AUDIT AND RISK COMMITTEE REPORT

The independent audit and risk committee (the committee) is pleased to present its report for the financial year ended 30 June 2017.

The committee is constituted in terms of the Companies Act. In terms of the company's listing on the JSE it is required from 1 October 2017 to adhere to the King Code on Corporate Governance of South Africa (King IV). The committee is constituted as a statutory committee of Northam Platinum Limited in respect of its statutory duties in terms of section 94(7) of the Companies Act and a subcommittee of the board in respect of all other duties assigned to it by the board.

The committee assist the board in carrying out its functions relating to the safeguarding of assets, the operation of adequate risk management, control processes, the preparation of financial statements in compliance with all applicable legislation and regulations, the oversight of the external and internal audit appointments and the combined assurance function.

The committee does not provide relief to board members for their joint and several responsibilities regarding their fiduciary duties and they must continue to exercise due care and judgement in accordance with their legal obligations.

The committee operates under documented terms of reference. The terms of reference of the audit and risk committee are subject to the provisions of the Companies Act, MOI, and any other applicable law or regulatory provision. Where these terms of reference conflict with any legislation and/or rules of the Companies Act, and/or the MOI, that legislation and/or regulation takes precedence over these terms of reference.

The committee has discharged all its responsibilities as contained in the charter. The committee reviews accounting policies and financial information issued to stakeholders and the chairman of the audit committee reports to the board on the committee's deliberations and decisions. The internal and external auditors have unrestricted access to the committee. Further, the committee regularly reviews its corporate governance practices in relation to the company's compliance with the requirements of the Companies Act and the JSE listing requirements.

Composition

The committee must be comprised of at least three non-executive board members who must be elected by shareholders on the recommendation of the nomination committee. All members of the committee must be non-executive board members and meet all applicable independence requirements and be appropriately qualified.

The chairman of the board is not eligible to be chairman or a member of this subcommittee and the chairman of this sub-committee must be an independent, non-executive director.

Collectively, members of this committee must have the appropriate mix of qualifications and experience in order to fulfil their duties adequately. Such qualifications and skills will include expertise and/or experience in the following fields; financial, legal, risk management, sustainability issues and reporting, internal financial control, external and internal audit processes, information technology (IT) governance, corporate governance, ethics and integrated reporting. Members of the committee are required to ensure they are fully appraised of the latest developments in the mining industry and in commerce generally.

Important attributes of the members are an independent and enquiring mind-set, a reasonable understanding of the complexities involved and an appreciation of the business and mining industry.

During the year the committee comprised three independent non-executive directors namely, Ms HH Hickey (chairman), Mr R Havenstein and Mrs TE Kgosi. Ms Hickey replaced Mr Martin as chairman of the committee on 9 November 2016, following Mr Martin's retirement from the board. The committee met on five occasions during the year and all members together with the company secretary were present at each of these scheduled meetings.

The chief executive officer, the chief financial officer, the group financial controller and the internal as well as external auditors attend by invitation to provide a coordinated approach to all assurance activities. The internal and external auditors have unrestricted access to the committee. Both internal and external auditors meet with the committee members without management present.

The role of the committee

The role of this committee is an independent one with accountability to the board and to shareholders. It is also an overseer and makes recommendations to the board for final approval. The committee cannot assume the function of management which remains the responsibility of the executive directors and senior management.

Regarding risk, the committee ensures that the company has an effective risk policy and a plan for risk management in order to assist the company in achieving its strategic goals and that the disclosure of risk is complete, timely and relevant. The committee is an integral component of the risk management process and specifically the committee oversees: financial reporting risks, internal financial controls, fraud risks as it relates to financial reporting and IT risks as it relates to financial reporting.

Functions and responsibilities during the year

Integrated reporting

- Consider all factors and risks that would influence the accuracy of the integrated report. This includes factors that may predispose management to present misleading information, a poor significant judgment, reporting and decisions, failure at enforcement, monitoring by regulatory bodies, forecast of financial information and question information that brings into doubt previously published information.
- Review and comment on the annual financial statements, interim reports, dividends and other price sensitive information, such as trading statements. Ensure that financial statements are prepared in terms of International Financial Reporting Standards and other appropriate standards.
- Review and comment on the integrated report.
- Recommend to the board the engagement of external auditors or internal auditors, where applicable.
- Consider whether external auditors should perform assurance procedures or other non-audit services.
- Review significant findings and other matters arising through to completion of the annual financial statements.
- Recommend the annual financial statements and integrated report for approval by the board.

The committee reviewed the annual financial statements and has recommended the approval thereof to the board. The board has subsequently approved the financial statements, which will be open for discussion at the forthcoming AGM.

Combined assurance

- Ensure that the combined assurance received is appropriate to address all the significant risks facing the company.
- Monitor the relationship between the external assurance providers of the company.

Based on the results of the review of the company's system of internal financial controls, which was performed by the internal audit function and external auditors, nothing has come to the attention of the committee to indicate that the internal financial controls were not operating effectively.

Chief financial officer (CFO) and the finance function

- Confirm that the CFO is suitably qualified and experienced, and confirm that the committee has executed this responsibility.
- Confirm that the finance department of the company has adequate resources and experience to manage the company's financial function.

In terms of the JSE listing requirements, the committee has satisfied itself as to the appropriateness of the expertise and experience of the CFO and the finance function as a whole.

AUDIT AND RISK COMMITTEE REPORT **CONTINUED**

Internal audit

- Appoint or dismiss the head of internal audit and assess the performance of the head of internal audit.
- Approve the internal audit plan, mandate and budget with particular emphasis on risk areas.
- Ensure that the internal audit function is independent and adequately qualified and resourced on a continuous basis and assess its performance.
- Approve deviations from the approved internal audit plan or any changes in the audit scope or approach.
- Review of the extent to which the internal audit function has co-ordinated with other internal and external assurance providers in providing proper coverage.
- Review the internal audit results and significant audit findings together with the relative management comments and action plans.
- Consider and review any difficulties encountered in the course of the audits, including any restrictions on the scope of internal audit's work or access to required information.

The committee confirms the effectiveness and independence of the internal audit function.

The committee has ensured coverage of the audit universe by approving the audit plans and budgets for internal audit and has confirmed the competence of the internal audit function as a whole. Audit reports are circulated to the members of the committee and are reviewed. Significant findings have been discussed and considered, taking into account action plans to resolve these matters going forward.

Risk management

- Promote and enforce the highest degree of ethical standards in business practices within the organisation and in external relationships.
- Ensure that effective systems of internal control are developed, implemented, monitored and maintained by management.
- Oversee the development and annual review of the company's risk policy and plan for risk management and recommend for approval of this by the board.
- Monitor implementation of the risk policy and plan.
- Make recommendations to the board concerning the levels of risk tolerance and appetite and monitoring that risks are managed within the levels of tolerance and appetite as approved by the board.
- Ensure that risk management assessments are performed by management on a continuous basis.
- Ensure that the risk management plan is widely disseminated throughout the company and integrated in the day to day activities of the company.
- Oversee internal financial control, IT risk, fraud risk and all risks associated with financial reporting.
- Ensure that management continuously monitors risk and its mitigation.
- Ensure that adequate insurance cover remains in place.
- Ensure that there is an adequate framework and methodologies for both implementation of recommended changes and anticipation of 'black swan' (extraordinary/unexpected) events.
- Ensure that management considers and implements appropriate risk responses.
- Review the risk register and ensure that it is adequately updated and is complete, timely and relevant.
- Express the committee's formal opinion to the board regarding the effectiveness of the system and process of risk management in the company.
- Review reporting concerning risk management that is to be included in the integrated report for it being timely, comprehensive and relevant.
- Oversee and monitor the adequacy of internal controls within the company specifically related to financial reporting risks and fraud risks (and any incidents of fraud).

The committee confirms that they have complied with the requirements relating to risk management as noted in detail above.

External audit

- Nominate an independent external auditor for appointment and approval by shareholders.
- Approve the engagement terms and remuneration of external auditors.
- Report and monitor the independence of the external auditor in the financial statements.
- Pre-approve non-audit services to be rendered to the group.
- Define a policy for non-audit services to be provided by external auditors.
- Ensure that there is a process, in terms of which the committee is informed of any 'reportable irregularities' (as identified in the Audit Profession Act 2005) identified and reported by the external auditor.
- Ascertain the effectiveness of the external audit process.
- Ensure that the audit firm and where appropriate, the individual auditor responsible for the audit function is accredited as such on the JSE List of Auditors and their advisors as required by the Listing Requirements of the JSE.

The independence of the external auditor is regularly reviewed. Further, the approval of all non-audit-related services are governed by an appropriate approval framework. Meetings were held with the external auditor where management was not present and, where concerns were raised, these concerns were adequately dealt with by the audit committee.

After taking these factors into account, the committee is satisfied that Ernst & Young Incorporated is independent of the company and group. Mr Mike Herbst will retire as the designated external audit partner in terms of section 92(1) of the Companies Act and be replaced by Mr Ebrahim Dhorat for the 30 June 2018 financial year. The committee recommends the re-appointment of Ernst & Young Incorporated for the financial year ending 30 June 2018.

Key audit matters

The committee noted the key audit matters set out in the report of the independent auditors namely:

- **Impairment of non-financial assets:** The group assesses, at each reporting date, whether there is an indication that assets may be impaired. If any indication exists, the recoverable value of assets are determined based on discounted cash flow models. These models include the latest approved budgeted forecasts, which are considered to be reasonably stated. Based on the assessment performed it was determined that the recoverable value of non-financial assets included on the statement of financial position is higher than the carrying value and therefore no need for any impairment.

- **Physical quantities of inventory:** The physical quantities of inventories are calculated based on theoretical calculation. The estimates are subsequently trued up to the final metal accounting quantities when available. Recoveries are based on actual results and are in line with industry standards. The nature of the production process inherently limits the ability to precisely measure recoverability levels. As a result, the metallurgical balancing process is constantly monitored and the variables used in the process are refined based on actual results over time. Stockpile tonnages are verified by periodic surveys as well as by estimating the number of tonnes added and removed from the stockpile as well as by estimating the number of contained PGM ounces based on assay data and expected recoveries.

The committee has deliberated on these and is comfortable that they are fairly represented.

The committee is satisfied that is has considered and discharged its responsibilities in line with its terms of reference during the year under review.

On behalf of the committee

Hester Hickey
Chairman

Johannesburg
22 August 2017