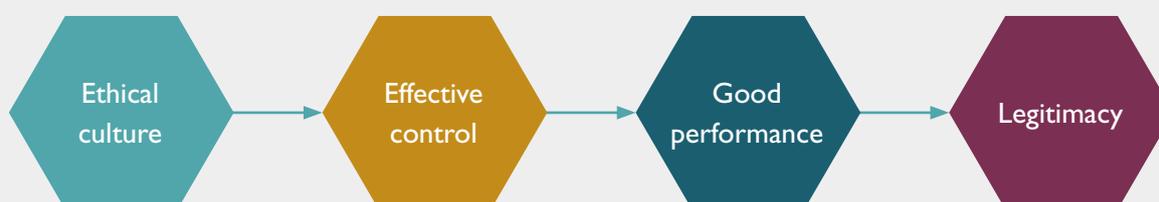


KING IV™* REPORT ON CORPORATE GOVERNANCE



Following the release of the King IV™ Report on Corporate Governance (King IV™) in November 2016, the board has familiarised itself with the requirements of the report. Pan African Resources benchmarked its governance practices against the principles of King IV™.



This King IV™ application summary explains how Pan African Resources complies with King IV™.

Principle	Application
Governance outcome: Ethical culture	
PRINCIPLE 1: Ethical leadership The governing body should lead ethically and effectively.	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. To supplement the effectiveness of the code of conduct, directors, Exco Opsco and Manco receive ongoing training in regulations and in ethical leadership.
PRINCIPLE 2: Organisation values, ethics and culture The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.	The board ensures that compliance with the code of conduct is integrated into the strategy and operations of Pan African Resources. The group's ethics are contained in its vision; strategies and operations; its decisions and conduct; and the way it treats its internal and external stakeholders. This code of conduct is supported by a code of ethics approved on 25 November 2015. These codes provide guidance on ethical conduct in all areas and across all activities of the business.
PRINCIPLE 3: Responsible corporate citizenship The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.	The board takes responsibility for and oversees how Pan African Resources minimises the potential negative social impacts of our mining operations, while promoting opportunities for local communities in line with our approved social labour plans (SLPs). Our SLPs include human resources development programmes, mine community development plans, a housing and living conditions plan, an employment equity plan and other processes to save jobs and manage downscaling and/or closure. SLP progress reports are submitted annually to the Department of Mineral Resources (DMR). A social and ethics committee was constituted during the 2017 financial year in terms of King IV™. Subsequent to year-end, 30 June 2019, the committee was re-constituted. The human resources executive resigned from the committee, effective 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. Prior to the constitution of the social and ethics committee, the group managed its corporate citizenship responsibilities through a standing safety, health, environmental, quality and communities (SHEQC) committee.

Principle	Application
Governance outcome: Performance and value creation	
<p>PRINCIPLE 4: Strategy, implementation and performance</p> <p>The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value-creation process.</p>	<p>The board challenges and signs off on management's proposed strategies in terms of the group's purpose, business value drivers and the legitimate interests of our stakeholders. Management has processes in place to define and align the group's short (one year), medium (two to three years) and long term (beyond three years) macroeconomic, financial, operational and strategic objectives with its risk appetite.</p> <p>The board considers sustainability to be a business opportunity and recognises that all our capital resources are interconnected – as one capital resource is increased or created, another is depleted. The board and management endeavour to balance the use of capital resources to support future sustainability.</p>
<p>PRINCIPLE 5: Reports and disclosure</p> <p>The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short-, medium- and long-term prospects.</p>	<p>Pan African Resources' integrated annual report shares the collective thinking applied to material issues impacting on the group's ability to create long-term value. The report aims to provide a balanced and succinct view of Pan African Resources' financial and non-financial performance in accordance with the International Integrated Reporting Council's (IIRC) framework. It provides information on Pan African Resources' strategies for growth, efficiency, quality, sustainability, corporate governance and accountability.</p> <p>Our preparation of this report was guided by the principle of materiality. A matter is considered material if it can substantively affect the group's ability to create and sustain value over the short, medium or long term. After determining material matters, we assess these against the need to provide Pan African Resources' actual and potential providers of capital with a concise 360° view of the business.</p>
Governance outcome: Adequate and effective control	
<p>PRINCIPLE 6: Role of the governing body</p> <p>The governing body should serve as the focal point and custodian of corporate governance in the organisation.</p>	<p>The board is responsible and accountable for the performance and affairs of the group and has full control over all 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 society in which the group operates, while acting in accordance with its own code of conduct.</p> <p>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 year in compliance with its charter. A copy of the board charter is available from the company secretary on request.</p> <p>All independent non-executive directors have unrestricted access to management and the group's external auditor. Further, 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.</p>

Principle	Application
Governance outcome: Adequate and effective control continued	
<p>PRINCIPLE 7: Composition of the governing body</p> <p>The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.</p>	<p>Our board has a balance of knowledge, skills, experience, diversity and independence to objectively and effectively discharge its governance role and responsibilities. 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.</p> <p>The standards of disclosure relating to corporate governance of the group are regulated by the Companies Act 2000, the South African Companies Act, AIM Rules, the JSE Listings Requirements and King IV™. The AIM Rules require the group to adopt and comply with a recognised corporate governance code. The group has adopted the King IV Report on Corporate Governance for South Africa 2016.</p> <p>The performance of the audit committee is evaluated against the charter on an annual basis and a self-evaluation of the committee's effectiveness is performed by the members and reviewed by the board.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>The board has appointed, Hester Hickey, an independent non-executive director as the lead independent to fulfil the following functions:</p> <ul style="list-style-type: none"> • 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.
<p>PRINCIPLE 8: Committees of the governing body</p> <p>The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement and assist with balance of power and the effective discharge of its duties.</p>	<p>The board has established a stable and balanced distribution of skills, experience and role allocation through all of its committees in terms of JSE Listings Requirement: paragraph 3.84(b). A set policy stipulates a clear balance of power and authority at board level to ensure that no one director has unfettered powers of decision-making.</p> <p>Pan African Resources has an audit committee, remuneration committee, SHEQC committee and a social and ethics committee to assist the board in discharging its collective responsibility of corporate governance. The non-executive directors of the board perform the function and responsibility of the nomination committee. All committees have satisfied their responsibilities during the year in compliance with formal charters. A copy of these charters is available from the company secretary on request.</p> <p>After year-end, 30 June 2019, the board's sub-committees were re-constituted to ensure compliance with best practice and to further improve the functioning of these committees.</p>
<p>PRINCIPLE 9: Performance evaluations</p> <p>The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.</p>	<p>The board determines its own role, functions, duties and performance criteria as well as that for directors and board committees.</p> <p>An annual effectiveness self-evaluation is undertaken in respect of the board and its sub-committees and 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.</p> <p>In addition, the chairman also ensures the board operates effectively by regularly engaging with the non-executive directors on their performance and other matters that may need to be raised with Exco.</p> <p>Any pertinent matters of concern are conveyed by the chairman to the chief executive officer and filtered down to Exco.</p>

Principle	Application
Governance outcome: Adequate and effective control continued	
<p>PRINCIPLE 10: Delegation to management</p> <p>The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.</p>	<p>The chief executive officer, Mr Cobus Loots, was appointed by the board on 1 March 2015 and is responsible for executing strategy and the day-to-day business of the company. The chief executive officer is not a member of the remuneration committee.</p> <p>Pan African Resources has utilised the Authorities Framework Policy tool to assist in maintaining proper delegation of authority. The policy and framework indicate matters reserved for the board and those delegated to management.</p> <p>The board is satisfied that its delegation to management contributes to an effective arrangement by which authority and responsibilities are exercised.</p> <p>Pan African Resources complies with the provisions of the South African Companies Act, 2008 and the Companies Act 2006 in relation to the appointment and removal of the company secretary. The role and function of the company secretary is formalised.</p>
<p>PRINCIPLE 11: Risk and opportunity governance</p> <p>The governing body should govern risk in a way that supports the organisation in setting and achieving strategic objectives.</p>	<p>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.</p> <p>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 implements day-to-day compliance with our risk management process. Risk awareness and a safety culture is embedded in day-to-day operations.</p> <p>Each group operation maintains a risk register listing risks identified in risk workshops and strategic workshops are conducted regularly to evaluate risks.</p> <p>The board has delegated the management of risk to the group's management team, which executes this responsibility through processes within an established risk management policy and governance framework.</p>
<p>PRINCIPLE 12: Information and technology (IT) governance</p> <p>The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.</p>	<p>The board is responsible for IT governance which is governed by an IT charter.</p> <p>An IT steering committee directs, controls and measures the IT activities and processes of the group. This committee ensures that any delegation of IT processes is to a functionary with the appropriate seniority, skill, expertise and knowledge to exercise such authority effectively.</p> <p>The IT steering committee is mandated to obtain independent assurance of IT governance. Internal IT controls are assessed by the audit committee on behalf of the board.</p>

Principle	Application
Governance outcome: Adequate and effective control <i>continued</i>	
<p>PRINCIPLE 13: Compliance governance</p> <p>The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.</p>	<p>The group complies with all applicable legal acts and regulations and some of the main acts and regulations which include:</p> <p>SOUTH AFRICA</p> <ul style="list-style-type: none"> ▶ South African Companies Act 71 of 2008 – applicable to South African entities ▶ JSE Listings Requirements ▶ King IV™ ▶ Labour Relations Act of 1995 <p>MINERALS AND ENERGY</p> <ul style="list-style-type: none"> ▶ 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 <p>UNITED KINGDOM</p> <ul style="list-style-type: none"> ▶ Companies Act 2006 ▶ AIM ▶ The Bribery Act 2010 <p>SAFETY, HEALTH AND ENVIRONMENT</p> <ul style="list-style-type: none"> ▶ 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 <p>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 and external audit functions provide a further layer of compliance. Management regularly updates the board and its sub-committees through its governance processes.</p>
<p>PRINCIPLE 14: Remuneration governance</p> <p>The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.</p>	<p>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 also, importantly, the contribution of key individuals.</p> <p>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.</p> <p>The remuneration committee (Remco) assists the board in approaching and administering remuneration. Remco comprises only independent non-executive directors, which monitors and strengthens the credibility of the group's executive remuneration system.</p> <p>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.</p>

Principle	Application
Governance outcome: Adequate and effective control continued	
<p>PRINCIPLE 15: Assurance</p> <p>The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports.</p>	<p>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.</p> <p>The committee has both reporting responsibilities to the shareholders and the board and is accountable to them.</p> <p>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.</p> <p>The performance of the audit committee is evaluated against the charter on an annual basis and a self-evaluation of the committee's effectiveness is performed by the members and reviewed by the board.</p> <p>The chief audit executive function is performed by the audit committee under the leadership of the audit committee chair, with this function's independence outlined in the audit committee charter.</p> <p>The audit committee ensures that the internal audit function is subjected to independent quality reviews when appropriate. The internal audit function is currently outsourced to professional services firm BDO.</p>
Governance outcome: Trust, good reputation and legitimacy	
<p>PRINCIPLE 16: Stakeholders</p> <p>In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.</p>	<p>Pan African Resources' stakeholders are integral to the group's growth, value creation and sustainability. They have been identified as one of our four key strategic pillars which include: Profitability, Sustainability, Stakeholders and Growth. Stakeholder feedback and concerns are carefully considered when reviewing and refining strategy, which fosters realistic perceptions by and expectations from our stakeholders in relation to our business, decision-making and performance.</p> <p>Stakeholder engagement is important to the group as it fosters transparent communication channels to share information and proactively resolve concerns while at the same time balancing the expectations of shareholders and other stakeholders. It is essential in shaping our strategy, improving risk management, identifying opportunities and managing our reputation.</p> <p>Stakeholder engagement takes place centrally at our corporate office and at all operations. The CEO assumes responsibility at corporate office level and is supported by the financial director as they engage with investors and analysts. The chief operating officer engages with labour unions and employees, and operational management engages with the DMR on health and safety issues. At an operational level, stakeholder engagement is the responsibility of the general and human resources managers. The board also engages with shareholders at the annual general meeting (AGM) and on an ad hoc basis, when required.</p> <p>Concerns raised operationally are governed by the management committee and at board level. The SHEQC committee oversees stakeholder concerns.</p>