



PALLINGHURST

PALLINGHURST RESOURCES LIMITED

(Incorporated in Guernsey)

(Guernsey registration Number: 47656)

(South African external company registration number 2009/012636/10)

Share code on the BSX: PALLRES ISIN: GG00B27Y8Z93

Share code on the JSE: PGL

("Pallinghurst" or the "Company")

Integration of Gemfields complete. Early but significant turn-around achieved. Six key strategic priorities are being pursued; and Pallinghurst share buy-back approved.

Highlights

- Strong operating performance in first months since Gemfields acquisition – revitalised production at Kagem
- Record auction results – US\$77 million generated
- Gemfields debt level reduced since acquisition
- Significant cost savings achieved
- Six strategic priorities established for 2018
- Board approves share buy-back programme

Initial challenges after the takeover

Immediately upon completion of the takeover, it was clear that two key issues needed to be addressed.

The first was the debt position of Gemfields plc (“Gemfields”), which had grown almost five-fold from circa US\$17 million (gross) in the middle of 2014 to circa US\$84 million at completion (when the legal, advisory and break fees incurred by the then Gemfields Independent Committee in the last month of the acquisition are included). The indicated remedies for this were to reduce costs as far as reasonably possible and to seek ways to increase revenues.

The second was the US\$54 million decline in the revenues from Kagem in the financial year to end-June 2017 compared to 2016, caused essentially by a sharp fall in the production of premium emeralds. However, operating procedures and structures were re-visited to seek to improve and revitalise production.

Actions taken:

- *Cost reductions and streamlining of the management team*

The integration of the Gemfields and Pallinghurst teams has been successfully implemented, with the headcount at the London administrative head-office reduced by approximately 15%. Further staff rationalisation was implemented at the Gemfields offices in New York and India.

The Pallinghurst executive team and remuneration packages have likewise been restructured. Executive Director, Priyank Thapliyal, has stepped down from his role at Pallinghurst to become full time CEO of Jupiter Mines Limited (“Jupiter Mines”). Furthermore, to support Board oversight and in line with the King IV governance recommendations, Brian Gilbertson will become non-executive Chairman from end of December 2017. Those changes and additional voluntary salary reductions, will reduce the total compensation to the executive management team by more than 50%.

Going forward, Arne H. Frandsen (Chief Executive), Andrew Willis (Finance Director) and Sean Gilbertson (Gemstones) will constitute Pallinghurst’s executive management team.

- ***Operational changes at Gemfields and Kagem specifically***

A number of important changes were made across the Gemfields operations. These included changes in senior management, with reporting lines reorganised so that employees now report to a “country executive” responsible for all operations in a particular country, rather than “reporting by discipline” across all countries.

At Kagem, production was deliberately “slowed down”, blast patterns modified to lower intensity and jackhammer crews and chisel men bolstered to focus on contact and reaction zones. The focus is now on extraction of carats in the “premium emerald” category.

Whilst it is too early yet to make firm forecasts, the initial results have been very positive, with strongly improved premium production in the last three months, particularly in November.

To increase available production areas and boost overall gemstone production, the re-opening of the mothballed Mbuva-Chibolele mining pit, located across the Kafubu River from the Kagem mine, has commenced. The first production of gemstones from this operation is expected in the first quarter of 2018.

- ***Expansion of precious coloured gemstones platform***

Bulk sampling has commenced at one of the two Megaruma ruby licences, located adjacent to our Montepuez Ruby Mining (“MRM”) operations.

In Ethiopia, our exploration commitment continues. Emerald mineralisation has been encountered and bulk-sampling continues. Initial results have been encouraging.

Initial results and achievements:

During the first four months since the acquisition, Pallinghurst has recorded the following key achievements:

- In October, an auction of higher quality emeralds in Lusaka generated revenues of approximately US\$21 million at an average price per carat in excess of US\$66, the second highest price ever achieved. 100% of the offered emeralds were sold.
- In November, the auction of high and commercial grade rough rubies in Singapore generated a record US\$55 million from the sale of 605,000 carats. The average realised price was in excess of US\$90 per carat.
- MRM will have a record year in 2017, with revenues in excess of \$109 million.
- The past three months of production at Kagem have generated approximately 40,000 carats of premium emeralds. This compares to production figures of 7,940 carats for calendar Q1 2017 and 11,310 carats for calendar Q2 2017 (the two quarters prior to Pallinghurst acquisition of Gemfields).
- Jupiter Mines announced record levels of production and profitability, with the Tshipi manganese mine on target to produce over 3 million tonnes for its financial year ending 28 February 2018.
- Pallinghurst has received distributions of US\$15 million in 2017 from Jupiter Mines. In November, Jupiter Mines indicated that a further US\$25 million distribution could be expected in H1 2018. In that event, Pallinghurst would expect to receive a further US\$5 million.

Group Strategic Review

Following its strategic review, Management has identified six key priorities for 2018:

1. ***Revitalise emerald production in Zambia***
2. ***Expand ruby production in Mozambique – both at MRM and the adjacent Megaruma property***
3. ***Seek to increase Pallinghurst’s exposure to Steel Making Materials***
4. ***Complete an internal review of Fabergé***
5. ***Decrease leverage and strengthen balance sheet***
6. ***Increase shareholder interaction and improve demand for shares through Premium LSE listing***

Shareholder base and London Stock Exchange Premium listing

The Gemfields takeover has diversified Pallinghurst’s shareholder base. Whilst 35% of Pallinghurst’s shares in issue are held by South African investors, some 65% are now owned by international investors. To further increase demand as well as the liquidity of the shares, Pallinghurst has commenced the preparatory work required to obtain a Premium listing on the main board of the London Stock Exchange, targeting the second half of 2018. Financial and legal advisors have been retained.

Share buy-back programme approved and set to commence

On June 26th 2017, the PRL shareholders approved a general share buy-back programme. The Board and management believe that the current Pallinghurst share price trading range undervalues the Company. Accordingly, the Board has authorised a share buy-back programme to commence with immediate effect.

Arne H. Frandsen, Chief Executive of Pallinghurst said: *“It has been a very busy four-month period since the completion of the Gemfields acquisition and I am happy to report that the integration is now complete, with solid financial and operational improvements already being achieved. The Management Team’s focus is now on moving forward as one team, meeting our six key strategic objectives, which in turn will unlock the full value of Pallinghurst’s assets for the benefit of all our shareholders.”*

Guernsey

December 7, 2017

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