

ACCOUNTING POLICIES

For the year ended 30 June 2017

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared on the historical cost basis, except for financial instruments to the extent required or permitted under International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as set out in the relevant accounting policies.

The separate and consolidated financial statements incorporate the following accounting policies which have been applied on a basis consistent with the previous year, with the exception of the policies adopted during the year as more fully set out below.

The preparation of financial statements in conformity with IFRS requires that management and the board exercises their judgement in the process of applying the company's group accounting policies. It also requires the use of certain critical economic and other estimates. The areas requiring a high degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are disclosed in notes to the financial statements.

1.1 New accounting policies adopted

The following amendments, standards or interpretations impacting the group which became effective for the year beginning 1 July 2016 were adopted in the group's year-end results

- IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception – Amendments to IFRS 10, IFRS 12 and IAS 28
- IFRS 11 Accounting for Acquisitions of Interest in Joint Operations – Amendments to IFRS 11
- IFRS 14 Regulatory Deferral Accounts
- IAS 1 Disclosure Initiative – Amendments to IAS 1
- IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38
- IAS 16 and IAS 41 Agriculture - Bearer Plants – Amendments to IAS 16 and IAS 41
- IAS 27 - Equity Method in Separate Financial Statements – Amendments to IAS 27
- AIP IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Changes in methods of disposal
- AIP IFRS 7 Financial instruments: Disclosures – Servicing contacts
- AIP IFRS 7 Financial instruments: Disclosures – Applicability of the offsetting disclosures to condensed interim financial statements
- AIP IAS 19 Employee Benefits – Discount rate: regional market issue
- AIP IAS 34 Interim Financial Reporting – Disclosure of information 'elsewhere in the interim financial report'

The adoption of these amendments resulted in changes only in the way in which the financial statements are presented, as well as additional disclosures in the financial statements. They did not impact any amounts recognised in the statement of comprehensive income or statement of financial position.

ACCOUNTING POLICIES CONTINUED

For the year ended 30 June 2017

1.2 STANDARDS, INTERPRETATIONS AND AMENDMENTS ISSUED, BUT NOT YET EFFECTIVE

At the date of authorisation of these financial statements, the following standards, amendments and interpretations were in issue but not yet effective. The effective date refers to periods beginning on or after, unless otherwise indicated.

Standard or interpretation	Impact	Effective date
<i>IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2</i>	The amendments are intended to eliminate diversity in practice, but are narrow in scope and address specific areas of classification and measurement. The amendments address three main areas: <i>The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.</i> The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. <i>The classification of a share-based payment transaction with net settlement features for withholding tax obligations.</i> This amendment adds an exception to address the narrow situation where the net settlement arrangement is designed to meet an entity's obligation under tax laws or regulations to withhold a certain amount in order to meet the employee's tax obligation associated with the share-based payment. This amount is then transferred, normally in cash, to the tax authorities on the employee's behalf. To fulfil this obligation, the terms of the share-based payment arrangement may permit or require the entity to withhold the number of equity instruments that are equal to the monetary value of the employee's tax obligation from the total number of equity instruments that otherwise would have been issued to the employee upon exercise (or vesting) of the share-based payment (net share settlement feature). Where transactions meet the criteria, they are not divided into two components but are classified in their entirety as equity-settled share-based payment transactions, if they would have been so classified in the absence of the net share settlement feature. <i>The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.</i> The amendment clarifies that, if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. Any difference (whether a debit or a credit) between the carrying amount of the liability derecognised and the amount recognised in equity on the modification date is recognised immediately in profit or loss. Management does not expect this amendment to have any impact on the group as all share-based payments are cash settled and do not have any modifications to vesting conditions.	1 January 2018

Standard or interpretation	Impact	Effective date
IFRS 9 <i>Financial Instruments</i>	The application of IFRS 9 may change the measurement and presentation of many financial instruments, depending on their contractual cash flows and the business model under which they are held. The impairment requirements will generally result in earlier recognition of credit losses. It will be important for entities to monitor the discussions of the IFRS Transition Resource Group for Impairment of Financial Instruments (ITG). The group has not assessed the impact of this standard, it is estimated that the full impact analysis will be completed by December 2017. The group anticipates adopting IFRS 9 for the financial period ending June 2019. Further details on this will be included in the next reporting period.	1 January 2018
IFRS 15 <i>Revenue from Contracts with Customers</i>	IFRS 15 is more prescriptive than the current IFRS requirements for revenue recognition and provides more application guidance. The disclosure requirements are also more extensive. The standard will affect entities across all industries. Adoption will be a significant undertaking for most entities with potential changes to their current accounting, systems and processes. Therefore, a successful implementation will require an assessment of and a plan for managing the change. The group has not assessed the impact of this standard, it is estimated that the full impact analysis will be completed by December 2017. The group anticipates adopting IFRS 15 for the financial period ending June 2019. Further details on this will be included in the next reporting period.	1 January 2018
IFRS 16 <i>Leases</i>	IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (for example, a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. The group has not assessed the impact of this standard, it is estimated that the full impact analysis will be completed by December 2017. The group anticipates adopting IFRS 16 for the financial period ending June 2020. Further details on this will be included in the next reporting period.	1 January 2019

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For the year ended 30 June 2017

Standard or interpretation	Impact	Effective date
IAS 7 Disclosure Initiative – Amendments to IAS 7	The amendment requires the entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The group is assessing the impact of this amendment.	1 January 2017
IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12	The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary differences. The amendments also provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amounts. Management is currently assessing the impact of the amendment with regards to the guidance on how an entity should determine future taxable profits and the circumstances in which taxable profits may include the recovery of some assets for more than their carrying amount.	1 January 2017
IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	The amendments are intended to eliminate diversity in practice, when recognising the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration received or paid in a foreign currency. Management will assess the impact and adopt this for the first time in the 2019 reporting period as this will only be applicable then.	1 January 2018
IFRIC Interpretation 23 Uncertainty over Income Tax Treatments	The interpretation addresses the following: • Whether the entity considers uncertain tax treatments separately • The assumptions an entity makes about the examination of tax treatments by taxation authorities • How the entity determines taxable profit (tax loss), tax bases, unused tax credits and tax rates • How an entity considers changes in facts and circumstances Entities need to evaluate whether they have established appropriate processes and procedures to obtain information on a timely basis that is necessary to apply the requirements of the interpretation and make the required disclosures. Management is currently assessing the impact of this interpretation.	1 January 2019

Northam notes the new standards, interpretations and amendments which have been issued but are not yet effective and does not plan to early adopt any of the amendments, standards and interpretations.

1.2 Consolidation

The consolidated financial statements include the results, financial position and cash flows of Northam, its subsidiaries, joint ventures and associates. A subsidiary is an entity that is controlled due to the company being exposed or having rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The results of any subsidiary acquired or disposed of during the year are included from the date control was obtained up to the date control ceased to exist. Where an acquisition of a subsidiary is made during the financial year, any excess or deficit of the purchase price compared to the fair value of the attributable net identifiable assets is recognised respectively as goodwill (excess) and accounted for as described in the goodwill accounting policy or in profit or loss (deficit) as a bargain purchase gain.

The financial statements of the subsidiaries are prepared for the same reporting period as Northam, using consistent accounting policies, and all intra-group transactions and balances are eliminated on consolidation.

Investments in subsidiaries are recognised at cost less accumulated impairment losses in the accounts of the company.

1.3 Associates and joint arrangements

An associate is an entity in which the group has significant influence. The group's investment in its associates is accounted for using the equity method of accounting. The Northam group defines any investment that is 20% or more of the voting power as a significant investment.

The group also has an interest in a joint arrangement which is classified as a joint venture in terms of IFRS 11 Joint arrangements. The group's investment in this joint venture is accounted for using the equity method of accounting.

Under the equity method, the investments in the associates and joint venture are carried in the statement of financial position at cost plus post acquisition changes in the group's share of net assets of the associate and joint venture. Goodwill relating to the associates is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Profit or loss in the statement of profit or loss and other comprehensive income reflects the share of the results of operations of the associates and joint venture. Where there has been a change recognised directly in other comprehensive income or equity of the associate or joint venture, the group recognises its share of any changes and recognises this, when applicable, in other comprehensive income or equity within the statement of changes in equity. Unrealised gains and losses resulting from transactions between the group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

Where there is an additional investment in the associate or joint venture, the purchase price paid for the additional interest is added to the existing carrying amount of the associate or joint venture and the existing interest is not remeasured.

The share of profit of associates or joint venture is shown on the face of the statement of profit or loss and other comprehensive income in profit or loss.

The financial statements of the associates and joint venture are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the group.

After application of the equity method, the group determines whether it is necessary to recognise an impairment loss on the group's investment in its associates or joint venture. The group determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognises the amount in profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the group measures and recognises any remaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

ACCOUNTING POLICIES CONTINUED

For the year ended 30 June 2017

1.4 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquirer's identifiable net assets.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the date of acquisition. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in profit or loss. Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is not amortised.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) that is expected to benefit from the combination. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Goodwill is tested for impairment annually or more frequently if events or circumstances indicates that it might be impaired.

Business combination of entities under common control

Business combinations between entities under common control are accounted for using the pooling of interests method. Under this method the assets, liabilities and reserves of the acquired entity are recorded by the purchasing entity at their existing carrying values as recorded in the consolidated financial statements. As required by the pooling of interests method, the transfer is accounted for as if it occurred at the beginning of the financial year. The comparative amounts are not restated.

1.5 Property, plant and equipment

Mining assets

Mining assets are recorded at cost of acquisition less accumulated depreciation and accumulated impairment losses.

Shafts, mining development and infrastructure costs

Shafts, mining development and infrastructure costs include expenditure incurred to develop new orebodies, to define further mineralisation in existing orebodies and to expand the capacity of the mine. Costs include interest capitalised during the construction period until commercial production is reached where development is financed by borrowings, and the net present value of future decommissioning costs. Depreciation is first charged on new mining ventures from the date on which the mining venture reaches commercial production levels. When a mine development project moves into the production phase, the capitalisation of certain mine development costs ceases, and costs are either regarded as part of the cost of inventory or expensed, except for costs which qualify for capitalisation relating to mining asset additions, improvements or new developments, underground mine development or mineable reserve development. Mine development costs are depreciated on a units of production basis based on resources which are revised annually.

Metallurgical and refining plants

Metallurgical and refining plants is depreciated using the units of production basis based on resources, which are revised annually. Where items of plant and equipment comprise separate, identifiable components that have differing useful lives, such components are depreciated according to their individual useful lives.

Research costs associated with the design of new items of plant and equipment, or improvements to existing items of plant and equipment, are expensed when incurred, unless the recognition criteria are met.

Items of property, plant and equipment that are withdrawn from use, or have no reasonable prospect of being recovered through use or sale, are regularly identified and impaired/scrapped.

Decommissioning asset

The decommissioning asset is depreciated on the units of production basis, based on resources, which are revised annually.

The decommissioning asset is recognised and subsequent changes in the assumptions which impact the asset is reflected in the asset as set out in the decommissioning provision accounting policy. The decommissioning asset is included as part of the mining plant and equipment when considering depreciation, impairment and derecognition.

ACCOUNTING POLICIES CONTINUED

For the year ended 30 June 2017

Mining properties and mineral resources

Mining properties and mineral resources, comprising mineral rights are recorded at cost of acquisition. Depreciation is first charged on new mining properties from the date on which the mining in respect of the mining property reaches commercial production levels. Mining properties are depreciated on a units of production basis based on resources which are revised annually.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is expensed in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense of intangible assets with finite lives is recognised in the statement of profit or loss and other comprehensive income in the expense category consistent with the function of the intangible asset.

Non-current assets held for sale

Northam group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the sale, excluding finance costs.

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. Management must be committed to the sale and the sale is expected within one year from the date of the 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.

Foreign currency prepayment

Northam currently has a prepayment relating to the manufacturing costs in terms of the aerial ropeway manufacturer agreement with a foreign supplier. The prepayment was initially accounted for at cost using the spot rate at transaction date. The construction of the ropeway will take place over a period of time and, there will be sign off by the constructor and Northam at each stage of completion. Northam will therefore capitalise these amounts to property, plant and equipment as and when constructed and has been signed over by the contractor.

Other assets

Office equipment, furniture and vehicles are depreciated using varying rates, ranging between 10% and 20% on a straight-line basis over their expected useful lives.

Land and buildings

Land and buildings are recorded at cost of acquisition less accumulated impairment losses and is not depreciated. Buildings are depreciated on a straight-line basis over the estimated useful life, which are assessed annually.

Impairment

At each reporting date, the group assesses whether there is any indication that an asset or cash-generating-unit may be impaired. Where an indicator of impairment exists or where annual impairment testing for an asset is required, the group makes a formal estimate of the asset or cash-generating-unit's recoverable amount. Where the carrying amount of an asset or cash-generating-unit exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount and the difference is recognised in profit or loss. The recoverable amount is the higher of value in use and fair value less cost of disposal.

The value in use of mining assets is determined by applying a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset to the anticipated cash flows for the remaining useful life of the assets.

The fair value less costs of disposal of non-mining assets is determined with reference to market values by making use of a valuation model.

The revised carrying amounts are depreciated on a systematic basis over the remaining useful lives of such affected assets.

Impairment losses are recognised in the statement of profit or loss and other comprehensive income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

Annual review of residual values, depreciation method and useful lives

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted prospectively, if appropriate, at each financial year-end.

Subsequent expenditure

Subsequent expenditure relating to an item of property, plant, equipment and mining properties is added to the carrying value of the asset when it is probable that future economic benefits will flow to the group. All other subsequent expenditure is recognised as an expense and included in profit or loss.

ACCOUNTING POLICIES CONTINUED

For the year ended 30 June 2017

Exploration expenditure

The group expenses all exploration and evaluation expenditures until it is concluded that a future economic benefit is more likely than not of being realised, i.e. probable.

Exploration and evaluation expenditure on greenfields sites, being those where the group does not have any mineral deposits which are already being mined or developed, is expensed as incurred until a feasibility study has been completed, after which the expenditure is capitalised if the feasibility study demonstrates that future economic benefits are probable.

Exploration and evaluation expenditure on brownfields sites, being those adjacent to mineral deposits which are already being mined or developed, is expensed as incurred until management is able to demonstrate that future economic benefits are probable through the completion of a feasibility study. Costs relating to development activities as well as mineral resources bought are capitalised to mine development asset.

Exploration and evaluation expenditure relating to extensions of mineral deposits which are already being mined or developed, including expenditure on the definition of mineralisation of such mineral deposits, is capitalised as a mine development cost following a mine planning exercise equivalent to a feasibility study.

1.6 Land and township development

The assets are recognised on the statement of financial position in accordance with IAS 2. We are comfortable that a buyer will always be found due to the housing requirements around our mines. Because these assets are normally held for a period of longer than 12 months, they are however deemed to be non-current assets. These assets are held at the lower of cost and net realisable value.

Net realisable value tests are performed at each reporting date and represent the current sales price of the product, less estimated costs to complete production and bring the product to sale. Where the time value of money is material, these future prices and costs to complete are discounted.

Land and township development, which is an initiative in order to assist the group's employees to acquire their own affordable housing, is initially recognised at cost, being the fair value of the consideration given and including acquisition charges. Cost is determined on the basis of land acquisition, development and housing construction cost. Land and township development is derecognised when the risks and rewards of ownership of the property transfers to the employees.

Northam's main business is not the development of properties but is obligated under South Africa mining legislation to offer certain of its employee's house ownership as part of their benefits. To that end it constructs houses which are sold to employees on favourable terms. The houses are mainly for employees but third parties can also acquire these properties. Therefore, the main aim of the disclosure of the land and township development activities provided is qualitative by nature, i.e. social and community advancement and employee benefits. The main business of the group is mining platinum group metals.

1.7 Financial instruments

Financial instruments recognised on the statement of financial position include investments, cash and cash equivalents, long-term receivables, trade accounts receivable, trade accounts payable, borrowings and derivative instruments. These are recognised when the group becomes party to the contractual agreements. All financial instruments are initially recorded at fair value and in the case of financial instruments not at fair value through profit or loss, directly attributable transaction costs. Transaction costs are amortised based on the straight line method.

Investments

Investments acquired for the purpose of selling in the near term are classified as held for trading and is part of the fair value through profit or loss category of financial assets. Other investments are classified as available for sale or held-to-maturity, depending on the nature of the investment.

Preference shares held are classified as available for sale investments even though they are debt instruments and interest thereon is recognised in profit or loss using the effective interest rate method.

After initial recognition, investments, which are classified as available for sale, are re-measured at fair value with unrealised gains or losses recognised as other comprehensive income until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired when it is recognised in profit or loss.

Gains or losses on investments held for trading are recognised in profit or loss.

After initial recognition, investments at amortised cost are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process. Interest income on these investments is recognised in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include trade and other receivables, long-term receivables and cash and cash equivalents. After initial recognition receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the receivables are derecognised or impaired, as well as through the amortisation process.

Cash and cash equivalents

Cash and cash equivalents comprise demand and time deposits with banking institutions and money market instruments readily convertible to known amounts of cash subject to insignificant risk of changes in value. Cash and cash equivalents are subsequently carried at amortised cost.

Negotiable instruments are recorded initially at the fair value of the consideration given. Subsequent measurement is at amortised cost which is incorporated in the determination of investment income.

Trade and other payables

Trade and other payables are stated at the recognised obligation less payments made and adjustments made to reflect the fair value of the expected outflow of economic resources and are subsequently carried at amortised cost.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

ACCOUNTING POLICIES CONTINUED

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Borrowings

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on issue.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Accrued dividends on preference shares are recognised as finances charges.

Impairment of financial instruments

The group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in estimated future cash flows. The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in profit or loss.

Impaired debts are derecognised when they are assessed as uncollectible.

Derecognition of financial instruments

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when: the rights to receive cash flows from the asset have expired; the group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement; and either: (a) the group has transferred substantially all the risks and rewards of the asset or (b) the group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by the company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation. Amortisation is based on the total value of underlying liability still outstanding, as this better reflects the pattern of how the company provides the guarantee.

1.8 Inventories

Consumable stores

Consumable stores consist of consumable and maintenance stores and are valued at the lower of cost or net realisable value. Cost is determined on the weighted average cost basis. Consumable stores are under continual review and are written down in regard to age, condition and utility.

Metal on hand

Stocks of the three major platinum group elements and gold (4E), either in refined or in process form, are valued at the lower of cost of production (including the value of any purchased concentrate) or net realisable value. Production costs include an appropriate portion of overhead expenses. Cost is determined on the three month weighted average basis.

The average cost of normal production includes total costs incurred on mining and refining, including depreciation, less net revenue from the sale of by-products, including chrome, allocated to main products based on units produced under normal production.

Costs incurred in the production process, are appropriately accumulated as stockpiles, metal in process and product inventories. Platinum, palladium, rhodium and gold (4E) are treated as main products and other platinum group and base metals produced as by-products, including chrome, which are not classified as inventory.

Stockpiles are measured by estimating the stockpiled tonnes, the number of contained 4E ounces based on assay data, and the estimated recovery percentage based on the expected processing method, but only if the stockpiles are considered material. Stockpile tonnages are verified by periodic surveys.

In process and final inventories are carried at the lowest of average cost of normal production and net realisable value.

Net realisable value tests are performed on a monthly basis and represent the expected sales price of the product based on prevailing spot metal prices at the reporting date, less estimated costs to complete production and bring the product to sale.

1.9 Provisions

Decommissioning provision

Provision is made for the present value of the estimated future decommissioning costs at the end of the mine's life. A decommissioning asset is recognised as part of the underlying property, plant and equipment.

With regards to the provision, the estimates are discounted at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

The increase in the decommissioning provision due to the passage of time is recognised as a finance cost in profit or loss. Other changes in the carrying value of the provision subsequent to initial recognition are adjusted in the determination of the carrying value of the decommissioning asset as opposed to being recognised in profit or loss. If the adjustment results in an addition to the decommissioning asset, consideration is given as to whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount in accordance with the respective accounting policies.

ACCOUNTING POLICIES CONTINUED

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Provision for restoration costs

Provision is made for the estimated cost to be incurred on long-term environmental obligations, comprising expenditure on pollution control and closure over the estimated life of the mine.

The estimates are discounted at a pre-tax discount rate that reflects current market assessments of the time value of money. The increase in the restoration provision due to the passage of time is recognised as a finance cost in profit or loss. In assessing the future liability, no account is taken of the potential proceeds from the sale of assets and metals from the plant clean-up.

The future liability is reviewed regularly and adjusted as appropriate for new facts and changes in legislation. The cost of ongoing programmes to prevent and control pollution and rehabilitate the environment is recognised as an expense when incurred.

Environmental rehabilitation fund

The group may contribute to a dedicated trust fund, the Northam Platinum Restoration Trust Fund (the Fund), to fund the expenditure on future decommissioning and restoration. Income earned by the fund is credited to the group's profit or loss in the period to which it relates.

The group controls the trust and therefore consolidates it.

The assets of the Fund are separately administered and the group's right of access to these funds is restricted.

Other provisions

Provisions are recognised where the group has a present legal or constructive obligation as a result of a past event, a reliable estimate of the obligation can be made and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

1.10 Foreign currencies

The functional and presentation currency of the group is the South African rand. Transactions in foreign currencies are translated into South African rand at the rates of exchange ruling at the transaction date. Monetary assets or liabilities denominated in foreign currencies are translated at rates prevailing at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Profits or losses arising on the translation of foreign currencies, whether realised or unrealised, are credited or charged to profit or loss.

1.11 Revenue recognition

Revenue is recognised to the extent it is probable that the economic benefits associated with the transaction will flow to the group and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the amounts received or receivable net of value added tax, cash discounts and rebates.

Metal sales

Revenue from the sale of metal is accounted for when the risks and rewards of ownership have passed and is recorded at the invoiced amounts with an adjustment for provisional pricing at each reporting date relating to metals where final assays are not yet available. Adjustments, in respect of final assayed quantities and/ or prices, arising between the date of recognition of the revenue and the date of settlement are adjusted against revenue in the period in which the adjustment arises.

Income from the sale of township land

Income from the sale of township land which is sold under suspensive sale agreements is recognised when the substantial risks and rewards of ownership have been transferred to the purchaser.

Sundry income

Sundry income is recognised when the right to receive payment has been established. Investment income is recognised as it accrues, using the effective interest rate method. Included in sundry income for the group is treatment charges received from third parties.

1.12 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or development of qualifying assets that require a substantial period of time to prepare for their intended use are capitalised. Capitalisation is suspended when the active development is interrupted and ceases when the activities necessary to prepare the asset for its intended use are complete. Other borrowing costs are recognised as an expense when incurred.

Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available for a short term from funds borrowed specifically to finance a project, the income generated from the temporary investment of such amounts is also capitalised and deducted from the total capitalised borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using the weighted average of the borrowing costs applicable to the borrowings of the group that are outstanding during the period.

1.13 Employee benefits

Short-term employee benefits

Remuneration to employees in respect of services rendered during a reporting period is recognised as an expense in that reporting period. Accruals are made for accumulated leave and are measured at the amount that the group expects to pay when the leave is used.

ACCOUNTING POLICIES CONTINUED

For the year ended 30 June 2017

Equity compensation plans

Share option scheme

Options granted to employees in terms of the rules of the Northam share option scheme (the Scheme) are valued at the grant date using the binomial model. The value so determined is recognised as an expense within operating costs, together with a corresponding increase in the equity compensation reserve, evenly over the period between the grant date and the date on which the relevant employees become fully entitled to the award (vesting date).

The cumulative expense recognised for these options at each reporting date until the vesting date reflects the best estimate of the value attributable to the number of options that will ultimately vest. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share and diluted headline earnings per share.

Where employees exercise options in terms of the rules of the Scheme, shares are issued to them as beneficial owners. In exchange, employees pay in cash a consideration equal to the price specified in the option allocated to them. The nominal value of the shares is credited to share capital and the difference between the nominal value and the price of the cash consideration credited to share premium.

Options granted to an employee are forfeited in the event of the employee resigning or being dismissed. The accumulated credit to the equity compensation reserve in respect of options that have lapsed or been forfeited after their vesting date is transferred to retained earnings.

Share incentive plan

Awards granted to employees in terms of the rules of the Northam share incentive plan (the Plan) are measured at fair value based on market prices at the date of grant (measurement date).

The shares awarded in terms of the rules of the Plan comprise: retention shares, which vest after three years with no performance criteria, and performance shares, which also vest after three years. The final number of performance shares that the relevant employee will receive will be subject to certain performance criteria being met. Retention shares awarded prior to November 2014 vest after two years with no performance criteria.

The group initially measures the cost of cash-settled transactions with employees using a market value model to determine the fair value of the liability incurred. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. For cash-settled share-based payment transactions, the liability needs to be re-measured at the end of each reporting period up to the date of settlement, with any changes in fair value recognised in profit or loss. This requires a reassessment of the estimates used at the end of each reporting period. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in the financial statements.

Equity-settled instruments in respect to the BEE transaction

Equity-settled share-based payment expense relates to the BEE transaction and vested on the grant date. The value of the expense was determined by way of a Black-Scholes option model.

Retirement benefits

Eligible employees are members of various defined contribution schemes. Employer contributions are recognised as an expense during the period in which the employees' services are rendered.

Medical benefits

Employer contributions in respect of current medical benefits are recognised as an expense during the period in which the employees' services are rendered.

Post-retirement medical costs

Eligible employees are members of a defined contribution scheme established to assist those employees to meet post-retirement medical costs.

Employer contributions are recognised as an expense during the period in which the employees' services are rendered. These contributions cease when the employees' service terminate.

Toro employee empowerment trust

The Toro employee empowerment trust (the Trust) was established for the benefit of eligible Zondereinde employees. Northam contributes 4% of its after tax profits to the Trust where after eligible employees will receive payment at the end of each five-year cycle. The amount of this cash to be distributed is based on the valuation of the fund and Northam does not guarantee any values over and above what is included in the Trust and managed accordingly by the investment manager.

Since the cash distribution is payable to employees after the end of the period in which the related services are rendered and it is not a post-employment benefit or a termination benefit, the Trust is accounted for as an 'other long-term employee benefit' in terms of IAS 19. The benefits payable to employees are therefore measured using the projected unit credit method.

Independent actuarial valuations are conducted annually. Re-measurements, comprising actuarial gains and losses arising as a result of experience adjustments and/or the effects of changes in actuarial assumptions, the effect of changes to the asset ceiling and the return on plan assets (excluding interest) are recognised immediately in profit or loss when they occur. Any increase in the present value of plan liabilities expected to arise from employee service during the period is charged to operating profit. Net interest is determined by applying the discount rate at the beginning of the year to the net defined liability or asset.

Past-service cost is recognised immediately in profit or loss in the period to the extent that benefits are already vested and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less the fair value of plan assets out of which the obligations are to be settled. Plan assets are assets (cash) that are held by the Trust and are not available to the creditors of the group.

1.14 Leases

Group as lessee

A finance lease transfers substantially all the risks and rewards of ownership of an asset to the group.

Assets subject to finance leases are capitalised as property, plant and equipment at the lower of the fair value of the leased asset at inception of the lease or the present value of the minimum lease payments with the related lease obligation recognised at the same amount. Capitalised leased assets are depreciated over the estimated useful lives. However, if there is no reasonable certainty that the group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Finance lease payments are allocated between finance costs and the capital repayment so as to achieve a constant rate of interest on the remaining balance of the liability.

Leases in respect of which the lessor retains substantially all the risks and rewards of ownership of an asset are classified as operating leases. Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the period of the lease.

Group as lessor

Leases in respect of which the group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Operating lease payments relates to rental income received from Booyseindal relating to mining properties are recognised as revenue in profit or loss on a straight-line basis over the period of the lease.

ACCOUNTING POLICIES CONTINUED

For the year ended 30 June 2017

1.15 Taxation

Current tax

The charge for current tax is based on the results for the year, as adjusted for by items that are exempt or disallowed, and is calculated using the enacted tax rates, at the reporting date.

Where items are credited or charged directly to equity or other comprehensive income the tax effect is also recognised within equity or other comprehensive income as appropriate.

Deferred tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences, except: where the 'initial recognition exception' applies; and in respect of 'outside' temporary differences relating to subsidiaries, associates and joint arrangements.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that future taxable profits will be available, against which the deductible temporary differences, carry forward of unused tax credits and unused tax losses can be utilised in the foreseeable future except: where the 'initial recognition exception' applies; and in respect of 'outside' temporary differences relating to subsidiaries, associates and joint arrangements.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income as appropriate and not in profit or loss.

Deferred income tax assets and liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and when they relate to income taxes levied by the same taxation authority and taxable entity.

Dividends withholding tax

The group withholds dividends tax on behalf of its shareholders at a rate of 20% effective 22 February 2017 (previously 15%) on dividends declared. Amounts withheld are not recognised as part of the group's tax charge but rather as part of the dividend paid recognised directly in equity.