Deloitte.

Deloitte & Touche
Registered Auditors
Audit & Assurance - Gauteng

www.deloitte.com

Buildings 1 and 2
Deloitte Place
The Woodlands
Woodlands Drive
Woodmead Sandton
Private Bag X6
Gallo Manor 2052
South Africa
Docex 10 Johannesburg

Tel: +27 (0)11 806 5000
Fax: +27 (0)11 806 5111

Riverwalk Office Park,
Block B
41 Matroosberg Road
Ashlea Gardens X6
Pretoria, 0081
PO Box 11007
Hatfield 0028
South Africa
Docex 6 Pretoria

Tel: +27 (0)12 482 0000
Fax: +27 (0)12 460 3633

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Merafe Resources Limited

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Merafe Resources Limited (the Group) set out on pages 13 to 81, which comprise the statements of financial position as at 31 December 2018, and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group as at 31 December 2018, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the Group in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional* Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. There were no key audit matters identified for the separate financial statements.

National Executive: *LL Bam Chief Executive Officer *TMM Jordan Deputy Chief Executive Officer; Clients & Industries *MJ Jarvis Chief Operating Officer *AF Mackie Audit & Assurance *N Sing Risk Advisory DP Ndlovu Tax & Legal TP Pillay Consulting *JK Mazzocco Talent & Transformation MG Dicks Risk Independence & Legal *KL Hodson Financial Advisory *TJ Brown Chairman of the Board

A full list of partners and directors is available on request * Partner and Registered Auditor

B-BBEE rating: Level 1 contribution in terms of the DTI Generic Scorecard as per the amended Codes of Good Practice

Associate of Deloitte Africa, a Member of Deloitte Touche Tohmatsu Limited

Key Audit Matters (continued)

Key Audit Matter	How the matter was addressed in the audit
Impairment assessment of the Merafe Resources Limited Group net assets value (Consolidated financial statements)	
As disclosed in note 31 of the financial statements, the Merafe Resources Limited market capitalisation value is R3.6 billion which is less than its net asset value of R4.9 billion. This is an indicator that the Group net asset value may be impaired. The directors' performed an impairment assessment using the value in use method, where the Group net asset carrying value was compared to the recoverable amount (value in use). The Glencore-Merafe chrome venture (Venture) is the only cash-generating unit of the Group. The directors have determined the value in use amount based on the cash flow forecasts of the Venture and the weighted average cost of capital of Merafe Resources Limited. The valuation is dependent on macro-economic factors, which include foreign currency exchange rates and commodity price forecasts as well as internal assumptions and estimates related to production levels and operating costs. The valuation model is highly sensitive to foreign currency exchange rates and commodity price movements. The assumptions with the most significant impact to the cash flow forecasts used in determining value in use amount are: • Forecasted ferrochrome production levels and customer demand; • Forecasted ferrochrome commodity prices; • Forecasted ZAR /US Dollar exchange rates; • Forecasted Earnings Before Interest Tax Depreciation and Amortisations (EBITDA) of the Venture; and • The discount rate used to discount the future cash flows. The impairment assessment of the Group was identified as a key audit matter due to the significance of the directors' judgement involved in determining its cash flow forecast and the weighted average cost of capital (WACC).	In evaluating the impairment assessment of Merafe Resources Limited Groups net assets value, we reviewed the value in use calculations prepared by directors', with a particular focus on the cash flow forecasts and the discount rate applied. We performed various procedures, including the following: • Assessing the design and implementation of the entity's key controls relating to the determination of the cash flow forecasts; • Assessing and evaluating inputs used into the cash flow forecast against strategic plans; • Comparing the forecasted commodity prices to reports compiled by the directors' independent expert; • Comparing the forecasted exchange rates to forecasts prepared by a variety of reputable finance institutions; • Involving Deloitte's internal specialists to assist with assessing the reasonability of production input factors and discount rate (WACC) used; • Re-computation of the value in use amount based on inputs and assumptions adopted by management; and • Performing sensitivity analyses on the growth rates and discount rates to evaluate the extent of impact on the value in use and the appropriateness of the directors' disclosures. The cash flow forecasts and discount rate used appear to be reasonable. We considered the disclosures relating to impairment assessment to be appropriate.

Key Audit Matters (continued)

Key Audit Matter	How the matter was addressed in the audit
Provision for closure and restoration costs (Consolidated financial statements)	
As disclosed in note 10 of the financial statements, the Group raises a provision for closure and restoration costs in terms of the environmental laws. This provision is raised with regards to the land involved in mining, prospecting and processing of Chrome Ore into Ferrochrome (smelters). The provision is based on the forecast costs of closure and restoration, the period outstanding (i.e. life of mines), and the discount rate. As the Group's accounting policy dictates, in the current year the Venture performed a detailed study taking into account revised environmental plans and the anticipated changes to the National Environmental Management Act (NEMA). The revised assessment of the costs to rehabilitate the land relating to Chrome mines was performed and completed in the prior year. The assessment of the costs to rehabilitate land relating to smelters was undertaken in the current year. As a result, the forecasted costs of closure and restoration of mines increased significantly compared to prior year. The provision for closure and restoration costs was identified as a key audit matter due to the significance of the directors' judgement involved in the determination of forecasted closure and restoration costs, life of mines and discount rate.	In evaluating the reasonability of provisions for closure and restoration costs, we performed detailed assessment of the directors' assumptions. Our audit procedures included the following: • Assessing the design and implementation of key controls to address the risk of material misstatement relating to closure and restoration provision; • Engaging Deloitte's internal specialists to assess compliance with environmental requirements and the impact of anticipated changes to the NEMA regulations; • Engaged Deloitte's internal specialists to review the assumptions underlying the forecast costs and life of mines; and • Tested the reasonability of the discount rate and reviewed the provision calculation. The forecasted closure and restoration costs, life of mines and discount rate used appear to be reasonable. We considered the disclosures relating to the provision for closure and restoration costs to be appropriate.

Other Information

The directors are responsible for the other information. The other information comprises the Company Secretary's Certificate, the Report of the Audit and Risk Committee and the Directors' Report as required by the Companies Act of South Africa, which we obtained prior to the date of this report, and the Integrated Annual Report, which is expected to be made available to us after that date. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Other Information (continued)

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and / or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and / or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements (continued)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte & Touche has been the auditor of Merafe Resources Limited for 2 years.

Deloitte & Touche
Registered Auditor
Per: Patrick Ndlovu
Partner
8 March 2019