in light of the group's financial position following the cessation of underground operations at Evander Mines. These incentives disclosed were paid in the 2018 financial year but were accrued for in the 30 June 2017 financial year.*

## NOTES TO THE CONSOLIDATED AND PARENT COMPANY
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### 31. DIRECTORS' EMOLUMENTS continued

Non-executive directors are entitled to the following emoluments as approved annually by the Remco for services rendered, which are based on the sub-committees on which they serve:

| | Total 30 June 2019 USD thousand | Total 30 June 2018 USD thousand |
|---|---|---|
| Non-executive | | |
| Mr KC Spencer | **86.3** | 91.0 |
| Mrs HH Hickey | **51.3** | 53.9 |
| Mr TF Mosololi | **47.7** | 50.1 |
| Mr RM Smith (note 1) | **44.1** | 46.3 |
| Total | **229.4** | 241.3 |

| | KC Spencer *(Chairman)* USD thousand | HH Hickey USD thousand | TF Mosololi USD thousand | RM Smith USD thousand |
|---|---|---|---|---|
| **30 June 2019** | | | | |
| Board of directors | **70.4** | **28.2** | **28.2** | **28.2** |
| Remuneration committee | – | – | **7.2** | **10.8** |
| Audit committee *(Mrs HH Hickey as chairperson)* | – | **10.8** | **7.2** | – |
| SHEQC committee | **10.8** | **7.2** | – | – |
| Nomination committee | **5.1** | **5.1** | **5.1** | **5.1** |
| | **86.3** | **51.3** | **47.7** | **44.1** |

| | KC Spencer *(Chairman)* USD thousand | HH Hickey USD thousand | TF Mosololi USD thousand | RM Smith USD thousand |
|---|---|---|---|---|
| **30 June 2018** | | | | |
| Board of directors | 74.3 | 29.6 | 29.6 | 29.6 |
| Remuneration committee | – | – | 7.6 | 11.4 |
| Audit committee *(Mrs HH Hickey as chairperson)* | – | 11.4 | 7.6 | – |
| SHEQC committee | 11.4 | 7.6 | – | – |
| Nomination committee | 5.3 | 5.3 | 5.3 | 5.3 |
| | 91.0 | 53.9 | 50.1 | 46.3 |

*Note 1: Rowan Smith resigned as an independent non-executive director on 3 April 2019 and did not receive a portion of his annually approved emolument relating to the last quarter of the financial year.*

Subsequent to year-end, Yvonne Themba and Charles Needham were appointed as independent non-executive directors with effect from 17 July 2019.

No fees were paid during the year for serving on the social and ethics sub-committee.

No retirement fund contributions are made by the company on behalf of non-executive directors.

The company has directors' and public officers' liability insurance in place that provides insurance cover in the event of a claim or legal action. The insurance cover was in place throughout the financial year and remains in place.

## 31. DIRECTORS' EMOLUMENTS continued

| | Share option taxable benefit USD thousand | Basic remune-ration USD thousand | Retire-ment fund USD thousand | Life and disability plan USD thousand | Allowances USD thousand | Other remune-ration USD thousand | Bonuses USD thousand | Total 30 June 2019 USD thousand | Total 30 June 2018 USD thousand |
|---|---|---|---|---|---|---|---|---|---|
| **Prescribed officers** | | | | | | | | | |
| Mr AD van den Bergh | – | 290.4 | – | – | 0.6 | – | 253.7 | 544.7 | 468.4 |
| Mr AA van den Berg | – | 153.3 | 24.9 | 3.1 | 5.0 | – | 88.1 | 274.4 | 232.7 |
| Mr NA Reynolds | – | 150.6 | 20.0 | 3.1 | 8.3 | – | 77.5 | 259.5 | 325.5 |
| Mr CA Strydom | – | – | – | – | – | – | – | – | 448.6 |
| Mr JDV Thirion (appointed 12 March 2018) | – | 120.2 | 22.2 | – | 98.3 | – | 12.4 | 253.1 | 208.3 |
| Mr L Motshwaiwa | – | 150.9 | 13.0 | 3.2 | 8.1 | 12.7 | 60.9 | 248.8 | 189.4 |
| Mr MS Ndlozi | – | 76.0 | 11.7 | – | 45.3 | – | 33.6 | 166.6 | 153.6 |
| Mr JD Symington | – | 115.3 | 15.3 | 2.3 | 8.6 | – | 59.9 | 201.4 | 199.3 |
| Mr MM Dlamini | – | 96.3 | 12.8 | 2.0 | 1.3 | 6.0 | 66.9 | 185.3 | 148.0 |
| Mr P Naicker | – | 129.7 | 25.7 | – | 5.1 | 8.4 | 77.5 | 246.4 | 211.9 |
| Mr P Tendaupenyu (retrenched 9 March 2018) | – | – | – | – | – | – | – | – | 224.0 |
| Mr O Shikwambana (appointed 1 April 2019) | – | 37.6 | 3.8 | 0.9 | 3.2 | – | 84.6 | 130.1 | – |

### Directors' dealings in shares

All the shares held by directors are direct beneficial interests.

#### Financial year 30 June 2019

Mr JAJ Loots entered into the following company shares transactions:

- On 20 September 2018: entered into a contract for difference derivative (CFD) for 64,280 shares at an average price of GBP0.0825 per share
- On 21 September 2018: entered into a CFD for 50,000 shares at an average price of GBP0.085 per share.

Mr JAJ Loots had 668,675 shares and 514,280 CFDs at year-end, representing 0.05% of the total issued shares of the company.

Mr GP Louw had 257,450 shares at year-end, representing 0.01% of the total issued shares of the company.

Mr KC Spencer transferred 3,000,000 shares at R1.75 per share in an off-market transaction from the Strode Trust into his personal capacity on 17 October 2018. Following this transaction, Mr KC Spencer held 3,000,000 shares at year-end, representing approximately 0.13% of the total issued shares.

No dealings in the securities of the company by the directors took place between the year-end and the date of approval of the annual financial statements.

#### Financial year 30 June 2018

Mr JAJ Loots entered into the following company shares transactions:

- On 22 February 2018: entered into a CFD for 200,000 shares at a price of GBP0.08 per share
- On 27 September 2017: purchased 108,000 shares at an average price of R2.35 per share
- On 29 September 2017: entered into a CFD for 200,000 shares at an average of GBP12.747p per share.

Mr JAJ Loots had 668,675 shares and 400,000 CFDs at period end, representing 0.05% of the total issued shares of the company as at 30 June 2018.

Mr GP Louw entered into the following company shares transactions:

- On 28 September 2017: purchased 45,000 shares at an average price of R2.35 per share
- On 23 February 2018: purchased 75,000 shares at R1.30 per share.

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## 31. DIRECTORS' EMOLUMENTS continued

Mr GP Louw had 257,450 shares at period end, representing 0.01% of the total issued shares of the company as at 30 June 2018.

Mr TF Mosololi, on 6 October 2017, purchased 20,000 shares at R2.30. Mr TF Mosololi had 50,000 shares outstanding as at period end, representing 0.01% of total issued shares of the company as at 30 June 2018.

Mr KC Spencer had 3,000,000 shares at period end, representing 0.13% of the total issued shares of the company as at 30 June 2018.

### Cash-settled share options

| | Total options 1 July 2018 | Grant date | Exercise price in R | Options granted/ (exercised) during the period | Grant/ exercise date | Grant/ exercise price in R | Options forfeited/ discontinued | Total options 30 June 2019 |
|---|---|---|---|---|---|---|---|---|
| Mr JAJ Loots | 2,500,000 | 29 August 2013 | 2.05 | – | | – | (2,500,000) | – |
| Mr JAJ Loots | 1,533,334 | 28 February 2015 | – | – | | – | – | 1,533,334 |
| Mr JAJ Loots | 5,000,000 | 1 March 2018 | – | – | | – | – | 5,000,000 |
| Mr JAJ Loots | – | | – | 12,427,686 | 1 July 2018 | 1.21 | – | 12,427,686 |
| Mr GP Louw | 2,114,979 | 1 March 2015 | 2.09 | – | | – | (2,114,979) | – |
| Mr GP Louw | 3,100,000 | 1 March 2018 | – | – | | – | – | 3,100,000 |
| Mr GP Louw | – | | – | 8,690,599 | 1 July 2018 | 1.21 | – | 8,690,599 |
| Mr AD van den Bergh | 1,230,199 | 1 May 2014 | 2.05 | – | | – | (1,230,199) | – |
| Mr AD van den Bergh | 2,822,167 | 30 July 2015 | 1.64 | – | | – | (2,822,167) | – |
| Mr AD van den Bergh | 3,268,219 | 2 August 2017 | 2.38 | – | | – | (3,268,219) | – |
| Mr AD van den Bergh | – | | – | 8,109,463 | 1 July 2018 | 1.21 | – | 8,109,463 |
| Mr AA van den Berg | 1,671,309 | 2 August 2017 | 2.38 | – | | – | (1,671,309) | – |
| Mr AA van den Berg | – | | – | 4,049,587 | 1 July 2018 | 1.21 | – | 4,049,587 |
| Mr NA Reynolds | 750,442 | 1 May 2014 | 2.05 | – | | – | (750,442) | – |
| Mr NA Reynolds | 1,591,318 | 2 August 2017 | 2.38 | – | | – | (1,591,318) | – |
| Mr NA Reynolds | 1,676,713 | 30 July 2015 | 1.64 | – | | – | (1,676,713) | – |
| Mr NA Reynolds | – | | – | 4,049,587 | 1 July 2018 | 1.21 | – | 4,049,587 |
| Mr CA Strydom | – | | | – | | – | – | – |
| Mr CA Strydom | 317,051 | 1 May 2014 | 2.05 | – | | – | (317,051) | – |
| Mr CA Strydom | 1,882,465 | 30 July 2015 | 1.64 | – | | – | (1,882,465) | – |
| Mr P Human | 1,876,026 | 30 July 2015 | 1.64 | – | | – | – | 1,876,026 |
| Mr P Human | 823,719 | 2 August 2017 | 2.38 | – | | – | – | 823,719 |
| Mr P Naicker | 1,074,126 | 13 July 2012 | 1.95 | – | | – | (1,074,126) | – |
| Mr P Naicker | 2,490,692 | 30 July 2015 | 1.64 | – | | – | (2,490,692) | – |
| Mr P Naicker | 517,138 | 2 August 2017 | 2.38 | – | | – | (517,138) | – |
| Mr P Naicker | – | | – | 3,471,074 | 1 July 2018 | 1.21 | – | 3,471,074 |
| Mr JD Symington | 542,471 | 30 July 2015 | 1.64 | – | | – | (542,471) | – |
| Mr JD Symington | 1,052,158 | 2 August 2017 | 2.38 | – | | – | (1,052,158) | – |
| Mr JD Symington | – | | – | 3,140,496 | 1 July 2018 | 1.21 | – | 3,140,496 |
| Mr MM Dlamini | 100,000 | 27 May 2014 | 2.67 | – | | – | (100,000) | – |
| Mr MM Dlamini | 167,012 | 30 July 2015 | 1.64 | – | | – | (167,012) | – |
| Mr MM Dlamini | 1,097,576 | 2 August 2017 | 2.38 | – | | – | (1,097,576) | – |
| Mr MM Dlamini | – | | – | 1,239,669 | 1 July 2018 | 1.21 | – | 1,239,669 |
| Mr MS Ndlozi | 865,303 | 30 July 2015 | 1.64 | – | | – | – | 865,303 |
| Mr MS Ndlozi | 571,542 | 2 August 2017 | 2.38 | – | | – | – | 571,542 |
| Mr L Motshwaiwa | – | | – | 2,776,777 | 23 August 2018 | 1.36 | – | 2,776,777 |
| Mr O Shikwambana | – | – | – | 3,977,901 | 1 April 2019 | 1.81 | – | 3,977,901 |
| Mr JDV Thirion | 6,543,624 | 12 March 2018 | 1.49 | | | | | 6,543,624 |
| | 47,179,583 | | 1.06 | 51,932,839 | | 0.83 | (26,866,035) | 72,246,387 |

## 32. AUDITORS' REMUNERATION

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| The audit of the company's annual financial statements | **1.8** | 2.3 | **1.8** | 2.3 |
| The audit of consolidated annual financial statements | **317.8** | 386.5 | **89.5** | 111.1 |
| Under/(over) provision of audit fee in the prior year | **19.7** | 72.5 | **38.6** | – |
| **Total audit fees** | **339.3** | 461.3 | **129.9** | 113.4 |
| **Other services rendered by the auditors** | | | | |
| External auditor | **–** | 17.6 | **–** | – |
| **Total non-audit fees** | **–** | 17.6 | **–** | – |

All audit fees are paid locally in South Africa with the exception of the PwC UK auditor fee of USD0.1 million (2018: USD0.1 million paid to Deloitte LLP).

Details of the company's policy on the use of the statutory auditors' non-audit services and the safeguards to ensure their independence and objectivity is disclosed in the audit committee report on pages 131 to 133. No services were provided by the statutory auditors pursuant to contingent fee arrangements.

## 33. TAXATION

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| **Income taxation expense** | | | | |
| South African normal taxation | | | | |
| – current year | **2,861.3** | 2,350.6 | **–** | – |
| – prior year | **0.1** | (229.9) | **–** | – |
| Deferred taxation (note 1) | | | | |
| – current year | **5,312.6** | (4,946.7) | **(247.5)** | (369.1) |
| **Total taxation (income)/expense** | **8,174.0** | (2,826.0) | **(247.5)** | (369.1) |
| Profit/(loss) before taxation | **46,216.2** | 12,763.4 | **(1,230.3)** | (1,438.4) |
| Taxation at the domestic taxation rate of 28% | **12,941.0** | 3,574.0 | **(345.0)** | (403.0) |
| Taxation rate differential (note 2) | **(4,391.1)** | (1,837.5) | **–** | – |
| Exempt income: | | | | |
| Other exempt income | **(79.9)** | (27.8) | **–** | – |
| Rate change (note 3) | **(678.4)** | (7,907.2) | **–** | – |
| Non-deductible expenses: | | | | |
| Impairment (reversal)/costs | **–** | 3,013.8 | **–** | – |
| Other non-deductible expenses | **382.3** | – | **97.5** | – |
| (Over)/under provision – prior year | **0.1** | (229.9) | **–** | – |
| Capital gains taxation | **–** | 1,642.6 | **–** | – |
| Capital redemption | **–** | (1,054.0) | **–** | – |
| Taxation effect of utilisation of taxation losses | **–** | – | **–** | 33.9 |
| **Taxation for the year** | **8,174.0** | (2,826.0) | **(247.5)** | (369.1) |

*Note 1: Deferred taxation components are disclosed in note 35.*

*Note 2: Taxation rate differential is the difference between the statutory company taxation rate of 28% and the effective gold mining taxation rate calculated in terms of the gold mining formula.*

*Note 3: The rate change is as a result of a decrease in the deferred tax rates, applied to the taxable and deductible temporary differences prevailing at year-end within the group's entities (refer to note 35).*

## NOTES TO THE CONSOLIDATED AND PARENT COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

### 33. TAXATION continued

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Year ended 30 June 2019 % | Year ended 30 June 2018 % | Year ended 30 June 2019 % | Year ended 30 June 2018 % |
| **Effective taxation rates** | | | | |
| South African statutory rates | **28.0** | 28.0 | **28.0** | 28.0 |
| Taxation rate differential (note 1) | **(9.5)** | (14.4) | **–** | – |
| Exempt income: | | | | |
| Other exempt income | **(0.2)** | (0.2) | **–** | – |
| Rate change (note 2) | **(1.5)** | (62.0) | **–** | – |
| Non-deductible expenses: | | | | |
| Impairment (reversal)/costs | **–** | 23.6 | **–** | – |
| Other non-deductible expenses | **0.8** | – | **(7.9)** | – |
| (Over)/under provision – prior year | **–** | (1.8) | **–** | – |
| Capital gains taxation | **–** | 12.9 | **–** | – |
| Capital redemption | **–** | (8.3) | **–** | – |
| Taxation effect of utilisation of taxation losses | **–** | – | **–** | (2.4) |
| **Effective taxation rate** | **17.6** | (22.2) | **20.1** | 25.6 |

*Note 1: Taxation rate differential is the difference between the statutory company taxation rate of 28% and the effective gold mining taxation rate calculated in terms of the gold mining formula.*

*Note 2: The rate change is as a result of a decrease in the deferred tax rates, applied to the taxable and deductible temporary differences prevailing at year-end within the group's entities (refer to note 35).*

South African income taxation on gold mining income is determined according to a formula which takes into account the profit and revenue from mining operations. South African mining taxable income is determined after the deduction of all mining capital expenditure, on condition that these deductions cannot result in an assessed loss.

Capital expenditure not deducted is carried forward as unredeemed capital expenditure, to be deducted from future mining income. Refer to note 35 for the unredeemed capital expenditure carried forward and deductible against future taxable income.

The assessed losses carried forward are summarised by entity in note 35.

### 34. CURRENT TAXATION

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| Current taxation asset | **1,888.6** | 910.6 | **103.4** | 99.1 |
| Current taxation liability | **(476.9)** | (762.0) | **–** | – |

Current taxes payable and receivable by the group relate to SARS.

## 35. DEFERRED TAXATION

| | Note | Consolidated | | Parent company | |
|---|---|---|---|---|---|
| | | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| **Deferred taxation liabilities** | | | | | |
| Arising from temporary differences | | | | | |
| Property, plant and equipment | | 23,428.5 | 19,664.3 | – | – |
| Provisions | | (1,633.1) | (753.1) | – | – |
| Assessed loss | | (3,058.8) | – | – | – |
| Other | | (169.5) | – | – | – |
| **Net deferred taxation liabilities** | | 18,567.1 | 18,911.2 | – | – |
| **Reconciliation of deferred taxation liabilities** | | | | | |
| Net deferred taxation liabilities at the beginning of the year | | 18,911.2 | 50,616.5 | – | – |
| Deferred taxation charge for the year from continuing operations | 33 | 5,976.9 | (4,895.2) | – | – |
| Deferred taxation charge for the year from discontinued operations | | – | (32,764.9) | – | – |
| Transfer to deferred taxation asset | | (5,884.2) | 6,038.6 | – | – |
| Foreign currency translation reserve | | (436.8) | (83.8) | – | – |
| **Net deferred taxation liabilities at the end of the year** | | 18,567.1 | 18,911.2 | – | – |
| **Deferred taxation assets** | | | | | |
| Arising from temporary differences relating to: | | | | | |
| Property, plant and equipment | | – | (2,289.3) | – | – |
| Provisions | | 1,364.1 | 3,220.2 | 830.0 | 364.9 |
| Assessed loss | | 270.9 | 8,475.7 | 257.0 | 494.6 |
| Investment in rehabilitation fund | | – | (2,354.6) | – | – |
| Other | | 506.1 | 1,134.4 | 506.1 | 1,157.0 |
| **Net deferred taxation assets** | | 2,141.1 | 8,186.4 | 1,593.1 | 2,016.5 |
| **Reconciliation of deferred taxation assets** | | | | | |
| Net deferred assets at the beginning of the year | | 8,186.4 | 991.0 | 2,016.5 | 540.2 |
| Transfer from deferred tax liabilities | | (5,884.2) | 6,038.6 | – | – |
| Deferred taxation credit for the year | 33 | 664.3 | 51.5 | 247.5 | 369.1 |
| Deferred taxation (debit)/ credit for the year raised in equity | | (616.5) | 1,235.4 | (616.5) | 1,235.4 |
| Foreign currency translation reserve | | (208.9) | (130.1) | (54.4) | (128.2) |
| **Net deferred taxation assets at the end of the year** | | 2,141.1 | 8,186.4 | 1,593.1 | 2,016.5 |

## NOTES TO THE CONSOLIDATED AND PARENT COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

### 35. DEFERRED TAXATION continued

| | Assessed loss carried forward | | Unredeemed capital carried forward | | Total | |
|---|---|---|---|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| Evander Mines | **19,532.3** | 41,267.6 | **185,642.8** | 144,118.2 | **205,175.1** | 185,385.8 |
| Pan African Resources PLC | **1,661.5** | 1,766.4 | **–** | – | **1,661.5** | 1,766.4 |
| PAR Management Services | **49.6** | 151.4 | **–** | – | **49.6** | 151.4 |
| | **21,243.4** | 43,185.4 | **185,642.8** | 144,118.2 | **206,886.2** | 187,303.6 |

Deferred taxation assets have been raised on the basis that the individual group companies will, in the future, generate taxable economic benefits to utilise current deductible temporary differences.

#### Deferred taxation rates applied within the group

The rates used to calculate deferred taxation are based on current estimates of future profitability when and temporary differences will be recognised in the statement of comprehensive income. The respective rates are calculated based on management's best estimate, at which the temporary differences will be realised over the life of the mining operations.

| | Consolidated | |
|---|---|---|
| | Year ended 30 June 2019 % | Year ended 30 June 2018 % |
| Deferred taxation rates applied within the group: | | |
| Barberton Mines | **21.05** | 23.1 |
| Evander Mines (Elikhulu) | **15.66** | 19.2 |
| Evander Mines (other and mining rights) | **15.66** | 15.6 |
| Other companies | **28** | 28 |

## 36. DISCONTINUED OPERATIONS

### Discontinued operations

The group had no discontinued operations in the current year, however, in the prior year, discontinued operations comprised of the following:

- Evander Mines' underground operations, which includes 8 Shaft, 7 Shaft and the run-of-mine circuit in the Kinross metallurgical plant
- Phoenix Platinum.

#### Evander Mines underground operations

Due to the cessation of Evander Mines' underground operations, the financial results from this operation was classified as a discontinued operation in the prior year.

#### Phoenix Platinum

Pan African Resources PLC disposed of Phoenix Platinum to Sylvania Platinum Limited on 6 November 2017. Phoenix Platinum was disclosed as a discontinued operation in the prior year.

| | Discontinued operations | | |
|---|---|---|---|
| | Year ended 30 June 2018 | | |
| | Evander Mines (underground operations) USD thousand | Phoenix Platinum USD thousand | Total USD thousand |
| Loss after taxation before inter-company charges from discontinued operations (note 1) | (137,907.6) | (497.4) | (138,405.0) |
| **Earnings per share (USD cents)** | | | |
| Basic earnings per share from discontinued operations | (7.62) | – | (7.62) |
| Diluted earnings per share from discontinued operations | (7.62) | – | (7.62) |

| | Year ended 30 June 2018 | | |
|---|---|---|---|
| | Evander Mines (underground operations) USD thousand | Phoenix Platinum USD thousand | Total USD thousand |
| Net cash flows from discontinued operations (note 2) | | | |
| Operating activities | (16,563.9) | (209.2) | (16,773.1) |
| Investing activities | (113,635.2) | – | (113,635.2) |
| Financing activities | 130,428.2 | 139.4 | 130,567.6 |
| **Net change in cash and cash equivalents** | 229.1 | (69.8) | 159.3 |
| **Cash and cash equivalents at the beginning of the year** | 414.6 | 69.8 | 484.4 |
| **Effect of foreign exchange rate changes** | (47.3) | – | (47.3) |
| **Cash and cash equivalents at the end of the year** | 596.4 | – | 596.4 |

*Note 1: Refer to the segment report note 6 for additional disclosure on the discontinued operations.*

*Note 2: Cash flows disclosed for Evander Mines relate to continuing and discontinued operations. The separation of Evander Mines' continuing and discontinued operations cash flows could not be reliably quantified and have been collectively disclosed.*

## NOTES TO THE CONSOLIDATED AND PARENT COMPANY ANNUAL FINANCIAL STATEMENTS continued
for the year ended 30 June 2019

### 36. DISCONTINUED OPERATIONS continued

Impairment costs (continuing and discontinued operations)

Evander Mines

The carrying value of Evander Mines' continuing and discontinued operations was impaired, and the impairment costs have been summarised as follows:

| | Consolidated | | |
|---|---|---|---|
| | Continuing operations USD thousand | Discontinued operations USD thousand | Total USD thousand |
| Mineral rights and mining property | – | 16,705.8 | 16,705.8 |
| Buildings and infrastructure | – | 12,352.9 | 12,352.9 |
| Plant and machinery (note 1) | 10,763.4 | 77,752.6 | 88,516.0 |
| Intangible assets | – | 31.7 | 31.7 |
| Capital under construction | – | 22,694.5 | 22,694.5 |
| | 10,763.4 | 129,537.5 | 140,300.9 |

*Note 1: The impairment costs recognised in the continuing operations relate to the plant and machinery of the ETRP and surface operations forming part of Evander Mines' Kinross metallurgical plant.*

Phoenix Platinum

The sale of Phoenix Platinum was concluded on 6 November 2017 resulting in the derecognition of the asset held for sale as follows:

| | Consolidated | Parent company |
|---|---|---|
| | Year ended 30 June 2018 USD thousand | Year ended 30 June 2018 USD thousand |
| Investment in Phoenix Platinum | – | 7,281.0 |
| Phoenix Platinum net asset value | (11,341.8) | – |
| Payables to company | 18,005.7 | 18,005.7 |
| Impairment | – | (16,412.7) |
| Adjustment on sale of asset held for sale | (346.0) | 626.8 |
| Proceeds on sale of investment | (6,317.9) | (6,317.9) |
| Foreign currency translation reserve | – | (3,182.9) |

As at 30 June 2019, there were no major classes of assets and liabilities classified as held for sale (30 June 2018: nil).

## 37. GOODWILL

Goodwill acquired in a business combination is allocated at acquisition. The group's goodwill was historically created on acquisition of Barberton Mines during July 2007, and was allocated to the Barberton Mines' mining operation CGU from which the expected benefit from the business combination will arise.

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| Opening and closing balance | **21,554.8** | 22,120.4 | – | – |

The group tests Barberton Mines' goodwill carrying amount annually for impairment or more frequently if there are indications that goodwill may be impaired. The impairment assessment was performed in accordance with the group's accounting policies and did not indicate the goodwill carrying amount was impaired.

The recoverable amount of Barberton Mines' mining operation CGU is determined from discounted life-of-mine model cash flows to indicate fair value less cost to sell. The key assumptions for the fair value less cost to sell calculation include the discount rate, changes to the gold price and direct costs expected over the life-of-mine. These key assumptions are disclosed in the impairment considerations section of note 17.

There is a degree of uncertainty associated with estimation of the long-term gold price forecast and to provide for this risk, management has considered a reasonable downside scenario by providing for a possible decline in the nominal gold price to R543,000/kg, assuming all other variables remain constant. The outcome of this sensitivity analysis would result in an impairment of goodwill by approximately USD15.7 million.

Below are additional sensitivities on impairment for goodwill:

| | Unit | Sensitivity | | (Reduction)/ increase in impairment on goodwill USD thousand | Potential goodwill impairment USD thousand |
|---|---|---|---|---|---|
| Gold price | (ZAR/kg) | 5% decrease in USD gold price | 569,535 | (22,644.0) | (21,554.8) |
| Nominal post-tax discount rate | (%) | 1% increase in discount rate | 16.4 | 6,554.5 | (4,731.2) |
| South African rand | (ZAR:USD) | 5% stronger | 13.38 | (23,835.8) | (21,554.8) |
| South African rand | (ZAR:USD) | 3% weaker | 14.50 | 10,924.5 | – |

## NOTES TO THE CONSOLIDATED AND PARENT COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

### 38. INVESTMENTS

| | Country of incorporation | Principal activity | Registered address |
|---|---|---|---|
| Barberton Mines (note 1) | South Africa | Gold mining | The FIRS, corner Biermann and Cradock Avenue, Rosebank, Johannesburg, 2196 |
| Evander Gold Mining Proprietary Limited (note 1) | South Africa | Gold mining | |
| Evander Gold Mines Proprietary Limited (Evander Mines) | South Africa | Gold mining | |
| Funding Company (note 2) | South Africa | Treasury services | |
| Pan African Resources SA Holding Company Proprietary Limited (PAR SA Holdings) (note 3) | South Africa | Holding company | |
| Pan African Resources Management Services Company Proprietary Limited (PAR Management Services) (note 4) | South Africa | Administration services company | |
| Concrete Rose Proprietary Limited (note 5) | South Africa | BBBEE company | |
| PAR Gold Proprietary Limited (PAR Gold) (note 6) | South Africa | Investing | |
| Barberton Mines BEE Company Proprietary Limited (Barberton Mines BEE Company) (note 7) | South Africa | ESOP arrangement | |
| Barberton Mines' ESOP Trust (note 7) | South Africa | ESOP arrangement | |
| Evander Mines BEE Company Proprietary Limited (Evander Mines BEE Company ) (note 8) | South Africa | ESOP arrangement | |
| Evander Mines' ESOP Trust (note 8) | South Africa | ESOP arrangement | |
| MC Mining Limited (MC Mining) (note 9) | Australia | Coal mining | Suite 8, 7 The Esplanade, Mt Pleasant WA 6153, Australia |

*Refer to notes 1 to 9 on page 206.*

| | | | | Consolidated | | Parent company | |
|---|---|---|---|---|---|---|---|
| 30 June 2019 Statutory holding % | 30 June 2018 Statutory holding % | Holding effectively held by company for consolidation purposes % | Accounting method in parent company | Carrying amounts 30 June 2019 USD thousand | Carrying amounts 30 June 2018 USD thousand | Carrying amounts 30 June 2019 USD thousand | Carrying amounts 30 June 2018 USD thousand |
| 95.00 | 95.00 | 100.00 | Investment in subsidiary | – | – | – | – |
| 95.00 | 95.00 | 100.00 | Investment in subsidiary | – | – | – | – |
| 100.00 | 100.00 | 100.00 | Investment in subsidiary | – | – | – | – |
| 100.00 | 100.00 | 100.00 | Investment in subsidiary | – | – | 0.5 | 0.4 |
| 89.00 | 89.00 | 100.00 | Investment in subsidiary | – | – | 154,460.2 | 154,460.2 |
| 100.00 | 100.00 | 100.00 | Investment in subsidiary | – | – | 1,562.9 | 1,562.9 |
| 49.90 | 49.90 | 100.00 | Investment in subsidiary | – | – | – | – |
| 49.90 | 49.90 | 100.00 | Investment in subsidiary | – | – | – | – |
| 100.00 | 100.00 | 100.00 | Investment in subsidiary | – | – | – | – |
| 100.00 | 100.00 | 100.00 | Investment in subsidiary | – | – | – | – |
| 100.00 | 100.00 | 100.00 | Investment in subsidiary | – | – | – | – |
| 100.00 | 100.00 | 100.00 | Investment in subsidiary | – | – | – | – |
| 9.30 | 9.30 | 9.30 | Measured at fair value through other comprehensive income | 6,802.0 | 4,133.9 | 6,802.0 | 4,133.9 |
| | | | | 6,802.0 | 4,133.9 | 162,825.6 | 160,157.4 |

## NOTES TO THE CONSOLIDATED AND PARENT COMPANY
# ANNUAL FINANCIAL STATEMENTS continued
for the year ended 30 June 2019

## 38. INVESTMENTS continued

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| Investments reconciliation | | | | |
| Opening balance | **4,133.9** | 9,776.5 | **160,157.4** | 238,368.6 |
| Fair value adjustment (through other comprehensive income) | **2,876.3** | (5,165.3) | **2,876.3** | (5,165.2) |
| Subscription of shares in Emerald Panther Investments 91 | **–** | – | **–** | 47,903.8 |
| Disposal of investment | **–** | – | **–** | (82,345.7) |
| Foreign currency translation reserve | **(208.2)** | (477.3) | **(208.1)** | (38,604.1) |
| **Closing balance** | **6,802.0** | 4,133.9 | **162,825.6** | 160,157.4 |

*Note 1: Employees own 5% of the issued shares of Barberton Mines and Evander Mines, through an employee share ownership scheme (ESOP). During the prior financial year, the group's South African investments were restructured, resulting in Barberton Mines and Elikhulu being transferred to PAR SA Holdings. In the prior year, Evander Mines' ESOP scheme was terminated. Refer to note 16 for further details.*

*Note 2: Funding Company was established to centrally provide treasury services to the group entities.*

*Note 3: PAR SA Holdings is the group's South African holding company for the South African mining investments.*

*Note 4: The purpose of PAR Management Services is to provide management services to the mining operations.*

*Note 5: Concrete Rose is the group's new BBBEE entity, following the BBBEE restructure concluded on 15 January 2018. Concrete Rose is held 49.9% by Funding Company and 50.1% by the following strategic BBBEE partners though notional vendor financing:*

| | *Shareholding %* |
|---|---|
| *Alpha Investment Group Proprietary Limited* | *9.90* |
| *Mabindu Development Trust* | *24.75* |
| *Pan African Resources Management Trust* | *10.50* |
| *Pan African Resources Education Trust* | *4.95* |
| | *50.10* |

*Note 6: During the 2016 financial year, the group concluded a share buy-back transaction in which 49.9% of PAR Gold's issued share capital was acquired. The transaction translated to a share buy-back for accounting purposes due to Funding Company receiving the majority of the economic benefits from PAR Gold. Following the conclusion of the BBBEE restructure on 15 January 2018, PAR Gold's shareholders now comprises, 49.9% Funding Company and 50.1% K2015200726 Proprietary Limited (K Company), of which 49.5% of the shares held by K Company derive no economic benefit although all the shares are entitled to voting rights. During the prior financial year, PAR Gold disposed of 130 million shares in Pan African Resources PLC on 30 May 2018, resulting in their shareholding in Pan African Resources reducing to 13.7% (refer to note 26).*

*Note 7: The Barberton Mines' ESOP arrangement was established through two entities which are effectively controlled by the group. These entities are Barberton Mines BEE Company which owns 5% of the issued shares of Barberton Mines, and the Barberton Mines ESOP Trust which holds all the issued shares in Barberton Mines BEE Company. Barberton Mines' employees are beneficiaries of the ESOP Trust. The financial position and results of the Barberton Mines ESOP Trust and BEE company are consolidated into the group. (Refer to note 16).*

*Note 8: The Evander Mines' ESOP arrangement was set up through two entities which are effectively controlled by the group. These entities are Evander Mines BEE Company which owns 5% of the issued shares in Evander Mines and the Evander Mines ESOP Trust which holds all the issued shares in Evander Mines BBBEE Company. Evander Mines' employees are beneficiaries of the ESOP Trust. The financial position and results of the Evander Mines ESOP Trust and BBBEE company are consolidated into the group. The Evander Mines' ESOP is in the process of being terminated following an agreement with organised labour, after the cessation of underground operations at Evander Mines. (Refer to note 16).*

*Note 9: The company holds 9.3% or 13,064,381 of MC Mining's issued shares. MC Mining is an emerging coal exploration, development and mining company operating in South Africa.*

## 39. OPERATING LEASES

As at the financial year-end, the group and company had outstanding commitments under operating leases, mainly in respect of office equipment, security cameras, building rentals and plant equipment, which fall due as follows:

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand | Year ended 30 June 2019 USD thousand | Year ended 30 June 2018 USD thousand |
| Not later than one year | **1,224.4** | 1,186.6 | **–** | – |
| Later than one year but no later than five years | **2,727.6** | 3,850.7 | **–** | – |
| | **3,952.0** | 5,037.3 | **–** | – |
| Minimum lease payments under operating leases recognised in other expense in the year | **314.8** | 277.2 | **–** | – |
| Minimum lease payments under operating leases recognised in costs of production in the year | **910.3** | 1,056.6 | **–** | – |
| | **1,225.1** | 1,333.8 | **–** | – |

Leases are negotiated for an average term of three to five years.

The majority of the group's lease arrangements relate to equipment leased on the mining operations. The material operating leases as at year-end relate to the corporate office and metallurgical plant equipment leased on the mining operations, with the following terms as at 30 June 2019.

| | Corporate office leases | Aachen reactor equipment |
|---|---|---|
| Duration of lease | Three years | Five years |
| Commencement of lease | April 2018 | August 2018 |
| Remaining lease term | 23 months | 48 months |
| Escalation rate | 8% | Consumer price index |
| Tenant/lessee | Pan African Resources Management Services Company Proprietary Limited | Evander Gold Mining Proprietary Limited |
| Landlord/lessor | Investec Property Fund Limited | Mealgwyn Mineral Services Africa |
| Monthly lease payment in USD terms | 14,766 | 70,345 |

## NOTES TO THE CONSOLIDATED AND PARENT COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

### 40. RELATED PARTY TRANSACTIONS

| | Pan African Resources PLC USD thousand | Funding Company USD thousand | PAR Management Services USD thousand |
|---|---|---|---|
| **30 June 2019** | | | |
| **Statement of comprehensive income transactions** | | | |
| Management fee | 1,973.2 | (140.9) | 3,162.2 |
| Inter-company finance charges | – | 13,047.8 | (501.5) |
| Gold purchases from Evander Gold Mines Limited | – | – | – |
| Cost of gold production income invoiced to Evander Gold Mining Limited | – | – | – |
| **Statement of financial position** | | | |
| Pan African Resources receivables/payables | 93,672.9 | (90,876.2) | (2,796.7) |
| Funding Company receivables/payables | 90,876.2 | 95,495.2 | (6,632.2) |
| PAR Management Services receivables/payables | 2,796.7 | 6,632.2 | 633.0 |
| Payables to PAR Gold | – | (11,792.9) | – |
| Barberton Mines receivables/payables | – | (25,809.8) | 5,549.4 |
| Evander Mines payables | – | – | – |
| **30 June 2018** | | | |
| **Statement of comprehensive income transactions** | | | |
| Dividends received from subsidiaries (note 2) | 2,586.0 | – | – |
| Management fee | 778.2 | (155.6) | 2,412.4 |
| Inter-company finance charges | – | 4,847.8 | (461.5) |
| Gold purchases from Evander Gold Mines Limited | – | – | – |
| Cost of gold production income invoiced to Evander Gold Mining Limited | – | – | – |
| **Statement of financial position** | | | |
| Pan African Resources receivables/payables | 95,653.6 | (94,970.8) | (682.8) |
| Funding Company receivables/payables | 94,970.8 | 70,091.9 | (5,863.9) |
| PAR Management Services receivables/payables | 682.8 | 5,863.9 | (761.8) |
| Payables to PAR Gold | – | (12,102.3) | – |
| Barberton Mines receivables/payables | – | 2,732.1 | 3,102.4 |
| Evander Mines payables | – | 168,323.0 | 2,682.8 |

*Note 1: Evander Gold Mines Limited and Evander Gold Mining Proprietary Limited are collectively referred to as Evander Mines due to an interim mining arrangement being in place since 1 March 2013 and until such time that the inter-company mining right transfer occurs.*

*Note 2: Dividend received from subsidiaries related to the PAR Gold reciprocal dividend. Refer to the statement of changes in equity and additional disclosure relating to PAR Gold in note 26.*

Refer to investment in subsidiaries (note 38) for the nature of relationships of the related parties to the company.

Refer to directors' emoluments (note 31), for key management remuneration under related parties.

Inter-company loans provided by Funding Company have no specific repayment terms but do bear interest in relation to the cost incurred by the treasury function provided.

| Barberton Mines USD thousand | Evander Gold Mining Proprietary Limited (note 1) USD thousand | Evander Gold Mines Limited (note 1) USD thousand | PAR SA Holdings USD thousand | PAR Gold USD thousand | K Company USD thousand | Concrete Rose USD thousand |
|---|---|---|---|---|---|---|
| | | | | | | |
| (2,889.8) | (2,104.7) | – | – | – | – | – |
| 696.8 | (13,217.3) | – | – | – | (25.8) | – |
| – | (60,646.2) | 60,646.2 | – | – | – | – |
| – | 60,045.7 | (60,045.7) | – | – | – | – |
| | | | | | | |
| – | – | – | – | – | – | – |
| 25,809.8 | (217,085.6) | – | 8.9 | 11,792.9 | (271.2) | 6.0 |
| (5,549.4) | (4,512.5) | – | – | – | – | – |
| – | – | – | – | 11,792.9 | – | – |
| 1,128.3 | – | – | 19,132.1 | – | – | – |
| – | (70,059.4) | 70,059.4 | – | – | – | – |
| | | | | | | |
| – | – | – | – | (2,586.0) | – | – |
| (2,645.9) | (389.1) | – | – | – | – | – |
| (401.9) | (3,958.5) | – | – | – | (25.9) | – |
| – | (94,008.5) | 94,008.5 | – | – | – | – |
| – | 93,077.8 | (93,077.8) | – | – | – | – |
| | | | | | | |
| – | – | – | – | – | – | – |
| (2,732.1) | (168,323.0) | – | (0.2) | 12,102.3 | (251.6) | 5.8 |
| (3,102.4) | (2,682.8) | – | – | – | – | 0.3 |
| – | – | – | – | 12,102.3 | – | – |
| (25,468.6) | – | – | 19,634.1 | – | – | – |
| – | (243,476.6) | 72,472.2 | (1.4) | – | – | – |

# NOTES TO THE CONSOLIDATED AND PARENT COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

## 41. COMMITMENTS, CONTINGENT LIABILITIES AND GUARANTEES

### Group

#### Commitments

The group had contracted outstanding open orders at year-end of USD7.2 million (2018: USD31.6 million). Outstanding orders in the prior year related primarily to Elikhulu.

Authorised commitments for the new financial year, not yet contracted for, totalled USD26.5 million (2018: USD18.5 million).

#### Contingent liabilities

The group identified no material contingent liabilities in the current or prior year.

#### Guarantees

As at 30 June 2019, the group had guarantees in place of USD1.3 million (2018: USD1.8 million) in favour of Eskom Holdings SOC Limited and USD26.5 million (2018: USD1.0 million) in favour of the Department of Mineral Resources.

#### Parent company

The company had no commitments, contingent liabilities and guarantees for the company for the current or prior year, except for the operating lease commitments disclosed in note 39.

## 42. EVENTS AFTER THE REPORTING PERIOD

Subsequent to year-end, Yvonne Themba and Charles Needham were appointed as independent non-executive directors with effect from 17 July 2019.

Evander Mines entered into a gold loan for 20,000oz or USD28.3 million (R394 million) on 15 July 2019. The terms of the gold loan are as follows:

| | |
|---|---|
| Gold loan ounces | 20,000 |
| Gold loan value | USD28.3 million |
| Number of instalments | 12 |
| Ounces per instalment | 1,666.67 |
| Term of loan | 15 July 2019 – 30 June 2020 |
| First instalment date | 31 July 2019 |
| Last instalment date | 30 June 2020 |
| Effective ZAR gold price | R633,347/kg |

The gold loan is an IFRS 15 contract liability as Evander Mines has an obligation to transfer gold to RMB for the gold received on 15 July 2019. The group has elected the practical expedient to not adjust the consideration amount of the gold loan for the effects of financing. The practical expedient was applied as the gold loan's term is less than 12 months and the financing component does not represent a significant financing component of the gold loan's value. The gold loan will consequently not be carrying financing costs during the 30 June 2020 financial year.

In light of the prevailing strong rand gold price environment, and given our emphasis on financial risk management and de-gearing the balance sheet, the group entered into the following zero-cost collar derivatives:

| | Unit | 1 July 2019 – 31 December 2020 |
|---|---|---|
| Gold hedged | (oz) | 120,010 |
| Average floor price | (R/kg) | 654,166 |
| Average ceiling price | (R/kg) | 828,303 |

## NOTES TO THE CONSOLIDATED AND PARENT COMPANY
# ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

## 43. IMPACT OF APPLYING SIGNIFICANT ACCOUNTING POLICIES EFFECTIVE IN THE CURRENT FINANCIAL YEAR

The group applied IFRS 15 and IFRS 9 from 1 July 2018. A number of other new standards are also effective from 1 July 2018 but they do not have a material effect on the group's financial statements. The group also changed its reporting currency to USD from GBP.

### IFRS 15: *Revenue from Contracts with Customers*

The group adopted IFRS 15 as of 1 July 2018. The implementation of IFRS 15 has not had an impact on revenue recognition (timing or quantum) for the group's gold sales. The group also produces silver which is an insignificant by-product. Silver sales have similar trading terms as gold sales, resulting in revenue from silver being reclassified to revenue in the current year. The group has adopted the full retrospective adoption with regards to revenue.

The standard describes a five-step approach for the recognition of revenue:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract(s)
- Recognise revenue when (or as) the entity satisfies the performance obligation.

The group's significant revenue is from the sale of gold, which is a commodity priced relative to quoted benchmarks. Sales contracts contain a single obligation to deliver gold at which point in time title and risk pass to the purchaser. The quantum and the price of gold ounces traded are agreed upfront between parties before delivery.

### IFRS 9: *Financial Instruments*

The group has adopted IFRS 9 as of 1 July 2018. The requirements of IFRS 9 represents a change from IAS 39: *Financial Instruments: Recognition and Measurement*. The impact of the change in accounting policy is disclosed below.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available-for-sale. Refer to the table below for a summary of the classification changes relating to the transition to IFRS 9.

IFRS 9 replaces the 'incurred loss model' in IAS 39 with an 'expected loss' model. The new impairment model applies to financial assets measured at amortised cost and financial assets measured at FVOCI. Under IFRS 9, credit losses are recognised earlier than IAS 39. Refer to the credit risk disclosure in note 29. An assessment was performed to determine the expected credit losses of financial assets and no credit losses were recognised.

IFRS 9 indicates a revised approach to hedge accounting, however, this has not impacted the group as hedge accounting is not applied.

## 43. IMPACT OF APPLYING SIGNIFICANT ACCOUNTING POLICIES EFFECTIVE IN THE CURRENT FINANCIAL YEAR

continued

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the group's financial assets and liabilities at the beginning of the current financial year.

| | | | 1 July 2018 | |
|---|---|---|---|---|
| | New classification under IFRS 9 | Original classification under IAS 39 | Carrying amount under IFRS 9 USD thousand | Carrying amount under IAS 39 USD thousand |
| **Financial assets** | | | | |
| Cash and cash equivalents | Measured at amortised cost | Loans and receivables | **921.8** | 921.8 |
| Long-term receivables | Measured at amortised cost | Loans and receivables | **1,746.6** | 1,746.6 |
| Current portion of long-term receivables | Measured at amortised cost | Loans and receivables | **1,252.2** | 1,252.2 |
| Trade receivables | Measured at amortised cost | Loans and receivables | **11,102.9** | 11,102.9 |
| Investments (note 1) | Measured at FVTOCI | Available-for-sale | **4,133.9** | 4,133.9 |
| Rehabilitation funds | Measured at FVTPL | Measured at FVTPL | **26,550.0** | 26,550.0 |
| Derivative financial instruments asset | Measured at FVTPL | Measured at FVTPL | **289.5** | 289.5 |
| **Financial liabilities** | | | | |
| Trade and other payables | Measured at amortised cost | Measured at amortised cost | **36,815.3** | 36,815.3 |
| Revolving credit facility | Measured at amortised cost | Measured at amortised cost | **63,131.2** | 63,131.2 |
| Term loan facility | Measured at amortised cost | Measured at amortised cost | **56,122.4** | 56,122.4 |

*Note 1: As permitted by IFRS 9, the group has designated these investments at FVOCI. Unlike IAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit or loss.*

Financial assets and liabilities of the company were not impacted by the adoption of IFRS 9.

### Change in presentation currency

The group changed the presentation currency for its 2019 financial results from GBP to USD. This change in presentation currency represents a voluntary change in an accounting policy in terms of IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors*. A change in presentation currency requires the restatement of comparatives.

Management believes that reporting in USD provides more comparable representation of:

- the group's financial position
- funding and treasury functions
- the group's financial performance
- cash flows.

The functional currency (i.e. the currency of the primary economic environment in which the group entities operate) is the South African rand (ZAR), which remains unchanged. Foreign exchange exposures will therefore be unaffected by the change, although the foreign currency translation reserve would be presented in USD due to the differential in reporting the functional and presentation currencies.

## NOTES TO THE CONSOLIDATED AND PARENT COMPANY ANNUAL FINANCIAL STATEMENTS continued

for the year ended 30 June 2019

### 44. CORRECTION OF PRIOR PERIOD ERRORS

#### Goodwill

During the current financial year, and as a result of restating the group's presentation currency from GBP to USD, the group identified goodwill was incorrectly disclosed in the prior financial years at GBP21,000,714. The goodwill related to Barberton Mines mining operation's CGU (refer to note 37) and was originally recorded at R303,491,818 upon acquisition of Barberton Mines in July 2007 in its functional currency (ZAR). The goodwill disclosed in the 30 June 2019 and 30 June 2017 financial years was not translated from ZAR into the group's presentation currency at the closing exchange rate. As a consequence this error resulted in the goodwill and total equity being overstated.

The impact of the error in the 30 June 2018 and 30 June 2017 financial years is summarised below:

| | 30 June 2018 Thousand | 30 June 2017 Thousand |
|---|---|---|
| **Statement of financial position** | | |
| Goodwill – Previously disclosed in GBP | 21,000.7 | 21,000.7 |
| Goodwill – in USD (translated to USD presentation currency at closing rates) | 27,737.7 | 27,315.6 |
| Goodwill – in USD (corrected to ZAR translation) | 22,120.4 | 23,256.1 |
| **Impact through the foreign currency translation reserve** | 5,617.3 | 4,059.5 |
| **Statement of profit and loss and other comprehensive income** | | |
| Items that will not be reclassified to the statement of profit or loss (net of taxes): | | |
| **Foreign currency translation differences impact** | 5,617.3 | 4,059.5 |

The correction of this prior year error impacts total assets and total equity in the statement of financial position, and other comprehensive income in the statement of profit or loss and other comprehensive income. The corrected goodwill disclosure has no impact on:

- The group's profit after taxation
- Basic and diluted earnings per share
- The consolidated statement of cash flows.

#### Reclassification of the realisation costs to cost of production

To ensure alignment with the new revenue standard IFRS 15, and the group's focus on decluttering the annual financial statements, the group reclassified realisation costs of USD2.7 million from net on-mine revenue to cost of production in the 30 June 2018 statement of profit or loss and other comprehensive income. The realisation costs relate to refining costs and by nature is more appropriately disclosed as a cost of production.

The reclassification impacts the line item disclosure in the 30 June 2018 statement of profit or loss and other comprehensive income between on-mine revenue and cost of production.

The reclassification of realisation costs in the statement of profit or loss and other comprehensive income for the year ended 30 June 2018 had no effect on the:

- group's profit after taxation
- consolidated statement of financial position and cash holdings
- group's basic and diluted earnings per share.

## 44. CORRECTION OF PRIOR PERIOD ERRORS continued

### Classification of proceeds from derivative financial instruments in the statement of cash flows

In the prior financial year, the group received USD1.2 million on settlement of derivative financial instruments which was disclosed as a financing activity in the statement of cash flows. Derivative financial instruments are zero cost collar hedges entered into with various financial institutions to protect operational cash flows, therefore cash flows associated with these derivative financial instruments are by nature more closely related to operating activities. On this basis, the proceeds received on settlement of these derivative financial instruments should have been disclosed in operating activities and not financing activities in the statement of cash flows. As a consequence this error resulted in the net cash generated from financing activities and net cash used in operating activities being overstated.

The impact of restating the settlement of derivative financial instruments from financing activities to operating activities is summarised below:

| | 30 June 2018 USD thousand |
|---|---|
| Net cash generated from financing activities – before | 124,830.20 |
| Net cash generated from financing activities – after | 123,617.50 |
| **Impact on net cash generated from financing activities** | (1,212.70) |
| Net cash used in operating activities – before | (14,608.10) |
| Net cash used in operating activities – after | (13,395.10) |
| **Impact on net cash used in operating activities** | 1,212.70 |
| **Increase/(decrease) in cash and cash equivalents** | – |

The correction of the classification of the proceeds received on settlement of derivative financial instruments from financing activities to operating activities in the consolidated statement of cash flows for the year ended 30 June 2018 had no effect on the:

- group's profit after taxation
- consolidated statement of financial position and cash holdings
- group's basic and diluted earnings per share.

# ETHICAL GOLD

Investors and consumers around the world are raising the alarm regarding where their products, food and raw materials are being sourced. The rise of impact investing is causing major funds to divert their investments from companies with questionable or opaque human and environmental practices.

## WHAT IS IT?

Each of the accrediting organisations in the field such as Fairtrade, Fairmined and the World Gold Council have slightly differing definitions for ethical, 'green' or responsible gold.

In essence, ethical gold can be defined as 'gold that is mined and recovered with minimal ecological disruption mining and with environmental rehabilitation plans in place'. Ethical gold should ideally be recovered without using toxic chemicals such as cyanide or mercury, although rigorously safe use and disposal of these is acceptable if so proved.

## WHY IS ETHICAL GOLD RELEVANT?

Traditional gold mining is a messy business that can generate volumes of toxic waste containing cyanide and other harmful chemicals. Irresponsible mining can destroy irreplaceable ecosystems and has caused much human suffering and loss of life.

Illegal miners do what they like, while mining companies safeguard their working environments and employees under the increasingly watchful gaze of investors and regulators.

The swift rise of illegal mining around the globe is bringing back the worst mining practices – indentured labour, dangerous working conditions, environmental damage and social conflict. Criminal syndicates are setting up or seizing control of illegal mining operations and linking these to supply networks that underpin human, animal and drug trafficking, as well as money laundering and corruption.

With an estimated 10 million people[1] in sub-Saharan Africa involved in small-scale or artisanal mining, including at least 30,000 illegal miners in South Africa[2], this situation cannot be wished away.

Government are introducing legislation to legalise and regulate small-scale mining, with Ghana's Small-Scale Gold Mining Law of 1989 providing an early example.

*Evander Mines – 8 Shaft sheave wheel and headgear* >

## WHERE DO I FIND ETHICAL GOLD?

For starters, all gold produced by Pan African Resources can be defined as ethical gold. Our gold sources are legal and production is closely tracked. The group's safety standards are far superior to industry averages and our BIOX® and tailings retreatment methodologies are intrinsically cleaner than traditional chemical processes.

Organisations such as Fairtrade and Fairmined certify ethical and recycled gold for general sale. Jewellers and buyers in growing numbers are switching to certified gold sources.

## A GLEAMING FUTURE FOR ETHICAL GOLD

The World Gold Council launched its Conflict-Free Gold Standard in 2012 as a precursor to its draft Responsible Gold Mining Principles[3], which will likely be released within the next year. This framework sets out clear environmental, social and governance principles on what constitutes responsible mining. Recognised miners will have to assure their responsible mining principles in terms of an Assurance Framework presently being drafted.

> "Clean gold is going to be the trend of the future, it's a better investment in the long run. Dirty gold is going down the same road as fur and ivory."
>
> Stephanie Boyd,
> writer, filmmaker and activist in Peru.

[1] DELVE: *State of the Artisanal and Small-Scale Mining Sector 2019.*

[2] Martin A. Enact: *Uncovered. The dark world of the Zama Zamas* April 2019.

[3] Responsible Gold Mining Principles
www.gold.org/about-gold/gold-supply/responsible-gold/responsible-gold-mining-principles

# SHAREHOLDERS' ANALYSIS

for the year ended 30 June 2019

**Register date:** 28 June 2019
**Issued share capital:** 2,234,687,537 shares

## SHAREHOLDER SPREAD

| | Number of shareholders | % | Number of shares | % |
|---|---|---|---|---|
| 1 – 1,000 shares | 984 | 19.23 | 338,892 | 0.02 |
| 1,001 – 10,000 shares | 1,773 | 34.66 | 8,306,064 | 0.37 |
| 10,001 – 100,000 shares | 1,687 | 32.97 | 58,147,753 | 2.60 |
| 100,001 – 1,000,000 shares | 452 | 8.84 | 148,428,888 | 6.64 |
| 1,000,001 shares and over | 220 | 4.30 | 2,019,465,940 | 90.37 |
| Total | **5,116** | **100** | **2,234,687,537** | **100** |

## DISTRIBUTION OF SHAREHOLDERS

| | Number of shareholders | % | Number of shares | % |
|---|---|---|---|---|
| Banks | 263 | 5.14 | 584,482,735 | 26.16 |
| Brokers | 21 | 0.41 | 23,107,639 | 1.03 |
| Close corporations | 41 | 0.80 | 2,823,176 | 0.13 |
| Endowment funds | 22 | 0.43 | 18,929,572 | 0.85 |
| Individuals | 4,093 | 80.00 | 102,459,815 | 4.58 |
| Insurance companies | 39 | 0.76 | 64,145,215 | 2.87 |
| Investment companies | 2 | 0.04 | 389,777 | 0.02 |
| Medical aid schemes | 5 | 0.10 | 7,316,371 | 0.33 |
| Mutual funds | 109 | 2.13 | 691,275,851 | 30.93 |
| Nominees and trusts | 230 | 4.50 | 22,047,021 | 0.99 |
| Other corporations | 38 | 0.74 | 1,604,181 | 0.07 |
| Pension funds | 160 | 3.13 | 391,205,339 | 17.51 |
| Private companies | 85 | 1.66 | 321,232,941 | 14.37 |
| Public companies | 8 | 0.16 | 3,667,904 | 0.16 |
| Total | **5,116** | **100** | **2,234,687,537** | **100** |

## PUBLIC/NON-PUBLIC SHAREHOLDERS

| | Number of shareholdings | % | Number of shares | % |
|---|---|---|---|---|
| Non-public shareholders | 7 | 0.14 | 938,269,699 | 41.99 |
| Director | 5 | 0.10 | 3,976,125 | 0.18 |
| Strategic holder (more than 10%) | 2 | 0.04 | 934,293,574 | 41.81 |
| Public shareholders | 5,109 | 99.86 | 1,296,417,838 | 58.01 |
| Total | **5,116** | **100** | **2,234,687,537** | **100** |

## BENEFICIAL SHAREHOLDERS' HOLDING OF 3% OR MORE

| | Number of shares | % |
|---|---|---|
| PAR Gold Proprietary Limited | 306,358,058 | 13.71 |
| South African State Controlled Entities | 144,072,367 | 6.45 |
| Allan Gray Balanced Fund | 121,435,661 | 5.43 |
| Allan Gray Equity Fund | 87,917,224 | 3.93 |
| Investec Emerging Companies Fund | 84,185,871 | 3.77 |
| Investec IAL Special Focus Fund | 68,209,619 | 3.05 |

## SHAREHOLDERS' HOLDING OF 5% OR MORE

| | Number of shares | % |
|---|---|---|
| Allan Gray Investment Management | 627,935,516 | 28.10 |
| PAR Gold Proprietary Limited | 306,358,058 | 13.71 |
| Investec Asset Management | 171,691,227 | 7.68 |
| Coronation Fund Managers | 135,120,604 | 6.05 |
| Public Investment Corporation SOC Limited | 120,380,866 | 5.39 |

# ALTERNATIVE PERFORMANCE MEASURES

## INTRODUCTION

When assessing and discussing Pan African Resources' reported financial performance, financial position and cash flows, management makes reference to APMs of historical or future financial performance, financial position or cash flows that are not defined or specified under IFRS.

The APMs include financial APMs, non-financial APMs and ratio's, as described below:

**Financial APMs:** These financial measures are usually derived from the annual financial statements, prepared in accordance with IFRS. Certain financial measures cannot be directly derived from the annual financial statements as they contain additional information, such as financial information from earlier periods or profit estimates or projections. The accounting policies applied when calculating APMs are, where relevant and unless otherwise stated, the same as those disclosed in the group's consolidated annual financial statements for the year ended 30 June 2019.

**Non-financial APMs:** These measures incorporate certain non-financial information that management believes is useful when assessing the performance of the group.

**Ratios:** Is a ratio calculated using any of the APMs referred to above, IFRS measures, or a combination of APMs and IFRS measures.

APMs are not uniformly defined by all companies and may not be comparable with APM disclosures made by other companies, and they exclude:

- Measures defined or specified by an applicable reporting framework such as revenue, profit or loss or earnings per share
- Physical or non-financial measures such as number of employees, number of subscribers, revenue per unit measure (when the revenue figures are extracted directly from the annual financial statements) or social and environmental measures such as gas emissions, breakdown of workforce by contract or geographical location
- Information on major shareholdings, acquisition or disposal of own shares and total number of voting rights
- Information to explain the compliance with the terms of an agreement or legislative requirement such as lending covenants or the basis of calculating the director or executive remuneration.

APMs should be considered in addition to, and not as a substitute for or as superior to, measures of financial performance, financial position or cash flows reported in accordance with IFRS.

## PURPOSE OF APMS

The group uses APMs to improve the comparability of information between reporting periods and reporting segments, either by adjusting for uncontrollable or once-off factors which impact IFRS measurements and disclosures to aid the user of the integrated annual report in understanding the activity taking place across the group's portfolio. The directors are responsible for preparing and ensuring the APMs comply with Practice Note 4/2019 (Performance Measures) of the JSE Listings Requirements.

Their use is driven by characteristics particularly visible in the mining sector:

- **Earnings volatility:** The sector is characterised by significant volatility in earnings driven by movements in macroeconomic factors, primarily commodity prices and foreign exchange. This volatility is outside the control of management and can mask underlying changes in performance. As such, when comparing year-on-year performance, management excludes certain non-recurring items to aid comparability and then quantifies and isolates uncontrollable factors to improve understanding of the controllable portion of variances
- **Nature of investment:** Investments in the sector are typically capital intensive and occur over several years requiring significant funding before generating cash. These investments are often made through debt and equity providers and the nature of the group's ownership interest affects how the financial results of these operations are reflected in the group's results, for example whether full consolidation (subsidiaries), consolidation of the group's attributable assets and liabilities (joint operations) or equity-accounted (associates and joint ventures)
- **Portfolio complexity:** At year-end, the group's operating portfolio remains largely in commodities, mainly gold, which accounts for 100% of the group's revenue at year-end. The cost, value of and return from each saleable unit (such as tonne or ounce) therefore does not differ materially between each operating business. This makes understanding both the overall portfolio performance, and the relative performance of each mining operation on a like-for-like basis, less challenging.

Consequently, APMs are used by the board and management for planning and reporting. A subset is also used by management in setting director and management remuneration. The measures are also used in discussions with the investment analyst community and credit-rating agencies.

## Financial APMs

| Group APM | Equivalent IFRS measure | Adjustments to reconcile to primary statements | Rational for adjustment |
|---|---|---|---|
| **Performance** | | | |
| All-in sustaining costs | Gold cost of production | • Other related costs as defined by the World Gold Council, including royalty costs, community costs, sustaining and development capital (excluding non-gold operations) | • Indicates whether the group is generating sufficient revenue to cover other indirect production costs and sustaining capital that is imperative for ongoing production |
| All-in cost | Gold cost of production | • Once-off capital (excluding the Elikhulu capital expenditure) | • Indicates and measures the group's ability to fund once-off capital with internal cash flows |
| Adjusted EBITDA | Profit after taxation from continuing operations | • Taxation<br>• Mining depreciation and amortisation<br>• Net finance costs<br>• Impairments or impairment reversals<br>• Profit/loss after tax from discontinued operations | • Excludes the impact of non-recurring items or certain accounting adjustments that can mask underlying changes in performance |
| Net adjusted EBITDA | Profit after taxation | • Taxation<br>• Mining depreciation and amortisation<br>• Net finance costs<br>• Impairments or impairment reversals<br>• Profit/loss after tax from discontinued operations<br>• Unrealised fair value gains or losses on financial derivative instruments undertaken in the normal course of business | • Excludes the impact of non-recurring items or certain accounting adjustments that can mask underlying changes in performance |
| Total finance costs on interest- bearing facilities | Finance costs | Excludes costs such as:<br>• Agency fees<br>• Commitment fees<br>• Arranging fees<br>• IFRS 9 accounting adjustments<br>Includes capitalised borrowing costs | • Excludes the impact of accounting adjustments and finance costs other than interest |
| Free cash flow | Profit after taxation | • Taxation<br>• Mining depreciation and amortisation<br>• Net finance costs<br>• Impairments or impairment reversals<br>• Profit/loss after tax from discontinued operations<br>• Unrealised fair value gains or losses on financial derivative instruments undertaken in the normal course of business<br>• Adjusted for working capital changes<br>• Adjusted for non-cash flow items as determined in accordance with IAS 7<br>• Less capital expenditure funded through permitted indebtedness<br>• Less dividend paid to shareholders<br>• Less taxation paid | • Reflect available cash flow to service debt obligations |
| Headline earnings | Profit after taxation | • Profit on disposal of property, plant and equipment and mineral rights<br>• Taxation on profit on disposal of property, plant and equipment and mineral rights<br>• Fair value movement on assets held for sale<br>• Impairment (reversal)/impairment<br>• Taxation on impairment (reversal)/cost | • Indicates to shareholders the robustness of the group's financial position |
| **Statement of financial position** | | | |
| Net debt | Borrowings from financial institutions less cash and related hedges | • IFRS 9 accounting adjustments | • Excludes the impact of accounting adjustments from the net debt obligations of the group<br>• Refer to note 29 |

# ALTERNATIVE PERFORMANCE MEASURES continued

### Cash cost

Direct production costs attributable to gold sold by the group.

### All-in sustaining costs

Incorporates costs related to sustaining current production. All-in sustaining costs are defined by the World Gold Council as operating costs plus costs not already included therein relating to sustaining the current production, including sustaining capital expenditure. The value of by-product revenue is deducted from operating costs as it effectively reduces the cost of gold production.

### All-in costs

Includes additional costs which relate to the growth of the group. All-in costs start with all-in sustaining costs and adds additional costs which relates to the growth of the group, including non-sustaining capital expenditure not associated to current operations and includes costs such voluntary severance pay.

All-in sustaining costs and all-in costs are reported on the basis of a rand per kilogramme of gold and USD per ounce of gold. The USD equivalent is converted at the average exchange rate applicable for the current financial year as disclosed in the groups operational production table on pages 54 to 55. A kilogramme of gold is converted to an ounce of gold at a ratio of 1: 32.1509.

The following tables set out a reconciliation of Pan African Resources' cost of production as calculated in accordance with IFRS to all-in sustaining costs and all-in costs for the financial year ended
30 June 2019 and 30 June 2018. The equivalent of a rand per kilogramme- and USD per ounce-basis is disclosed in the group's operational production table on pages 54 to 55.

| | Mining operations | | | Tailings operations | | | | Total operations | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Year ended 30 June 2019 | Barberton Mines R million | Evander Mines R million | Total R million | BTRP R million | ETRP R million | Elikhulu R million | Total R million | Barberton Mines total R million | Evander Mines total R million | Group total R million |
| Gold cost of production | 1,118.3 | 421.7 | 1,540.0 | 187.9 | 82.5 | 360.5 | 630.9 | 1,306.2 | 864.7 | 2,170.9 |
| **Cash cost (note 1)** | 1,118.3 | 421.7 | 1,540.0 | 187.9 | 82.5 | 360.5 | 630.9 | 1,306.2 | 864.7 | 2,170.9 |
| Royalties | 6.6 | 0.9 | 7.5 | 0.3 | – | 1.5 | 1.8 | 6.9 | 2.4 | 9.3 |
| Community cost related to gold operations | 21.2 | 3.3 | 24.5 | – | – | – | – | 21.2 | 3.3 | 24.5 |
| By-products credits | (0.6) | (3.7) | (4.3) | – | – | – | – | (0.6) | (3.7) | (4.3) |
| Corporate, general and administrative costs | 49.4 | 6.1 | 55.5 | – | – | 19.0 | 19.0 | 49.4 | 25.1 | 74.5 |
| Reclamation and remediation – accretion and amortisation (operating sites) | (3.6) | (4.7) | (8.3) | – | – | – | – | (3.6) | (4.7) | (8.3) |
| Sustaining capital – development | 69.7 | – | 69.7 | – | – | – | – | 69.7 | – | 69.7 |
| Sustaining capital – maintenance | 70.2 | – | 70.2 | – | – | – | – | 70.2 | – | 70.2 |
| **All-in sustaining costs (note 1)** | 1,331.2 | 423.5 | 1,754.7 | 188.1 | 82.5 | 381.0 | 651.6 | 1,519.3 | 887.0 | 2,406.3 |
| Expansion capital – capital expenditure | 81.2 | 38.1 | 119.3 | 8.1 | – | 534.6 | 542.7 | 89.3 | 572.7 | 662.0 |
| **All-in costs (note 1)** | 1,412.4 | 461.6 | 1,874.0 | 196.2 | 82.5 | 915.6 | 1,194.3 | 1,608.6 | 1,459.7 | 3,068.3 |

*Note 1: This total may not reflect the sum of the line items due to rounding.*

| | Mining operations | | | Tailings operations | | | | Total operations | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Year ended 30 June 2018 | Barberton Mines R million | Evander Mines R million | Total R million | BTRP R million | ETRP R million | Elikhulu R million | Total R million | Barberton Mines total R million | Evander Mines total R million | Group total R million |
| Gold cost of production | 990.2 | 1,050.2 | 2,040.4 | 155.5 | 201.7 | – | 357.2 | 1,145.7 | 1,251.9 | 2,397.6 |
| **Cash cost (note 1)** | 990.2 | 1,050.2 | 2,040.4 | 155.5 | 201.7 | – | 357.2 | 1,145.7 | 1,251.9 | 2,397.6 |
| Royalties | 6.1 | 4.1 | 10.2 | 0.4 | 0.7 | – | 1.1 | 6.5 | 4.8 | 11.3 |
| Community cost related to gold operations | 10.4 | 3.1 | 13.5 | – | – | – | – | 10.4 | 3.1 | 13.5 |
| By-products credits | – | (1.9) | (1.9) | – | – | – | – | – | (1.9) | (1.9) |
| Corporate, general and administrative costs | 36.6 | 58.4 | 95.0 | – | – | – | – | 36.6 | 58.4 | 95.0 |
| Reclamation and remediation –accretion and amortisation (operating sites) | (0.3) | (0.3) | (0.6) | – | – | – | – | (0.3) | (0.3) | (0.6) |
| Sustaining capital – development | 68.1 | 48.4 | 116.5 | – | – | – | – | 68.1 | 48.4 | 116.5 |
| Sustaining capital – maintenance | 42.4 | 127.8 | 170.2 | 0.6 | – | – | 0.6 | 43.0 | 127.8 | 170.8 |
| **All-in sustaining costs (note 1)** | 1,153.4 | 1,289.7 | 2,443.1 | 156.5 | 202.3 | – | 358.8 | 1,309.9 | 1,492.0 | 2,801.9 |
| Voluntary severance pay | – | 161.0 | 161.0 | – | – | – | – | – | 161.0 | 161.0 |
| Expansion capital – capital expenditure | 14.6 | 5.3 | 19.9 | 84.8 | – | – | 84.8 | 99.4 | 5.3 | 104.7 |
| **All-in costs (note 1)** | 1,168.0 | 1,456.0 | 2,624.0 | 241.3 | 202.3 | – | 443.6 | 1,409.3 | 1,658.3 | 3,067.6 |

*Note 1: This total may not reflect the sum of the line items due to rounding.*

## Sustaining capital

Sustaining capital is capital needed to sustain the current production base.

## Expansion capital

Expansion capital relates to capital expenditure for the growth of the production base.

| | | Mining operations | | | Tailings operations | | | | Total operations | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Year ended | Barberton Mines USD million | Evander Mines USD million | Total USD million | BTRP USD million | ETRP USD million | Elikhulu USD million | Total USD million | Barberton Mines total USD million | Evander Mines total USD million | Group total USD million |
| Sustaining capital | **2019** | **9.9** | **–** | **9.9** | **–** | **–** | **–** | **–** | **9.9** | **–** | **9.9** |
| | 2018 | 8.6 | 13.7 | 22.3 | 0.1 | – | – | 0.1 | 8.7 | 13.7 | 22.4 |
| Expansion capital | **2019** | **5.7** | **2.7** | **8.4** | **0.6** | **–** | **37.7** | **38.3** | **6.3** | **40.4** | **46.7** |
| | 2018 | 1.1 | 0.4 | 1.5 | 6.6 | – | 97.8 | 104.4 | 7.7 | 98.2 | 105.9 |
| Total capital | **2019** | **15.6** | **2.7** | **18.3** | **0.6** | **–** | **37.7** | **38.3** | **16.2** | **40.4** | **56.6** |
| | 2018 | 9.7 | 14.1 | 23.8 | 6.7 | – | 97.8 | 104.5 | 16.4 | 111.9 | 128.3 |

# ALTERNATIVE PERFORMANCE MEASURES continued

### Market capitalisation (no direct IFRS equivalent)

Market value of Pan African Resources' outstanding shares measured as at 30 June 2019. USD equivalent has been calculated at the closing ZAR:USD exchange rate of 14:08:1 (2018: 13.72) for the current financial year.

| | 30 June 2019 | 30 June 2018 |
|---|---|---|
| Total shares outstanding (number million) | **2,234.7** | 2,234.7 |
| Share price on 30 June 2019 (USD cents) | **13.21** | 9.84 |
| Market capital (USD million) | **295.2** | 219.9 |

### Net debt

Net debt is calculated as total borrowings from financial institutions (before IFRS 9 accounting adjustments) less cash and cash equivalents (including derivatives that are entered into in connection with protection against, or benefit from, fluctuation in exchange rate or commodity prices). A reconciliation to the consolidated balance sheet is provided in note 29 to the consolidated annual financial statements.

### Adjusted EBITDA

Adjusted EBITDA is a measure of the group's operating performance and is calculated as net profit or loss for the group before interest and tax, before any amount attributable to the amortisation of intangible assets and the depreciation of tangible assets and before any extraordinary items or the impairment of assets.

| | Mining operations | | | Tailings operations | | | | Total operations | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Adjusted EBITDA by operation | Barberton Mines R million | Evander Mines R million | Total R million | BTRP R million | ETRP R million | Elikhulu R million | Total R million | Barberton Mines total R million | Evander Mines total R million | Group total R million |
| Net income before finance income and finance costs | **206.9** | **218.3** | **425.2** | **145.4** | **61.3** | **318.6** | **525.3** | **352.3** | **598.2** | **950.5** |
| Mining depreciation and amortisation | **71.0** | **0.2** | **71.2** | **32.6** | **3.7** | **122.8** | **159.1** | **103.6** | **126.7** | **230.3** |
| EBITDA | **277.9** | **218.5** | **496.4** | **178.0** | **65.0** | **441.4** | **684.4** | **455.9** | **724.9** | **1,180.8** |
| Impairment reversal | **–** | **(251.4)** | **(251.4)** | **–** | **–** | **–** | **–** | **–** | **(251.4)** | **(251.4)** |
| **Adjusted EBITDA – 2019** | **277.9** | **(32.9)** | **245.0** | **178.0** | **65.0** | **441.4** | **684.4** | **455.9** | **473.5** | **929.4** |
| Net income before finance income and finance costs | 190.0 | (2,181.6) | (1,991.6) | 78.8 | 1.7 | – | 80.5 | 268.8 | (2,179.9) | (1,911.1) |
| Mining depreciation and amortisation | 57.0 | 106.1 | 163.1 | 15.8 | 12.3 | – | 28.1 | 72.8 | 118.4 | 191.2 |
| EBITDA | 247.0 | (2,075.5) | (1,828.5) | 94.6 | 14.0 | – | 108.6 | 341.6 | (2,061.5) | (1,719.9) |
| Retrenchment costs | – | 161.0 | 161.0 | – | – | – | – | – | 161.0 | 161.0 |
| Impairment | – | 1,644.5 | 1,644.5 | – | 136.6 | – | 136.6 | – | 1,781.1 | 1,781.1 |
| **Adjusted EBITDA – 2018** | 247.0 | (270.0) | (23.0) | 94.6 | 150.6 | – | 245.2 | 341.6 | (119.4) | 222.2 |

| Adjusted EBITDA group | 30 June 2019 USD thousand | 30 June 2018 USD thousand |
|---|---|---|
| Net income before finance income and finance costs | **58,408.1** | 14,985.3 |
| Mining depreciation and amortisation | **16,227.8** | 6,625.5 |
| EBITDA | **74,635.9** | 21,610.8 |
| Impairment (reversal)/impairment | **(17,853.5)** | 10,763.4 |
| **Adjusted EBITDA** | **56,782.6** | 32,374.0 |

### Net adjusted EBITDA

Net adjusted EBITDA starts with adjusted EBITDA adjusted for any entries made to unrealised fair value gains or losses on financial derivative instruments that are undertaken in the normal course of business. A reconciliation from adjusted EBITDA to net adjusted EBITDA is provided in note 29 to the consolidated annual financial statements.

### Total finance costs on interest-bearing facilities

Is defined as interest payable on the group's debt facilities and has been calculated in note 29 to the consolidated annual financial statements.

### Free cash flow

Free cash flow starts with adjusted EBITDA and is adjusted for changes in net working capital, non-cash flow items as determined by IAS 7, cash flow expenditure not funded from permitted indebtedness, distributions to shareholders and taxation payments. A reconciliation from adjusted EBITDA to free cash flow has been calculated in note 29 to the consolidated annual financial statements.

### Headline earnings

Headline earnings, a JSE-defined performance measure, is reconciled from profit/(loss) after taxation in note10 to the consolidated annual financial statements.

## RATIOS

### Return on shareholder funds

This ratio measures how much is returned to equity shareholders as a percentage of the amount invested in Pan African Resources.

It is calculated as profit/(loss) after taxation divided by total equity.

### Net debt to equity ratio

This ratio measures the degree to which Pan African Resources finances its operations through debt and is calculated as net debt divided by total equity. This ratio has been calculated in note 29 to the consolidated annual financial statements.

### Net debt to net adjusted EBITDA ratio

This ratio measures the number of years it would take for Pan African Resources to pay back its debt if net debt and net adjusted EBITDA are held constant and is calculated as net debt divided by net adjusted EBITDA.

### Interest cover ratio

This ratio measures the group's ability to pay interest on its outstanding debt and is calculated as total finance costs for interest-bearing facilities divided by net adjusted EBITDA. This ratio has been calculated in note 29 to the consolidated annual financial statements.

### Debt service cover ratio

This ratio measures the cash flow available for the group to pay its debt obligations and is calculated as free cash flow divided by total finance costs from interest-bearing facilities.

### Net asset value per share

Is calculated as total equity divided by the total number of shares in issue less treasury shares held by the group.

| | 30 June 2019 USD thousand | 30 June 2018 USD thousand |
|---|---|---|
| Total equity | **183.6** | 147.0 |
| Shares in issue (million) | **2,234.7** | 2,234.7 |
| Treasury shares | **(306.4)** | (306.4) |
| Net asset value per share (USD cents) | **9.52** | 7.62 |

### Current ratio

This ratio liquidity ratio that measures the group's ability to pay short-term debt obligations and is calculated as current assets divided by current liabilities and has been calculated in the group's five year review on pages 48 and 49.

### Price earnings ratio

Is calculated as the last sale price for the year divided by the earnings per share either in cents or in pence per the table below:

| | 30 June | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 Cents | 2019 Pence | 2018 Cents | 2018 Pence | 2017 Cents | 2017 Pence | 2016 Cents | 2016 Pence | 2015 Cents | 2015 Pence |
| Earnings per share | **27.89** | **1.54** | (86.03) | (5.15) | 19.81 | 1.14 | 30.20 | 1.41 | 11.48 | 0.64 |

### Dividend yield

Is calculated as last traded price divided by dividend per share either in cents or in pence per the table below:

| | 30 June | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 Cents | 2019 Pence | 2018 Cents | 2018 Pence | 2017 Cents | 2017 Pence | 2016 Cents | 2016 Pence | 2015 Cents | 2015 Pence |
| Dividends per share | – | – | 8.28 | 0.45 | 15.44 | 0.88 | 11.47 | 0.53 | 14.10 | 0.82 |

# GLOSSARY

## DEFINITION OF TERMS USED IN THIS REPORT

| | |
|---|---|
| AEL | Air Emissions Licence |
| AGM | Annual general meeting |
| Aids | Acquired Immune Deficiency Syndrome |
| AIM | Alternative Investment Market, the London Stock Exchange's international market for smaller growing companies |
| ANC | African National Congress |
| APMs | Alternative performance measures |
| BBBEE | Broad-based black economic empowerment |
| BEE | Black economic empowerment |
| Barberton Mines | Barberton Mines Proprietary Limited |
| BIOX® | The Biological Oxidation (BIOX®) gold extraction process was developed at Barberton Mines. It is an environmentally friendly process of releasing gold from the sulphide that surrounds it by using bacteria |
| BMTT | Barberton Mines' Transformation Trust |
| the board | The board of directors of Pan African Resources, as set out on pages 100 and 101 |
| Bramber | TSF located at Fairview which the BTRP treated historically |
| Brownfield project | Project based on prior work or rebuilt from a previous one |
| BTRP | Barberton Tailings Retreatment Plant, a gold recovery tailings plant owned by Barberton Mines, which commenced production in FY2014 |
| CIL | Carbon-in-leach |
| $Co_2e$ | Carbon dioxide emissions |
| Companies Act 2006 | An act of the Parliament of the United Kingdom which forms the primary source of UK company law |
| CSI | Corporate social investment |
| Deloitte | Deloitte LLP and Deloitte & Touche |
| DMR | Department of Mineral Resources |
| DRA Global | A global engineering group delivering mining, mineral processing, energy water treatment and infrastructure services |
| Elikhulu | Elikhulu Tailings Retreatment Plant in Mpumalanga province |
| Elikhulu term loan facility | Revolving credit facility of R1 billion and R1 billion term loan facility |
| ESG | Environmental, social and governance |
| Eskom | Electricity Supply Commission, South African electricity supplier |
| ETF | Exchange-traded funds |
| ETRP | Evander Tailings Retreatment Plant commissioned in October 2015 |
| EU | European Union |
| Evander Mines | Evander Gold Mines Limited and Evander Gold Mining Proprietary Limited |
| Exco | Executive committee of Pan African Resources |
| FASB | Financial Accounting Standards Board |
| FIFR | Fatal-injury frequency rate |
| FRC | UK Financial Reporting Council |
| FTSE | The Financial Times Stock Exchange's 100 Index |
| Funding Company | Pan African Resources Funding Company Proprietary Limited |
| GBP | British pound |
| GC | Gas chromatography |
| GCMS | Gas chromatography mass spectrometry |
| GHG | Greenhouse gas |
| GJ | Gigajoule |
| g/t | Grams/tonne |
| GRI | Global Reporting Initiatives |
| Harmony | Harmony Gold Mining Company Limited |
| HDSA | Historically disadvantaged South African |
| HIV | Human immunodeficiency virus |
| HODs | Heads of departments |
| IAS | International Accounting Standards |
| IASB | International Accounting Standards Board |

## DEFINITION OF TERMS USED IN THIS REPORT

| | |
|---|---|
| IFRIC | International Financial Reporting Interpretations Committee |
| IFRS | International Financial Reporting Standards |
| IIRC | International Integrated Reporting Council |
| IT | Information technology |
| JSE | JSE Limited incorporating the Johannesburg Securities Exchange, the main bourse in South Africa |
| King IV™ | King IV™ Report on Corporate Governance for South Africa, 2016 |
| km | Kilometres |
| Koz | Thousand ounces |
| KPIs | Key performance indicators – a set of quantifiable measures that a company or industry uses to gauge or compare performance in terms of meeting their strategic and operational goals |
| LED | Local economic development |
| LSE | London Stock Exchange |
| LTIFR | Lost-time injury frequency rate |
| Manco | Management committee on operations |
| MC Mining | MC Mining Limited (previously known as Coal of Africa Limited) |
| Metorex | Metorex Limited |
| Mining Charter | Charter to facilitate the sustainable transformation and development of the South African mining industry |
| MMR | Main maiden reef |
| Moz | Million ounces |
| MPRDA | Mineral and Petroleum Resources Development Act |
| MRC | Main Reef Complex |
| MRM | Mineral Resource Management |
| MS | Mass spectrometry |
| Mt | Million tonnes |
| MFT | Multi-lateral trading facility |
| Nomad | Nominated adviser appointed in accordance with the London Stock Exchange's AIM Rules for Companies |
| NUM | National Union of Mineworkers |
| Opsco | Operations committee of Pan African Resources |
| oz | ounces |
| PACOS | Pan African Corporate Option Scheme (new revised scheme for corporate senior managers, effective from 1 July 2018) |
| Pan African Resources | Holding company – Pan African Resources PLC |
| PAR Gold | PAR Gold Proprietary Limited (previously Shanduka Gold Proprietary Limited) |
| PARSMSS | Pan African Resources Senior Management Share Scheme |
| PASABP | Pan African Share Appreciation Bonus Plan (previous scheme for corporate senior managers) |
| PAYE | Pay as you earn income tax |
| PGE | Platinum group elements: platinum, palladium, rhodium and gold |
| PGMs | Platinum group metals |
| Phoenix Platinum | Phoenix Platinum Mining Proprietary Limited, a subsidiary of Pan African Resources |
| Prescribed officers | A person is a prescribed officer of the company for all purposes of the South African Companies Act if that person:<br>• exercises general executive control over and management of the whole, or a significant portion, of the business and activities of the company, or<br>• regularly participates to a material degree in the exercise of general executive control over and management of the whole, or a significant portion, of the business and activities of the company |
| PwC | PricewaterhouseCoopers Inc. |
| Rand Refinery | Rand Refinery Limited |
| Remchannel | Internet-based remuneration survey providing data across a wide variety of industries in South Africa |
| Remco | Remuneration committee of Pan African Resources |
| RIFR | Reportable injury frequency rate |
| RMB | Rand Merchant Bank, a division of FirstRand Bank Limited |
| SA | South Africa |

# GLOSSARY continued

## DEFINITION OF TERMS USED IN THIS REPORT

| | |
|---|---|
| SA HoldCo | Pan African Resources SA Holdings Proprietary Limited |
| SAICA | South African Institute of Chartered Accountants |
| SAMESG Guideline | South African guideline for the reporting of environmental, social and governance parameters within the mining, oil and gas industries |
| SAMREC Code | South African Code for the Reporting of Exploration Results, Mineral Resources and Mineral Reserves, 2016 edition |
| SARS | South African Revenue Services |
| SDL | Skills Development Levy |
| SHEQC | Safety, health, environment, quality and community |
| SLP | Social and labour plan |
| SACNASP | South African Council for Natural Scientific Professions |
| South African Companies Act | South African Companies Act 71 of 2008 |
| t | Tonnes |
| TB | Tuberculosis |
| the current year or the year under review | The financial year ended 30 June 2019 |
| the group or the company or Pan African Resources | Pan African Resources PLC, listed on the LSE's AIM and on the JSE in the Gold Mining sector |
| the previous year | The financial year ended 30 June 2018 |
| the report | Pan African Resources' 2019 integrated annual report |
| the UK Code | UK Corporate Governance Code, which sets out standards of good practice in relation to board leadership |
| TRIFR | Total recordable injury frequency rate |
| TSF | Tailings storage facility |
| UASA | United Association of South Africa |
| UIF | Unemployment Insurance Fund |
| Uitkomst Colliery | Uitkomst Colliery Proprietary Limited |
| UK | United Kingdom |
| UN SDGs | United Nations Sustainable Development Goals |
| USD | United States dollar |
| VAT | 15% value-added tax in South Africa |
| VWAP | Volume weighted average price |
| ZAR or R | South African rand |
| ZK | Zwartkoppie |

## FREQUENTLY USED FINANCIAL TERMS

| | |
|---|---|
| CFD | Contract for difference |
| CGU | Cash-generating unit |
| CTC | Cost to company |
| ECL | Expected credit losses |
| EBITDA | Earnings before interest, taxes, depreciation and amortisation |
| EPS | Earnings per share |
| ESOP | Employee share ownership plan |
| FVOCI | Fair value through other comprehensive income |
| FVTPL | Fair value through profit and loss |
| GDP | Gross domestic product |
| HEPS | Headline earnings per share |
| JIBAR | Johannesburg Inter-bank Acceptance Rate |
| NPV | Net present value |
| OCI | Other comprehensive income |
| PPI | Producer price inflation |
| RCF | Revolving credit facility |
| STI | Short-term incentive |
| WACC | Weighted average cost of capital |

# COMPANY INFORMATION

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# SHAREHOLDERS' DIARY

| | |
|---|---|
| Financial year-end | 30 June 2019 |
| Results announcement | 18 September 2019 |
| Integrated annual report posted | 28 October 2019 |
| Annual general meeting | 28 November 2019 |
| Interim results announcement | 18 February 2020 |

# FORWARD-LOOKING STATEMENTS

Statements in this report that address exploration activities, mining potential and future plans and objectives of Pan African Resources are forward-looking statements and forward-looking information that involve various risks, assumptions and uncertainties and are not statements of fact.

The directors and management of Pan African Resources believe that the expectations expressed in such forward-looking statements or forward-looking information are based on reasonable assumptions, expectations, estimates and projections. These statements, however, should not be construed as being guarantees or warranties (whether expressed or implied) of future performance.

There can be no assurance that such statements will prove to be accurate and actual values, results and future events could differ materially from those anticipated in these statements. Important factors that could cause actual results to differ materially from statements expressed in this report include, among others:

- The actual results of exploration activities
- Technical analysis
- The lack of availability to Pan African Resources of necessary capital on acceptable terms
- General economic, business and financial market conditions
- Political risks
- Industry trends
- Competition
- Changes in government regulations
- Delays in obtaining governmental approvals
- Interest rate fluctuations
- Currency fluctuations
- Changes in business strategy or development plans and other risks.

Although Pan African Resources has attempted to identify important factors that could cause actual results to differ materially, there may be other factors that cause results not to be as anticipated, estimated or intended. Pan African Resources is not obliged to publicly update any forward-looking statements included in this report, or revise any changes in events, conditions or circumstances on which any such statements are based, occurring after the publication date of this report, other than as required by regulation.

PAN AFRICAN RESOURCES PLC

www.panafricanresources.com