Annual Financial Statements

and other Information

Contents

FACT: Clean melted stainless steel is used for medical implants and artificial hips. Because of its hygienic and easy-to-clean qualities, stainless steel is also used for medical equipment.

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2005

The financial statements for the year ended 31 December 2005, which appear on pages 39 to 68 were approved by the directors on 26 June 2006.

The directors are responsible for the fair presentation to shareholders of the affairs of the Company and of the Group as at the end of the financial year. They are also responsible for the presentation to the shareholders of the results for the year, as set out in the annual financial statements. The directors are responsible for the overall co-ordination of the preparation, presentation and approval of the financial statements. Responsibility for the initial preparation of these statements was delegated to the officers of the Company and the Group. The auditors are responsible for auditing and reporting on the financial statements in the course of executing their statutory duties. The financial statements have been prepared on a going concern basis, and in accordance with International Financial Reporting Standards. They conform with the applicable accounting standards, and are presented applying consistent accounting policies, unless otherwise indicated, supported by reasonable and prudent judgement and estimates made by Management. To discharge this responsibility the Group maintains accounting and administrative control systems designed to provide reasonable assurance that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted business practices and procedures. The accounting policies of the Group are set out on pages 46 to 50 of this report.

Chris Molefe
Non-Executive Chairman
26 June 2006

Steve Phiri
Chief Executive Officer
26 June 2006

REPORT OF THE INDEPENDENT AUDITORS

to the Members of Merafe Resources Limited for the year ended 31 December 2005

We have audited the annual financial statements and group annual financial statements of Merafe Resources Limited set out on pages 39 to 68 for the year ended 31 December 2005. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.° An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.°

°

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company and of the Group as at 31 December 2005, and of the results of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act in South Africa.°

KPMG Inc

KPMG Inc
Registered Auditors
Chartered Accountants (SA)
26 June 2006

COMPANY SECRETARY'S CERTIFICATION

for the year ended 31 December 2005

I certify that, to the best of my knowledge and belief, the Company has lodged with the Registrar of Companies all such returns as are required to be lodged by a public company in terms of section 268 G (d) of the Companies Act 61 of 1973 as amended, and that all such returns are true, correct and up to date.

AMahendranath.

Amritha Mahendranath
Company Secretary

Sandton
26 June 2006

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

for the year ended 31 December 2005

The directors of the Group are responsible for the preparation, integrity and objectivity of the annual financial statements. In terms of this responsibility the directors need to ensure that these financial statements fairly present the financial position of the Company and the Group and the results for the year under review.

In fulfilling this responsibility, the Board of Directors relies on Management to implement proper systems of internal control to provide reasonable, but not absolute assurance as to the integrity and reliability of the financial statements and to adequately safeguard the Group's assets.

The manner in which the Board of Directors ensures that this responsibility is effectively discharged is set out in the Sustainable Development Report preceding the annual financial statements.

The external auditors are responsible for independently reviewing the financial statements and expressing an opinion on them.

To the best of its knowledge and belief, the Board of Directors is satisfied that the system of internal controls may be relied on for preparing the financial statements of the Company and the Group and safeguarding its assets; and that no material breakdown has occurred during the period under review. The financial statements have been prepared in accordance with International Financial Reporting Standards and incorporate reasonable disclosures of all material facts. The accounting policies applied in the preparation of the financial statements are consistent, unless otherwise indicated, with those of the previous year and are appropriate for the nature of our business. The directors of the Group, having knowledge of the affairs of the Group and its financial position, are of the opinion that the Group and its individual companies are going concerns and have prepared the financial statements on this basis.

Chris Molefe
Non-Executive Chairman
26 June 2006

Steve Phiri
Chief Executive Officer
26 June 2006

FACT: Because thinner sections of stainless steel can be used in construction, it lends itself to innovative, cost effective design structures.

OUR REPORTING COMMITMENT

for the year ended 31 December 2005

We take a long-term and responsible approach to our business and are committed to the vision of the Broad-Based Socio-Economic Empowerment Charter for the South African Mining Industry, which is to develop a globally competitive mining industry that draws on the human and financial resources of South Africa's people, offers real benefits to all South Africans and proudly reflects the promise of a non-racial South Africa.

We are also committed to providing access to relevant, high quality information on the economic, environmental and social aspects of the Company's activities, which allows assessment of the organisation's sustainability. This is in keeping with the global reform of corporate governance reflected in the King II report and the Global Reporting Initiative Framework.

The Scorecard for the Broad-Based Socio-Economic Empowerment Charter for the South African Mining Industry was released by Government in February 2003. The objective of this scorecard, which is divided into nine monitoring areas, is to measure the progress by stakeholders in achieving the aims of the Charter. In the corporate governance section preceding the annual financial statements we have measured ourselves against both the specific targets set in the scorecard and the targets that we have set for ourselves.

DIRECTORS' REPORT

for the year ended 31 December 2005

Nature of Business

Merafe Resources Limited (Merafe Resources) through the Xstrata-Merafe Chrome Venture (the Venture), participates in chrome mining and the beneficiation of chrome ore into ferrochrome. Currently its major assets consist of a UG2 plant, which processes UG2 ore, a ferrochrome smelter at Boshoek in the North West Province of South Africa at which chrome ore is beneficiated into ferrochrome and Horizon Chrome Mine, which produces chrome ore. Its assets also include a 50% interest in the Kroondal resources, a 26% interest in the Marikana resources and a 20.5% interest in a chrome smelting complex currently under construction, which is known as Project Lion, situated in the Mpumalanga Province of South Africa (refer page 5 of the annual report for further details on Merafe Resources assets). The ferrochrome output of the Venture is marketed to the stainless steel industry.

The Group's structure is to be found on page 4.

Group Financial Results

The financial statements set out fully the financial results of the Group on pages 39 to 68. These financial statements have been prepared using appropriate accounting policies, conforming to International Financial Reporting Standards, supported by reasonable and prudent judgements where required.

Merafe s share of the earnings before interest, taxation, depreciation and amortisation (EBITDA) from the Xstrata-Merafe Chrome Venture is accounted for as follows: 11% up to June 2005, 14% up to November 2005 and 17% thereafter, following the Wonderkop Acquisition.

In addition to Merafe s share of EBITDA, corporate expenses, interest on debt and depreciation on assets of Merafe are deducted to determine earnings before taxation. No transfer of assets to the Xstrata-Merafe Chrome venture occurred and these assets are depreciated and amortised as described in theaccounting policies.

Borrowing powers

Subject to articles 130 and 132 of the constitution governing the Board of Merafe Resources, the directors may from time to time, at their discretion, raise, borrow, or secure, the payment of any sum or sums of money for the purposes of the Company as they see fit.

Going Concern

The directors believe that Merafe Resources has sufficient resources and expected cashflows to continue as a going concern.

Dividend Policy

The Group's dividend policy will be determined after taking into consideration the Group's need to retain capital for the purposes of development, expansion and growth, repaying its long-term debt and prevailing market circumstances.

Ordinary dividends for the year ended 31 December 2005

No ordinary dividends were declared or paid during the year (31 December 2004: R nil).

Share Capital

Full details of the authorised and issued share capital of the Company are set out in Note 12 to the annual financial statements. During the year to 31 December 2005 the following shares were issued for the purpose stated:

DIRECTORS' REPORT

for the year ended 31 December 2005

- On 14 November 2005 Merafe Resources issued 1,007,239,942 ordinary shares in terms of the rights offer, the terms of which were announced on 7 October 2005. These shares were offered at 55 cents per share. The R554 million raised was used to partly fund Merafe Resources contribution to the Project Lion development and to partly fund the Wonderkop Acquisition.
- 2, 333, 333 shares were issued to employees exercising their share options.

Directorate

During the year under review, and up to the date of this report, the following changes were made to the Group's directorate: Zanele Matlala and Lebo Mogotsi joined the Board as independent non-executive directors.

Non-executive directors Dr Todor Vlajcic and Reinier Posthumus Meyjes both resigned from the Board during 2005 as a result of conflicts of interests, which may arise from their new business ventures.

Mr Guy Clarke, joined the Board in August 2005 as a non-executive director, representing the Industrial Development Corporation (IDC). When he resigned from the employ of the IDC, in terms of IDC policy, he also resigned from the Merafe Resources Board. He will be replaced by a non-executive director to be nominated by the IDC. The Board will also be considering further candidates for independent non-executive directorships.

The non-executive directors did not receive any fees prior to 2005. During 2005 the Board made the decision to remunerate non-executive directors for services rendered during 2004 and 2005. Payment for attendance at Board meeting forms part of the fees of non-executive directors, who are remunerated for the meetings they attend.

Company Secretary and registered office:

Amritha Mahendranath
1st Floor, Block B
68 Wierda Road East
Wierda Valley
Sandton
2196.
PO Box 652157
Benmore, 2010.

Major Shareholders

To the best of our knowledge, the following shareholders were the registered holders of five per cent or more of the issued ordinary shares in the Company at 31 December 2005:

- Royal Bafokeng Resources Holdings (Pty) Limited 32.04%
- The Industrial Development Corporation of South Africa Limited 24.33%
- Allan Gray Asset Management 10.38%
- Stanlib Asset Management 8.26%.

Details of the current Board of Directors are set out on pages 16 and 17 of this annual report.

A detailed report on directors' emoluments has been prepared in accordance with the JSE Limited Listings Requirements and appears in Note 3 to the annual financial statements.

Directors Interests in Merafe Resources

As at 31 December 2005 the directors of the Group are beneficially interested (directly and indirectly) in 1,897,112 shares.

	2005		2004	
	Direct	Indirect	Direct	Indirect
Steve Phiri	62,000	-	62,000	-
Bruce McBride	-	600,000	-	600,000
Stuart Elliot	1,165,112	70,000	1,235,112	-
Reinier Posthumus Meyjes	-	-	193,444	-
Total	1,227,112	670,000	1,490,556	600,000

DIRECTORS' REPORT
for the year ended 31 December 2005

Special Resolutions

The special resolutions passed by Merafe Resources during the year were:

26 July 2005

Special Resolution Number One: Resolved as a special resolution that, in terms of section 75 (1) (a) of the Companies Act, No 61 of 1973, as amended, and Article 20 of the Articles of Association of the Company and with effect from the registration of this special resolution, the Company s authorised share capital be and is hereby increased from R20 000 000 to R27 500 000 by the creation of 750 000 000 ordinary shares with a par value of R0.01 each ranking *pari passu* in all respects with the other ordinary shares in the capital of the Company.

Special Resolution Number Two: Resolved as a special resolution that, subject to the passing and registration of special resolution number one proposed at the general meeting convened to consider this special resolution, paragraph 8(a) and paragraph 8(a)(i) of the Company s memorandum of association be and is hereby amended by substituting R27 500 000 for the reference for R20 000 000 and 2 750 000 for the reference for 2 000 000.

Details of Investments in Subsidiaries

	Issued share capital R	Percentage holdings 31 Dec 2005	31 Dec 2004	Shares at cost 31 Dec 2005 R	31 Dec 2004 R	Loans to/(from) subsidiaries 31 Dec 2005 R	31 Dec 2004 R
Directly held							
Southwits Mining Company (Pty) Ltd	100	100%	100%	100	100	(102)	(102)
Merafe Chrome & Alloys (Pty) Ltd	200	100%	100%	200	200	725,567	216,736
Indirectly held							
Merafe Ferrochrome & Mining (Pty) Ltd	400	100%	100%	400	400	-	-

Interest in the profits of subsidiaires for the year ended 31 December 2005 amounts to R41.7 million (31 December 2004: R20.0 million).

Post balance sheet date events

The directors are not aware of any material fact or circumstance that has occurred after the balance sheet date, being 31 December 2005 and the date of this report, other than those disclosed in the Future Prospects section of the Chief Executive Officer s Review.

In June 2006 the Company issued 88.4 million shares at an average price of 57 cents, raising capital of R50 million.

In terms of JSE Listings Requirements Merafe Resources has prepared the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB).

Consolidated Income Statements

for the year ended 31 December 2005

		Group		Company	
	Note	12 months ended 31 December 2005 R 000	9 months ended 31 December 2004 R 000	12 months ended 31 December 2005 R 000	9 months ended 31 December 2004 R 000
Revenue	2	614,562	502,369	-	-
Cost of sales*		(511,387)	(443,121)	(23,525)	(13,109)
Gross profit/(loss)		103,175	59,248	(23,525)	(13,109)
Other operating income		-	61	20,775	10,351
Impairment of loan to subsidiary				-	(290,945)
Operating profit/(loss) before net financing (costs)/income	3	103,175	59,309	(2,750)	(293,703)
Net financing (costs)/income	4	(57,933)	(38,585)	2,750	2,062
Interest paid		(60,948)	(42,218)	(18)	(43)
Interest received		3,015	3,633	2,768	2,105
Profit/(loss) before taxation		45,242	20,724	-	(291,641)
Income tax expense	5	(3,535)	-	-	-
Profit/(loss) for the year/period		41,707	20,724	-	(291,641)
Basic earnings per share (cents)	6.1	3.05	1.67		
Diluted earnings per share (cents)	6.3	3.01	1.62		
*Balance includes depreciation and amortisation. The amounts are as follows:		(6,987)	(4,469)	(153)	(163)

Consolidated Balance Sheets

as at 31 December 2005

	Note	Group		Company	
		31 December 2005	31 December 2004	31 December 2005	31 December 2004
		R 000	R 000	R 000	R 000
Assets					
Non-current assets		1,330,840	740,826	729,688	221,043
Options for mineral rights	7	258	258	258	258
Property, plant and equipment	8	1,330,236	740,222	3,965	4,151
Investments	9	346	346	725,465	216,634
Current assets		692,500	486,791	85,597	57,366
Available-for-sale bonds	9	-	6,062	-	6,062
Other financial asset	10	-	1,752	-	1,752
Inventories	11	324,309	237,271	-	-
Trade and other receivables		281,449	189,486	890	1,154
Bank and cash	20.2	86,742	52,220	84,707	48,398
Total assets		2,023,340	1,227,617	815,285	278,409
Equity and liabilities					
Capital and reserves		904,868	319,029	803,991	259,859
Issued share capital	12	22,475	12,379	22,475	12,379
Share premium	13	1,091,743	557,035	1,091,743	557,035
Equity-settled share-based payment	14	2,510	1,545	2,510	1,545
Fair value reserve	15	-	1,637	-	1,637
Accumulated loss		(211,860)	(253,567)	(312,737)	(312,737)
Non-current liabilities		232,425	395,990	7	49
Non-current borrowings	16	224,833	391,776	7	49
Provision for close down and restoration costs	17	7,592	4,214	-	-
Current liabilities		886,047	512,598	11,287	18,501
Trade and other payables	18	585,828	412,079	1,239	3,270
Other provisions	19	26,003	21,817	10,001	9,823
Current portion of non - current borrowings	16	100,047	54,669	47	5,408
Bank overdraft	20.2	174,169	24,033	-	-
Total equity and liabilities		2,023,340	1,227,617	815,285	278,409

Statements of Changes in Shareholders Equity

for the year ended 31 December 2005

	Note	Group		Company	
		12 months ended 31 December 2005 R 000	9 months ended 31 December 2004 R 000	12 months ended 31 December 2005 R 000	9 months ended 31 December 2004 R 000
Issued share capital - ordinary shares	12	22,475	12,379	22,475	12,379
Balance at the beginning of the year/period		12,379	11,956	12,379	11,956
New shares issued during the year/period		10,096	423	10,096	423
Share premium - ordinary shares	13	1,091,743	557,035	1,091,743	557,035
Balance at the beginning of year/period		557,035	527,217	557,035	527,217
Premium on new shares issued during the year/period		534,708	29,818	534,708	29,818
Equity-settled share-based payments	14	2,510	1,545	2,510	1,545
Balance at the beginning of year/period		1,545	849	1,545	849
Share-based payments		965	696	965	696
Accumulated loss		(211,860)	(253,567)	(312,737)	(312,737)
Balance at the beginning of year/period		(253,567)	(316,740)	(312,737)	(20,247)
First time adoption of IFRS	26	-	42,449	-	(849)
Adjusted balances at beginning of the period		(253,567)	274,291	(312,737)	(21,096)
Net profit/(loss) for the year/period		41,707	5,548	-	(290,945)
First time adoption of IFRS	26	-	15,176	-	(696)
Fair value reserve year/period		-	1,637	-	1,637
Balance at the beginning of year/period		1,637	12 9	1,637	12 9
Movements recognised directly in equity (refer note 9.3)		322	1,508	322	1,508
Fair value gain on available-for-sale financial instrument matured		(1,959)	-	(1,959)	-
Balance at end of year/period		904,868	319,029	803,991	259,859

Consolidated Statement of Cash Flows

for the year ended 31 December 2005

	Note	Group		Company	
		12 months ended 31 December 2005 R 000	9 months ended 31 December 2004 R 000	12 months ended 31 December 2005 R 000	9 months ended 31 December 2004 R 000
Cash generated by / (utilised in) operating activities	20	113,535	38,904	(3,125)	(4,659)
Interest paid	4	(60,948)	(42,218)	(18)	(43)
Interest received	4	3,015	3,633	2,768	2,105
Taxation paid	5	(3,535)	-	-	-
Cash flows from operating activities		52,067	319	(375)	(2,597)
Cash flows from investing activities		(590,920)	(21,414)	(502,717)	16,892
Movement in financial instrument		6,177	(4,466)	6,177	16,892
Movement in subsidiary loan acount			(4,466)	(508,831)	-
Acquisition of property plant and equipment		(597,097)	(16,948)	(63)	-
Cash flows from financing activities		423,239	58,225	539,401	24,004
Proceeds from issue of shares		544,804	30,241	544,804	30,240
Movement on non-current borrowings		(121,565)	27,984	(5,403)	(6,236)
Net (decrease)/increase in cash and cash equivalents		(115,614)	37,130	36,309	38,299
Cash and cash equivalents at beginning of year/period	20	28,187	(8,943)	48,398	10,099
Cash and cash equivalents at end of year/period	20	(87,427)	28,187	84,707	48,398

FACT: Certain stainless steel grades, such as 310, which contains 25% chromium and 20% nickel, is far more resistant to high temperatures than ordinary carbon steel.

1. Significant Accounting Policies

Merafe Resources Limited (the Company) is a company domiciled in the Republic of South Africa. The consolidated financial statements of the Company for the year ended 31 December 2005 comprise the Company and its subsidiaries (together referred to as the Group).

The financial statements were authorised for issue by the directors on 26 June 2006.

11 Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB). These are the Group's first IFRS compliant financial statements and IFRS 1 has been applied.

An explanation of how the transition of IFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in note 26.

12 Basis of Preparation

The financial statements are presented in Rand, rounded to the nearest thousand. They are prepared on the historical cost basis, except for the following assets and liabilities, which are stated at their fair value: derivative financial instruments, financial instruments held for trading, financial instruments classified as available-for-sale and equity-settled share based payments.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future period if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet at 1 April 2004 for the purposes of the transition to IFRS.

Judgements made by Management in the application of IFRS that have a signficant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 26.

There are Standards and Interpretations in issue that are not yet effective. These include the following Standards and Interpretations that are applicable to the business of the entity and may have an impact on future financial statements:

- IFRS6, Exploration for and evaluation of mineral resources;
- IFRIC 4, Determining whether an arrangement contains a lease;
- IFRIC 5, Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds;
- IFRS 7, Financial instruments: disclosures (including amendments to IAS1, Presentation of financial statements: capital disclosure).

It is currently estimated that these standards and interpretations will not have a material effect on the financial statements.

The accounting policies have been applied consistently by Group entities.

13 Basis of consolidation

13.1 Subsidiaries

Subsidiares are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. In the Company financial statements, subsidiaries are stated at cost less accumulated impairment losses.

13.2 Transactions Eliminated on Consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

13.3. Transactions with Xstrata-Merafe Chrome Venture

The Xstrata-Merafe Chrome Venture resulted in Xstrata and Merafe Resources pooling and sharing their ferrochrome assets. Accounting policy 1.12.1 describes the accounting of the Group s share or revenue generated by the venture, while note 23.3 contains details of the Group s share of the working capital and EBITDA of the venture.

14. Foreign Currency

14.1 Foreign Currency Transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Rand at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Rand at foreign exchange rates ruling at the dates the fair value was determined.

15. Property, Plant and Equipment

15.1 Mining Assets

Mining assets, including mine development costs and mine plant facilities are stated at cost less accumulated depreciation and impairment losses. Costs include pre-production expenditure incurred in the development of the mine and the present value of future decommissioning costs. Interest on borrowings to specifically finance the establishment of mining assets is capitalised until substantially all the activities for that mining asset s intended use are complete. Development costs incurred to develop new ore bodies, to define mineralisation in existing ore bodies and to establish or expand productive capacity are capitalised. Mine development costs in the ordinary course of maintaining production are expensed as incurred. Initial development and pre-production costs relating to a new ore body are capitalised until the ore body achieves commercial levels of production, at which time, the asset is deemed to be available for use and is amortised as set out below.

15.2 Mineral and Surface Rights

Mineral and surface rights are stated at cost less accumulated depreciation and impairment losses. When there is little likelihood of a mineral right being exploited, or the value of mineral rights have diminished below cost, an impairment loss is affected against income in the period that such determination is made.

15.3 Non-mining Assets

Land is shown at cost and is not depreciated. Buildings and other non-mining fixed assets are shown at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and, an appropriate proportion of production overheads.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

15.4 Subsequent Costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

15.5 Depreciation and Amortisation

Assets are depreciated and amortised using the methods disclosed below to their respective residual values.

Residual values, if not insignificant, are re-assessed annually.

1.5.5.1 Mine development costs
Mine development costs are amortised using the units-of-production method, based on estimated proven and probable ore reserves. Proven and probable ore reserves reflect estimated quantities of economically recoverable reserves, which can be recovered in future from known mineral deposits. These reserves are reassessed annually.

1.5.5.2 Mineral and surface rights
Mineral rights that are being depleted are amortised over their estimated useful lives using the units-of-production method, based on proven and probable ore reserves. Where the reserves are not determinable, due to their scattered nature, the straight line method is applied. Mineral rights that are not being depleted are not amortised. Mineral rights that have no commercial value are impaired in full.

1.5.5.3 Mining assets
Mining equipment and structures and plant and equipment are depreciated using the lesser of their estimated useful lives and the units-of-production method based on estimated proven and probable ore reserves. Where ore reserves are not determinable, because of their scattered nature, the straight line method of depreciation is applied.

1.5.5.4. Non-mining assets
Non-mining assets which are depreciated are depreciated on a straight line basis over their estimated useful lives as follows:
- ¥ Motor vehicles 20%
- ¥ Furniture and equipment 20%.

1.5.5.5. Leased assets
Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Lease payments are accounted for as described in accounting policy 1.13.3.

16 Financial Instruments

Financial instruments recognised on the balance sheet include cash and cash equivalents, investments, trade and other receivables, borrowings, trade and other payables and derivative financial instruments. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

16.1 Investments

Investments comprise investments in bonds which are classified as available-for-sale and are accounted for at fair value with all gains and losses included in equity.

16.2. Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently are remeasured at their fair value. Derivative financial instruments, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules of IAS 39. Therefore all gains and losses resulting from such derivative financial instruments are immediately recognised in the income statement.

16.3 Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

16.4 Trade receivables

Trade receivables are carried at anticipated realisable value. Estimates are made for impairment losses based on a review of all outstanding amounts at year-end. Irrecoverable amounts are written off during the year in which they are identified.

16.5 Trade payables

Accounts payable are stated at cost, adjusted for payments made to reflect the value of the anticipated economic outflow of resources.

16.6 Provisions

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

If the effect is material provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

17 Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Cost is determined on the following basis:
- ¥ Finished goods on hand are valued using the weighted average cost. Cost includes production, amortisation,related administration costs.
- ¥ Work-in-progress is valued at weighted average cost. Costs include production, amortisation and related administration costs.
- ¥ Consumable stores and raw materials are valued at weighted average cost.

18 Impairment

The carrying amount of the Group's assets, other than inventories are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

1.8.1 Calculation of Recoverable Amount

The recoverable amount of assets is the greater of their net selling price and value in use. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

1.8.2 Reversals of Impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.9 Share Capital

1.9.1 Preference Share Capital

Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or is redeemable but only at the Company's option. Dividends on preference share capital classified as equity are recognised as distributions within equity.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders or if dividend payments are not discretionary. Dividends thereon are recognised in the income statement as an interest expense.

1.9.2 Dividends

Dividends on redeemable preference shares are recognised as a liability and expensed on an accrual basis. Other dividends are recognised as a liability in the period in which they are declared.

1.10 Interest-bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

1.11 Employee Benefits

1.11.1 Defined contribution plans

Pension plans are funded through monthly contributions to the Merafe Resources Provident Fund. Obligations for contribution to the defined contribution pension plans are recognised as an expense in the income statement as incurred. The Group's liability is limited to its annually determined contributions.

The Group provides medical cover to current employees through various funds. The medical plans are funded through monthly contributions to the medical aid fund. The Group's contributions to the defined contribution medical aid plans are recognised as an expense in the income statement as incurred. The Group's liability is limited to its annually determined contributions.

1.11.2 Equity-settled share based payments

The share option programme allows qualifying directors and certain employees to acquire share options under an employee share option scheme. Share options may be granted to all employees of the Company and of its subsidiaries at the discretion of the directors, subject to the limitations imposed by the share option scheme. The fair value of options is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black-Scholes-Merton model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

1.11.3 Provision for close-down and restoration costs

Long-term environmental obligations are based on the Group environmental management plans, in compliance with current environmental and regulatory requirements. Full provision is made based on the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to balance sheet date.

The related entries are capitalised to mining assets and are amortised over the useful lives of the related assets.

Annual movements in the provision relating to the change in the net present value of the provision due to changes in estimated cash flows or discount rates are adjusted against the costs capitalised to mining assets. Annual movements in the provision relating to passage of time, i.e. unwinding of discount is expensed in earnings.

Cost estimates are not reduced by the potential proceeds from the sale of assets or from plant clean up at closure, in view of the uncertainty of estimating the potential future proceeds. When necessary, contributions are made to a dedicated rehabilitation trust fund to fund the estimated cost of rehabilitation during and at the end of the life of the relevant mine.

The amounts contributed to this trust fund are included under non-current assets. Income earned on monies paid to rehabilitation trust funds is accrued on an annual basis and is recorded as interest income.

1.12. Revenue from mining and smelting operations

1.12.1 Goods Sold
The Group accounts for its share of revenue generated by the Xstrata-Merafe Chrome Venture. Revenues associated with sales of commodities are recognised when all significant risks and rewards of ownership of the commodities are sold and transferred to the customer, usually when the commodity is delivered to the shipping agent. Revenue usually includes priced cost, insurance and freight (CIF). Revenue from the sales of by-products is also included in revenue.

1.12.2 Interest Income
Interest income is recognised on a time proportion basis taking account of the principal outstanding and the effective rate to maturity on the accrual basis.

1.13 Expenses

1.13.1 Exploration and Evaluation Costs

Exploration and evaluation costs for each area of interest, other than that acquired from the purchase of another mining company, are carried forward as an asset provided that one of the following conditions is met:

- ¥ Such costs are expected to be recouped through successful development and exploration of the area of interest or alternatively, by its sale; or
- ¥ Exploration and evaluation activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence of otherwise of economically recoverable reserves and active and significant operations in relation to the area are continuing.

Exploration and evaluation expenditure that fails to meet at least one of the conditions outlined above is written off.

Identifiable exploration and evaluation assets acquired are recognised as assets at their cost of acquisition. Exploration and evaluation assets are regularly reassessed and these costs are carried forward provided that at least one of the conditions outlined above is met.

1.13.2 Operating Lease Payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

1.13.3 Finance Lease Payments

Minimum lease payments are basis apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a consistent periodic rate of interest in the remaining balance of the liability.

1.13.4 Financing Costs

Financing costs comprise interest payable on borrowings calculated using the effective interest rate method, dividends on redeemable preference shares and interest receivable on funds invested.

The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

1.13.5 Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group identified only one segment.

1.14 Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets including deferred tax assets relating to the carry forward of unutilised tax losses and/or unutilised capital allowances are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the relaxed tax benefit will be realised. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

	Group		Company	
	12 months ended 31 December 2005 R 000	9 months ended 31 December 2004 R 000	12 months ended 31 December 2005 R 000	9 months ended 31 December 2004 R 000
2. Revenue				
Revenue from mining and smelting operations	614,562	502,369	-	-
3. Operating profit/(loss) before net financing (costs)/income				
The following items have been taken into account in arriving at profit/(loss) before net financing (costs)/income:				
Realised and unrealised foreign exchange gains/ (losses)	503	(1,627)	503	(79)
Management fee - Merafe Ferrochrome and Mining (Pty) Ltd			20,775	10,351
Loss on disposal of property, plant and equipment	(96)	-	(96)	-
Auditors' remuneration	(477)	(545)	(382)	(372)
Audit fees - current year	(337)	353	(270)	(180)
Other services	(140)	192	(112)	(192)
Depreciation and amortisation	(6,987)	(4,469)	(153)	(163)
Feasability study costs	(4,173)	-	(4,173)	
Increase in provision for leave pay	(10,110)	(8,310)	(535)	(606)
Increase in provision for legal and self insurance	(144)	(1,449)	-	-
Staff costs	(81,275)	(26,229)	(1,242)	(6,204)
Defined contribution expense - Provident fund	(1,837)	(4,186)	(1,079)	(653)
Directors' remuneration				
Non-executive directors				
C Molefe	213	-	213	-
Q Mbatha	121	-	121	-
*R Meyjes	104	-	104	-
L Mogotsi	69	-	69	-
J Matlala	46	-	46	-
*T Vlajcic	100	-	100	-
	653	-	653	-

*Resigned in August 2005

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	Group		Company	
	12 months ended 31 December 2005 R 000	9 months ended 31 December 2004 R 000	12 months ended 31 December 2005 R 000	9 months ended 31 December 2004 R 000
3. Operating profit/(loss) before net financing (costs)/income contd				
Directors remuneration contd				
Executive directors				
S Phiri				
Salary	1,851	1,138	1,851	1,138
Bonus	370	185	370	185
Fringe benefits	97	154	97	154
Provident fund contributions	244	165	244	165
	2,562	1,642	2,562	1,642
SP Elliot				
Salary	1,736	1,115	1,736	1,115
Bonus	321	161	321	161
Fringe benefits	185	108	185	108
Provident fund contributions	234	158	234	158
	2,476	1,542	2,476	1,542
B McBride				
Salary	1,694	1,094	1,694	1,094
Bonus	321	161	321	161
Fringe benefits	160	111	160	111
Provident fund contributions	228	155	228	155
	2,403	1,521	2,403	1,521
Z van der Walt				
Salary	1,284	1,094	1,284	1,094
Bonus	321	161	321	161
Fringe benefits	78	104	78	104
	1,683	1,359	1,683	1,359
	9,124	6,064	9,124	6,064
4. Net Financing (Costs)/Income				
Interest paid:	(60,948)	(42,218)	(18)	(43)
Interest-bearing borrowings	(32,648)	(40,991)	-	(21)
Dividends on redeemable preference shares	(28,281)	-	-	-
Bank	(10)	(1,227)	(9)	(22)
Other	(9)	-	(9)	-
Interest received:	3,015	3,633	2,768	2,105
Bank	2,749	2,933	2,714	2,030
Other	266	700	54	75
Net finance (costs)/income	(57,933)	(38,585)	2,750	2,062

5. Income tax expense

	Group		Company	
	12 months ended 31 December 2005 R 000	9 months ended 31 December 2004 R 000	12 months ended 31 December 2005 R 000	9 months ended 31 December 2004 R 000
Secondary tax on companies	3,535	-	-	-

No income tax expense has been recognised, as the Company has an estimated assessed loss of R 821,572 (31 December 2004: R 3,100,340) as well as unredeemed capital expenditure of R 198,637 (31 December 2004: R 198,637). No income tax expense has been recognised in the Group as the Group companies have assessed losses. The total estimated assessed losses within the Group are R 96,907,202 (31 December 2004: R 191 067 027) and the total estimated unredeemed capital expenditure of R 1,262,091,079 (31 December 2004: R742 953 403). No deferred tax assets were raised on the estimated assessed losses and the estimated unredeemed capital expenditure as it is uncertain whether future taxable profits will be available against which the unutilised tax losses and capital allowances can be utilised.

	Group	
	12 months ended 31 December 2005	9 months ended 31 December 2004
Reconciliation of effective Group tax rate		
Standard tax rate	29%	30%
STC on dividend	7.8%	-
Rate change	1.0%	-
Non-deductible expenditure	10.8%	20.7%
Assessed losses and unredeemed capital expenditure utilised	(40.8%)	(50.7%)
	7.8%	-

6. Earnings per share (cents)

6.1 Basic earnings per share (cents)

The calculation of basic earnings per share at 31 December 2005 is based on profit attributable to ordinary share holders of R 41,707,132 (31 December 2004: R20,723,520) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2005 of 1,365,455,520 (31 December 2004: 1,236,676,723).

6. Earnings per share (cents) contd

6.2 Headline earnings per share (cents)

	Group	
	12 months ended 31 December 2005	9 months ended 31 December 2004
Headline earnings per share (cents)	2.92	1.67

The calculation of headline earnings per share at 31 December 2005 is based on profit attributable to ordinary shareholders of R 40,069,663 (31 December 2004: R 20,723,520) and a weighted average number of shares outstanding during the year ended 31 December 2005 of 1,365,455,520 (31 December 2004: 1,236,676,723).

	12 months ended 31 December 2005	9 months ended 31 December 2004
Net profit for the year	41,707,132	20,723,520
Fair value gain on available-for-sale financial instrument matured	(1,959,685)	-
Loss on sale of property, plant and equipment	96,044	-
	39,843,491	20,723,520

6.3 Diluted earnings per share (cents)

The calculation of diluted earnings per share at 31 December 2005 is based on profit attributable to ordinary shareholders of R 41,707,132 (31 December 2004: R 20,723,520) and a weighted average number of shares outstanding during the year ended 31 December 2005 of 1,387,858,250 (31 December 2004: 1,276,850,171).

	12 months ended 31 December 2005	9 months ended 31 December 2004
Weighted average number of ordinary shares used in calculating basic earnings per share	1,365,455,520	1,236,676,723
Deemed issue of ordinary shares in respect of share options	22,402,730	40,173,448
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,387,858,250	1,276,850,171

	Group		Company	
	31 December 2005 R 000	31 December 2004 R 000	31 December 2005 R 000	31 December 2004 R 000
7. Options for mineral rights				
At cost less recoupments and amounts impaired	258	258	258	258
Options acquired are in respect of the mineral rights on certain parts of the farm Schoongezicht 225, Registration Department IR Mpumalanga and portion 9 of farm Annex Glen Ross No. 562 in the Administrative District of Theunissen.				
8. Property, Plant and Equipment				
8.1 Fixed property and mineral rights				
Carrying value at beginning of year/period	24,556	16,438	3,816	3,816
Land and mineral rights at cost	30,162	16,792	3,816	3,816
Accumulated depreciation	(5,606)	(354)	-	-
Carrying value transferred from mining equipment and structure	-	7,990	-	-
	24,556	24,428	3,816	3,816
Additions	96,720	723	-	-
Depreciation charge for the year/period	(814)	(595)	-	-
Carrying value at end of year/period	120,462	24,556	3,816	3,816
Land and mineral rights at cost	126,882	30,162	3,816	3,816
Accumulated depreciation	(6,420)	(5,606)	-	-

A register of the mineral rights and title deeds is available for inspection at the registered office of the Company.

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	Group		Company	
	31 December 2005 R 000	31 December 2004 R 000	31 December 2005 R 000	31 December 2004 R 000
8.2 Ferrochrome smelter project				
Carrying value at beginning of year/period	648,121	644,945	-	-
Cost	653,537	648,601	-	-
Accumulated depreciation	(5,416)	(3,656)	-	-
Additions	53,043	4,936	-	-
Depreciation charge for the year/period	(2,477)	(1,760)	-	-
Carrying value at end of year/period	698,687	648,121	-	-
Cost	706,580	653,537	-	-
Accumulated depreciation	(7,893)	(5,416)	-	-
8.3 Mine development project				
Carrying value at beginning of year/period	40,878	34,580	-	-
Cost	43,643	36,395	-	-
Accumulated depreciation	(2,765)	(1,815)	-	-
Additions	-	7,248	-	-
Depreciation charge for the year/period	(1,482)	(950)	-	-
Carrying value at end of year/period	39,396	40,878	-	-
Cost	43,643	43,643	-	-
Accumulated depreciation	(4,247)	(2,765)	-	-
8.4 Mining equipment and structures				
Carrying value at beginning of year/period	13,539	21,929	-	-
Cost	15,980	28,627	-	-
Accumulated depreciation	(2,441)	(6,698)	-	-
Carrying value transferred to land and mineral rights	-	(7,990)	-	-
	13,539	13,939	-	-
Additions	25,619	-	-	-
Depreciation charge for the year/period	(1,373)	(400)	-	-
Carrying value at end of year/period	37,785	13,539	-	-
Cost	41,599	15,980	-	-
Accumulated depreciation	(3,814)	(2,441)	-	-

	Group		Company	
	31 December 2005 R 000	31 December 2004 R 000	31 December 2005 R 000	31 December 2004 R 000
8.5 Plant and equipment				
Carrying value at beginning of year/period	675	944	22	36
Cost	2,187	2,187	94	94
Accumulated depreciation	(1,512)	(1,243)	(72)	(58)
Depreciation charge for the year/period	(213)	(269)	(19)	(14)
Carrying value at end of year/period	462	675	3	22
Cost	2,187	2,187	94	94
Accumulated depreciation	(1,725)	(1,512)	(91)	(72)
8.6 Motor vehicles				
Carrying value at beginning of year/period	301	435	217	313
Cost	893	893	639	639
Accumulated depreciation	(592)	(458)	(422)	(326)
Disposals at carrying value	(96)	-	(96)	-
Depreciation charge for the year/period	(112)	(134)	(61)	(96)
Carrying value at end of year/period	93	301	60	217
Cost	392	893	138	639
Accumulated depreciation	(299)	(592)	(78)	(422)
8.7 Office furniture and equipment				
Carrying value at beginning of year/period	1,316	1,480	96	149
Cost	2,615	2,418	399	399
Accumulated depreciation	(1,299)	(938)	(303)	(250)
Additions	63	197	63	-
Depreciation charge for the year/period	(516)	(361)	(73)	(53)
Carrying value at end of year/period	863	1,316	86	96
Cost	2,678	2,615	462	399
Accumulated depreciation	(1,815)	(1,299)	(376)	(303)
8.8 Wonderkop assets				
Carrying value at beginning of year/period	-	-	-	-
Cost	-	-	-	-
Accumulated depreciation	-	-	-	-
Additions	231,913	-	-	-

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	Group		Company	
	31 December 2005 R 000	31 December 2004 R 000	31 December 2005 R 000	31 December 2004 R 000
8.8 Wonderkop assets contd				
Carrying value at end of year	231,913	-	-	-
Cost	231,913	-	-	-
Accumulated depreciation	-	-	-	-
8.9 Lion Project				
Carrying value at beginning of year	-	-	-	-
Cost	-	-	-	-
Accumulated depreciation	-	-	-	-
Additions	198,887	-	-	-
Carrying value at end of year	198,887	-	-	-
Cost	198,887	-	-	-
Accumulated depreciation	-	-	-	-
8.10 Capital work-in-progress				
Costs capitalised to date	1,688	10,836	-	-
Total carrying value at end of year/period	1,330,236	740,222	3,965	4,151
8.11 Capitalised finance leases				
Leased assets where the Company is the lessee are included in 8.2, Ferrochrome smelter project and 8.6 Motor vehicles				
Cost	138	1,397	138	639
Accumulated depreciation	(78)	(687)	(78)	(422)
Carrying value at end of year/period	60	710	60	217
9. Investments				
9.1 Wholly-owned subsidiaries				
Southwits Mining Company (Pty) Ltd			(102)	(102)
Shares at cost			*	*
Loan from subsidiary			(102)	(102)
Merafe Chrome & Alloys (Pty) Ltd				
Shares at cost			*	*
Loan to subsidiary			725,567	216,736
Loan at cost			1,016,512	507,681
Provision for impairment			(290,945)	(290,945)
Total wholly-owned subsidiaries			725,465	216,634

* Amount is less than one thousand.

The investment in the subsidiary has been impaired so that the investment is carried at no more than its recoverable amount. The impairment loss will be reversed if the subsidiary reduces its accumulated loss and becomes profitable. These loans are unsecured, interest free and have no fixed repayment terms. The loan to Merafe Chrome & Alloys (Pty) Ltd has been subordinated in favour of claims by other creditors of that company.

	Group		Company	
	31 December 2005 R 000	31 December 2004 R 000	31 December 2005 R 000	31 December 2004 R 000
9. Investments contd				
9.2 Flexidowment policy				
Held to maturity - Flexidowment policy	346	346	-	-
This flexidowment policy is managed by Old Mutual and matured in April 2005. This policy has been ceded to the Horizon Nature Conservation Trust and forms part of the Trust's accumulated rehabilitation funds.				
9.3 Bond				
Available-for-sale investment bond				
At beginning of the year/period	6,062	9,411	6,062	9,411
Fair value surplus transfered to equity	322	1,508	322	1,508
Matured during the year/period	(6,384)	(4,857)	(6,384)	(4,857)
At end of the year/period	-	6,062	-	6,062
Available-for-sale investments consisting of one zero trade bond matured on 28 September 2005. The yield to maturity was 10.32%. The fair value is estimated by reference to the current market value of similar instruments.				
Total investments	346	6,408	725,465	222,696
Non-current	346	346	725,465	216,634
Current	-	6,062	-	6,062
	346	6,408	725,465	222,696

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	Group		Company	
	31 December 2005 R 000	31 December 2004 R 000	31 December 2005 R 000	31 December 2004 R 000
10. Other financial asset				
Forward exchange contract asset - licensing fee	-	1,752	-	1,752
11. Inventories				
Consumables stores	26,725	14,917	-	-
Raw materials and work-in-progress	82,886	76,295	-	-
Final product	214,698	146,059	-	-
	324,309	237,271	-	-
12. Share capital				
Authorised - 2,750,000,000 (31 December 2004: 2,000,000,000) ordinary shares of 1 cent each.	27,500	20,000	27,500	20,000
Issued - 2,247,490,793 (31 December 2004: 1,237,917,518) ordinary shares of 1 cent each.	22,475	12,379	22,475	12,379
13. Share premium				
Balance at the beginning of year/period	557,035	527,217	557,035	527,217
Arising from issue of new shares	544,836	29,928	544,836	29,928
Share issue expenses	(10,128)	(110)	(10,128)	(110)
	1,091,743	557,035	1,091,743	557,035

The unissued share capital is under the control of the directors, subject to the Companies Act and the JSE Limited Listings Requirements, until the next annual general meeting. The directors report and note 23 set out the details in respect of the share option scheme.

14. Equity - settled shared-based payments

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Merafe Resources has applied the provisions of IFRS 2, share-based payments, except for share options granted before 7 November 2002, or share options granted after this date but which had vested prior to 1 January 2005 (refer note 26).

Previously, share options granted to employees did not result in an expense to Merafe Resources, other than a dilution in earnings per share when the shares were issued.

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Balance at beginning of year/period	1,545	849	1,545°	849
Fair value during current year/period	965	696	965	696
Balance at end of year/period	2,510	1,545	2,510	1,545

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	Group		Company	
	31 December 2005 R 000	31 December 2004 R 000	31 December 2005 R 000	31 December 2004 R 000
15. Fair value reserve				
Balance at the beginning of year/period	1,637	129	1,637	129
Movements recognised directly in equity (refer note 9.3)	322	1,508	322	1,508
Fair value gain on available-for-sale financial instrument matured	(1,959)	-	(1,959)	-
Balance at end of year/period	-	1,637	-	1,637
16. Non-current borrowings				
16.1 Loan: Ferrochrome smelter and mine development	-	435,307	-	-
16.2 Loan: Establishment of mining and related operations	2,350	5,379	-	-
16.3 Loan: Licence fees payable	-	5,309	-	5,309
16.4 Finance leases	54	450	54	148
16.5 Preference shares	322,476	-	-	-
Balance at end of year/period	324,880	446,445	54	5,457
Current portion of non-current borrowings	(100,047)	(54,669)	(47)	(5,408)
	224,833	391,776	7	49

16.1 The following securities in respect of these loans are held by Investage 123 (Pty) Ltd on behalf of the lenders and have been registered:

- ¥ a general notarial bond over all of the Group's movable assets.
- ¥ a mortgage bond over the surface of portion 21 of the farm Boschhoek 103, registration division JQ, North West Province.
- ¥ a collateral special notarial bond over the Ferrochrome smelter and the mine development project (refer note 8.3).
- ¥ a first collateral mortgage bond over the mineral leases of the Group.
- ¥ a cession of all rights, title and interest in various securities.
- ¥ a limited guarantee by the holding companies.
- ¥ a pledge of the subsidiary's shares and a cession of all rights in respect of the shareholder's loan by the holding companies.

These loans from Absa Corporate and Merchant Bank Limited and the Industrial Development Corporation which bore interest at 13.55% per annum were repaid during the year and replaced by the redeemable preference shares disclosed in note 16.5. Interest on these loans and a fixed portion of these loans were repaid twice a year in May and November.

16.2 The loan is secured and repayable in monthly instalments of R 233,000 (31 December 2004: R 233,000) and bears interest at a variable rate of 2% below prime overdraft rate.

16.3 These foreign licence fees were payable by irrevocable and transferable letters of credit issued on the Company's behalf by a financial institution. The licence fees, which were covered by forward exchange contracts, were payable on 28 September 2005. The licence fees payable were not secured and did not bear interest.

16.4 These loans are secured by finance lease agreements over equipment with a book value of R 59,639 (31 December 2004: R 709,346) as per note 8.11. These loans are repayable in monthly instalments of R 4,100 (31 December 2004: R 42, 463) and bear interest at the prime overdraft rate.

	Group		Company	
	31 December 2005 R 000	31 December 2004 R 000	31 December 2005 R 000	31 December 2004 R 000
Minimum lease payments:				
Repayable within the next year	50	402	50	103
Repayable later than 1 year but not later than 5 years	8	83	8	57
Future finance charges on finance leases	(4)	(35)	(4)	(12)
	54	450	54	148

16.5 These redeemable preference shares held by Absa Corporate and Merchant Bank Limited and the Industrial Development Corporation, have a fixed preference dividend rate of 9.95%, payable quarterly.

17. Provision for close down and restoration costs	7,592	4,214	-	-
Balance at beginning of year/period	4,214	862	-	-
Utilised during the year/period	(1,528)	(193)	-	-
Charge for the year/period	4,906	3,545	-	-
18. Trade and other payables				
Trade payables	559,310	249,031	246	340
Other payables	26,518	161,645	993	1,527
Included in trade and other payables in 2005 is an amount of R63.3 million (31 December 2004: R141.0 million) owed to Xstrata. Interest on this loan is charged at prime overdraft rates.				
Foreign exchange liability - licencing fee	-	1,403	-	1,403
	585,828	412,079	1,239	3,270
19. Other provisions				
Leave pay provision:	16,205	11,268	898	720
Opening balance	11,268	3,727	720	734
Utilised during the year/period	(5,173)	(769)	(357)	(620)
Additional provision made during the year	10,110	8,310	535	606
Legal and self insurance	695	1,446	-	-
Opening balance	1,446	-	-	-
Utilised during the year/period	(895)	(3)	-	-
Additional provision made during the year	144	1,449	-	-
Downstream project	9,103	9,103	9,103	9,103
Total provisions	26,003	21,817	10,001	9,823

19. Provisions Contd

The Downstream project relates to a feasibility study and investigation which is being undertaken by Merafe Resources Limited (Merafe Resources). An amount of R 9,103,403 (one million Euros at the date of transaction) was advanced to Merafe Resources by ThyssenKrupp Metallurgie GMBH (Thyssen) in respect of this project. Merafe Resources shall issue shares to Thyssen for the amount of R9,103,403 for this investigation receipt. The number of Merafe Resources shares shall be the investigation receipt divided by the issue price (weighted average price of Merafe Resources shares traded on the JSE Limited (JSE)) thirty days before the payment date being (the earlier of thirty days after the Downstream Project is "hot commissioned" and/or 1 April 2006).

	Group		Company	
	12 months ended 31 December 2005 R 000	9 months ended 31 December 2004 R 000	12 months ended 31 December 2005 R 000	9 months ended 31 December 2004 R 000
20. Cash Flow Information				
20.1 Cash generated by/(utilised in) operating activities				
Profit/(loss) for the year/period	41,707	20,724	-	(291,641)
Adjusted for:				
Depreciation and amortisation	6,987	4,469	153	163
Interest received	(3,015)	(3,633)	(2,768)	(2,105)
Interest paid	60,948	42,218	18	43
Taxation paid	3,535	-	-	-
Unrealised foreign exchange loss	-	1,638	-	-
Impairment of loan in subsidiary	-	-	-	290,945
Equity-settled share based payment expense	965	696	965	696
Loss on disposal of property, plant and equipment	96	-	96	-
Operating profit/(loss) before working capital changes	111,223	66,112	(1,536)	(1,899)
Working capital changes	2,312	(27,208)	(1,589)	(2,760)
Increase in inventories	(87,038)	(144,474)	-	-
(Increase)/decrease in trade and other receivables	(91,963)	(130,748)	264	163
Increase/(decrease) in trade and other payables	173,749	235,675	(2,031)	(2,908)
Increase/(decrease) in provisions	7,564	12,339	178	(15)
	113,535	38,904	(3,125)	(4,659)
20.2 Cash and Cash Equivalents				
Bank and Cash	86,742	52,220	84,707	48,398
Bank overdraft	(174,169)	(24,033)	-	-
	(87,427)	28,187	84,707	48,398

21 Fair value and credit risk of financial instruments

In the normal course of its operations, the Group is exposed to commodity price, currency, interest, liquidity and credit risk. In order to manage these risks, the Group may enter into transactions that make use of financial instruments. The Group did not acquire, hold or issue derivative instruments for trading purposes.

Concentration of credit risk

The Group s cash and cash equivalents do not represent a concentration of credit risk because the Group deals with a variety of major banks. As regards receivables, the Group sells the majority of its ferrochrome to customers in terms of the Xstrata-Merafe Chrome Venture agreement. As a result of these, the Group believes that no concentration of risk exists with regards to sales to these customers, due to the international markets for their product. The Group has a policy to identify impairment indicators and impair receivables if necessary.

Foreign currency and commodity price risk

In the normal course of business, the Group enters into transactions denominated in foreign currencies (primarily US$). In addition the Group had liabilities in US$. As a result, the Group was subject to transaction and translation exposure from fluctuations in foreign currency exchange rates. The strengthening of the South African Rand against the US$ in the current financial year resulted in exchange gains being achieved on the foreign borrowings which have been offset to an extent by unrealised exchange losses arising on foreign sales contracts. The Group does not hedge its foreign currency exposure to the ferrochrome price fluctuation risk or Rand: US$ exchange rate.

Interest rate and liquidity risk

Fluctuations in interest rates impact on the value of cash investments and financing activities, giving rise to interest rate risk. In the ordinary course of business the Group receives cash from its operations to fund working capital and capital expenditure requirements, as well as debt repayments. This cash is managed to ensure surplus funds are invested in a manner to achieve maximum returns while minimising risks.

22. Share option scheme

	Number of options 31 December 2005 **000s**	**Number of options** 31 December 2004 **000s**
Movement in the number of share options held by employees is as follows:		
Balance at the beginning of the year/period	91,065	92,658
Options granted during the year/period	2,000	-
Options exercised during the year/period	(2,333)	(1,593)
Options forfeited during the year/period	(11,124)	-
Balance at the end of the year/period	79,608	91,065

Share options outstanding at the end of the year/period have the following terms

	000s	**000s**
Exercise price:		
35 cents	8,985	9,985
39 cents	9,985	9,985
40 cents	5,994	5,994
45 cents	38,110	48,145
54 cents	10,034	10,150
60 cents	2,000	1,874
69 cents	0	32
73 cents	2,500	2,500
82 cents	500	500
98 cents	1,500	1,500
114 cents	0	400
	79,608	91,065

	Number of options 31 December 2005 000s	Number of options 31 December 2004 000s
Share option scheme (continued)		
Exercise dates:		
31 December 2003	9,985	11,315
30 June 2004	16	32
31 December 2004	16,316	24,647
30 June 2005	16	32
31 December 2005	23,342	24,817
30 June 2006	4,027	4,378
31 December 2006	14,190	14,662
30 June 2007	4,011	4,347
31 December 2007	860	1,328
30 June 2008	4,011	4,346
31 December 2008	1,500	1,161
31 December 2009	667	-
31 December 2010	667	-
	79,608	91,065

Share option scheme (continued)

The following share options were outstanding at 31 December 2005 in favour of directors of the Company:

	Z van der Walt	SP Elliot	B McBride	DS Phiri
Average Exercise Price (Cents)	44	44	44	54
	000 s	000 s	000 s	000 s
Exercisable on 31 December 03	3,329	3,329	3,329	-
Exercisable on 30 June 04	7	7	7	-
Exercisable on 31 December 04	3,328	3,328	3,328	-
Exercisable on 30 June 05	5	5	5	-
Exercisable on 31 December 05	3,340	3,340	3,340	-
Exercisable on 30 June 06	5	5	5	3,345
Exercisable on 31 December 06	11	11	11	-
Exercisable on 30 June 07	-	-	-	3,345
Exercisable on 30 December 07	9	9	9	-
Exercisable on 30 June 08	-	-	-	3,344
Total	10,034	10,034	10,034	10,034

23. Related Party Transactions

23.1 Identity of related parties

The Group has related party relationships with its wholly-owned subsidiaries (refer note 9.1), Xstrata-Merafe Chrome Venture (refer note 23.3), the Industrial Development Corporation (refer note 23.4) Royal Bafokeng Resources Holdings (Pty) Limited (refer note 23.5) and with its directors (refer note 23.2)

23.2 Transactions with its directors

Directors of the Company control 0.08% of the voting shares of the Company. In addition to their salaries, the Company also contributes to a provident fund (defined contribution plan) and medical aid fund on their behalf (refer note 3). Executive directors also participate in the Company's share option scheme (refer note 22).

23.3 Transactions with Xstrata-Merafe Chrome Venture

The Xstrata-Merafe Chrome Venture resulted in Xstrata and Merafe Resources pooling and sharing their ferrochrome assets. While Merafe Resources assets form part of the Xstrata-Merafe Venture, Merafe Resources retains ownership of its assets and is closely involved in the Venture's operations through the Chrome Exco and joint board formed to oversee the combined operations of both companies. The Group received 11% to 30 June 2005, 14% to 15 Nov 2005 and 17% to 31 December 2005 of the Venture's working capital and EBITDA respectively during the year.

Included in the consolidated financial statements are the following items that represent the Group's share of the working capital and EBITDA of the Venture:

	2005 R 000	2004 R 000
Inventories	318,480	230,688
Trade and other receivables	249,920	149,571
Bank and cash	1,283	2,621
Trade account between participants	(172,354)	(17,171)
Provisions	(23,593)	(16,208)
Trade and other payables	(168,009)	(218,614)
Bank overdraft	(174,169)	(24,033)
Net assets	31,558	106,854
EBITDA	143,624	55,100

23.4 Transactions with the Industrial Development Corporation of South Africa Limited (IDC)

The IDC is considered to be a related party, due to their ability to exercise significant influence over financial and operating decisions of Merafe Resources. The significant influence is a result of the aforementioned party's shareholding of 24.33%. The IDC has provided financing in respect of the operations as set out in note 16.1, 16.2 and 16.5.

23.5 Transaction with Royal Bafokeng Resources Holdings (Pty) Limited (RBR)

The RBR is considered to be a related party due to their ability to exercise significant influence over financial and operating decisions of Merafe Resources. The significant influence is a result of the aforementioned party's shareholding of 32.04%. No transactions occurred during the year.

24. Contingencies and Commitments

To the best of our knowledge and belief there are no contingent liabilities to third parties and/or contingent assets which may materially affect the financial position of the Group.

25. Operating leases

Operating lease rentals are payable as follows:	2005 R 000	2004 R 000
Less than one year	179	315
Between one and five years	193	372
	372	687

The Group leases offices and various items of office equipment. The leases typically run for a period of five years.

26. First time adoption of IFRS

The date of transition to IFRS for Merafe Resources is 1 April 2004 and therefore as required by IFRS 1, Merafe Resources opening balance sheet at 1 April 2004 has been restated to reflect all existing IFRS statements expected to be applicable at 31 December 2005. Merafe Resources has adopted the following transitional arrangement:

Share-based payments

Merafe Resources has applied the provisions of IFRS 2, share-based payments except for share options granted before 7 November 2002, or share options granted after this date, but which had vested prior to 1 January 2005.

Previously, share options granted to employees did not result in any expense to Merafe Resources, other than a dilution in earnings per share when the shares were issued. In accordance with the requirements of IFRS 2, Merafe Resources has recognised an expense in the income statement, with a corresponding credit in equity. The fair value at the date of granting the options is charged to income over the relevant option vesting periods, adjusting to reflect actual and expected levels of vesting.

Property, plant and equipment

Merafe Resources has applied the provisions of IAS 16 - Property, Plant and Equipment, which requires that the Company provide an annual review and assessment of the useful life of its assets, depreciation method and residual values at the end of each financial year and adjusts depreciation charges accordingly. Thus, the depreciable amount of property, plant and equipment is its cost less its residual value. Where items of property, plant and equipment comprise individual components for which different depreciation periods are appropriate, each component is accounted for separately.

Management has assessed the residual values of certain of the operating assets as higher than the current carrying value of these assets, hence no depreciation has been calculated on these assets. This will be re-assessed on an annual basis.

FACT: Freestanding stainless steel water tanks can withstand the type of deformation they would be subjected to in an earthquake without breaking or leaking.

Notes to the Annual Financial Statements

for the year ended 31 December 2005

26. First time adoption of IFRS contd

Previously individual components were not always separately identified and no residual value was used in determining the depreciated amount of the component.

The effect of the above adjustments on accumulated loss on an annual basis is as follows:

	R 000
Accumulated loss - 31 March 2004 - SA GAAP	(316,740)
IFRS adjustments:	
- Share-based payments	(849)
- Property, plant and equipment	43,298
Accumulated loss - 31 March 2004 - IFRS	(274,291)
Net profit after tax - 31 Dec 2004 - SA GAAP	5,548
IFRS adjustments:	
- Share-based payments	(696)
- Property, plant and equipment	15, 872
Accumulated loss - 31 Dec 2004 - IFRS	(253,567)

The effect of the above adjustments on net profit after tax is as follows:	Nine months to 31 December 2004 R 000
Net profit after tax - SA GAAP	5,548
IFRS adjustments:	
- Share-based payments	(696)
- Property, plant and equipment	15,872
Net profit after tax - IFRS	20,724

27, Post balance sheet date events

The directors are not aware of any material fact or circumstancer that has occurred after the balance sheet date, being 31 December 2005 an the date of this report, other than those disclosed in the Future Prospects section of the Chief Executive Officer s Review.

In June 2006, the Company issued 88.4 million shares at an average price of 57 cents, raising capital of R50 million.

28. Capital commitments

The Group s capital commitments at year end were:

¥ Project Lion R128,481,229.

¥ Other Xstrata-Merafe Chrome Venture commitmnts: R6,467,112.

These commitments ar expected to be settled in the following financial year.

Shareholder Information

Analysis of Ordinary Shareholders as at 31 December 2005

	Number of shareholders	Percentage of all shareholders	Number of shares held	Percentage of shares issued
Analysis of Shareholdings				
Range				
1 - 1000	529	10.90	298,973	0.01
1001 - 5000	971	20.00	3,110,847	0.14
5001 - 10 000	813	16.75	6,864,358	0.31
10 001 - 100 000	2,021	41.63	73,078,417	3.25
100 001 - 1 000 000	411	8.47	113,502,065	5.05
1 000 001 and more	109	2.25	2,050,636,133	91.24
Totals	4,854	100.00	2,247,490,793	100.00
Distribution of Shareholders				
Category				
Diluted funds			1,515,604,699	67.44
Pension funds			272,235,598	12.11
Private companies			179,872,034	8.00
Individuals			160,610,159	7.15
Close corporations			38,479,009	1.71
Other coporations			34,184,408	1.52
Nominees and other institutions			32,463,543	1.44
Banks			14,041,343	0.63
Totals			2,247,490,793	100.00
Shareholder Spread				
Public	4,849	99.90	973,255,249	43.30
Non-public	5	0.10	1,274,235,544	56.70
Directors (directly held)	2	0.04	1,227,112	0.05
Associates	1	0.02	6,014,445	0.28
Royal Bafokeng Resources	1	0.02	720,163,887	32.04
Industrial Development Corporation	1	0.02	546,830,100	24.33
Totals	4,854	100.00	2,247,490,793	100.00

JSE Limited - share statistics - as at 31 December 2005	
Share Price (cents)	
High	84
Low	49
Closing price at 31 December 2005	61
Shares traded	
Number of shares	295,192,910
Value of shares	R179,634,103
Volume traded as a % of weighted average shares in issue	21.6%
Market Capitalisation	
As at 31 December 2005	1,370,969,384

Shareholders Diary

Meetings

Annual General Meeting for 2005 - 24 July 2006

Annual General Meeting for 2006 - June 2007

Reports

Interim report for the six months to 30 June 2006 to be released 2 August 2006.

Annual results for the 12 months to 31 December 2006 to be released in March 2007.

Annual report for the 12 months to 31 December 2006 to be published in May 2007.

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Notice of Annual General Meeting

Merafe Resources Limited
(Incorporated in the Republic of South Africa)
(Registration Number 1987/003452/06)
(the Company)

ISIN:ZAE000060000
Share code:MRF

Notice is hereby given that the nineteenth annual general meeting of members of Merafe Resources Limited will be held at 1st Floor, Block B, 68 Wierda Road East, Wierda Valley, Sandton, at 11:00 on Monday, 24 July 2006, for the purpose of conducting the following business:

1. To receive, consider and adopt the annual financial statements of the Company for the year ended 31 December 2005.
2. To elect the following directors, who retire by rotation and, being eligible, offer themselves for re-election:
   2.1 Mr Steve Phiri and
   2.2 Mr Zed van der Walt
   as executive directors.
   Brief CVs of these directors are set out on page 17 of this annual report.
3. To approve the directors remuneration for the year ended 31 December 2005.
4. To re-appoint KPMG Inc as auditors for the ensuing year.
5. To authorise the directors to determine the auditors remuneration.
6. To approve the auditors remuneration.

As special business to consider and, if deemed fit, to pass with or without modification the following resolutions:

Ordinary resolution number 1
Control of authorised but unissued shares

Resolved that the entire authorised but unissued share capital of the Company from time to time be placed under the control of the directors of the Company until the next annual general meeting, with the authority to allot and issue all or part thereof at their discretion subject to the provisions of sections 221 and 222 of the Companies Act, Act 61 of 1973, as amended (the Act), the Articles of Association of the Company (the Articles) and the JSE Limited (JSE) Listings Requirements.

Ordinary resolution number 2
Issue of shares for cash

Resolved that the directors of the Company be given general authority to issue all or any of the authorised but unissued ordinary shares of one cent each for cash as and when suitable situations arise, subject to the Act, the Articles, the JSE Listings Requirements and the following limitations, namely:

- that this authority shall not extend beyond 15 (fifteen) months from the date of this meeting or the date of the next annual general meeting, whichever is the earlier date;
- that a paid press announcement giving full details, including the effect on net asset value and earnings per share will be published at the time of any issue representing, on a cumulative basis, within one financial year, 5% or more of the number of shares of that class in issue prior to the issues;
- that issues in the aggregate in any one financial year will not exceed 15% of the number of shares of any class of the Company s issued share capital, including instruments which are compulsorily convertible into shares of that class;
- that, in determining the price at which an issue of shares will be made in terms of this authority, the maximum discount permitted will be 10% of the weighted average traded price of the shares in question, as determined over the 30 days prior to the date that the price of the issue is determined or agreed by the directors;
- that any such issue will only be made to public shareholders as defined by the JSE and not to any related parties.

The approval of a 75% majority of the votes cast by shareholders present or represented by proxy at this meeting is required for ordinary resolution number 2 to be carried.

Voting and attendance at the general meeting

Any member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend, speak and vote thereat in his/her stead. The proxy so appointed need not be a member of the Company. Proxy forms should be forwarded to reach the registered office of the transfer secretaries of the Company or the Company s registered office by no later than 11:00 on Friday, 21 July 2006.

Members who have not dematerialised their shares or who have dematerialised their shares with own name registration are entitled to attend and vote at the meeting and are entitled to appoint a proxy or proxies to attend, speak and vote in their stead. The person so appointed need not be a member. Proxy forms should be forwarded to reach the registered office of the Company or the transfer secretaries by no later than 11:00 on Friday, 21 July 2006.

Members who have dematerialised their shares, other than those members who have dematerialised their shares with own name registration, should contact their Central Securities Depository Participant (CSDP) or broker, in the manner and time stipulated in their agreement:

¥ to furnish them with their voting instructions; and
¥ in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

By order of the Board.

A Mahendranath
Company Secretary

Sandton
26 June 2006

Form of Proxy

Merafe Resources Limited
(Incorporated in the Republic of South Africa)
(Registration Number 1987/003452/06)
(the Company)

ISIN:ZAE000060000
Share code:MRF

Only for use by members who have not dematerialised their shares or members who have dematerialised their shares with own name registration. All other dematerialised shareholders must contact their CSDP or broker to make the relevant arrangements concerning voting and/or attendance at the annual general meeting.

Form of proxy for the nineteenth annual general meeting

I/We (Name in block letters) ______________________________

of (Address) ______________________________

being the holder/s of ______________________________ ordinary shares
in the Company, hereby appoint (see note 1):

1. ______________________________ or failing him

2. ______________________________ or failing him

3. the chairman of the Company, or failing him, the chairperson of the annual general meeting, as my/our proxy to vote for me/us on my/our behalf at the annual general meeting of the Company to be held at Merafe Resources Limited at 1st Floor, Block B, 68 Wierda Road East, Wierda Valley, Sandton, on Monday, 24 July 2006 at 11:00, or at any adjournment thereof.

I/We desire to vote as follows (see note 2):	Number of Votes		
	For	Against	Abstain
1. To receive, consider and adopt the annual financial statements			
2. To elect the following directors who retire by rotation:			
2.1 Mr S Phiri; and			
2.2 Mr Z van der Walt			
3. To approve the directors remuneration			
4. To re-appoint KPMG Inc. as auditors for the ensuing year			
5. To authorise the directors to determine the auditors remuneration			
6. To approve the auditors remuneration			
7. Ordinary resolution number 1: To place the unissued shares under the control of the directors			
8. Ordinary resolution number 2: To authorise the Company to issue shares for cash			

Signed at ______________________________ on ____________________ 2006

Signature (Assisted by me - where applicable) ______________________________

Please see notes overleaf

Form of Proxy

Notes:

1. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder s choice in the space(s) provided, with or without deleting the chairperson of the general meeting of shareholders, but any such deletion must be initialled by the shareholder. The person whose name stands first on the form of proxy and who is present at the annual general meeting of shareholders will be entitled to act as proxy to the exclusion of those whose names follow.
2. A shareholder s instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that shareholder in the appropriate box provided. Failure to comply will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting of shareholders as he/she deems fit in respect of all the shareholder s votes exercisable thereat. A shareholder or the proxy is not obliged to use all the votes exercisable by the shareholder or by his proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the shareholder or by the proxy.
3. Forms of proxy must be lodged with, posted or faxed to, the transfer secretaries registered office: 5th floor, 11, Diagonal Street, Johannesburg, (PO Box 4844, Johannesburg, 2000) or +27 11 834 4398, or the Company s registered office:
   68 Wierda Road East, 1st Floor, Block B, Sandton, 2196 (PO Box 652157, Benmore, 2010)
   or fax: +27 11 783 4789 to be received by no later than 11:00 on Friday, 21 July 2006.
4. The completion and lodging of this form of proxy by shareholders holding certificated shares, CSDP s nominee companies, brokers nominee companies and shareholders who have dematerialised their shares and elected own-name registration, will not preclude the relevant shareholder from attending the general meeting of shareholders and speaking and voting in person thereat to the exclusion of any proxy appointed in terms thereof.
5. Documentary evidence establishing the authority of a person signing this form of proxy in a representative or other legal capacity (such as power of attorney or other written authority) must be attached to this form of proxy unless previously recorded by Merafe Resources Limited.
6. Any alteration or correction made to this form of proxy must be initialled by the signatory(ies).
7. On a show of hands, every shareholder shall have only one vote, irrespective of the number of share/s he/she holds or represents, provided that a proxy shall, irrespective of the number of shareholders he/she represents, have only one vote.
8. On a poll, every shareholder present in person or represented by proxy shall have one vote for every Merafe share held by such shareholder.
9. A resolution put to the vote shall be decided on a show of hands unless, before or on the declaration of the results of the show of hands, a poll shall be demanded by any person entitled to vote at the meeting.
10. If a poll is demanded, the resolution put to the vote shall be decided on a poll.