3B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

3C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

3D. RISK FACTORS

In conducting our business, we face many risks that may interfere with our business objectives. Some of these risks relate to our operational processes, while others relate to our business environment. It is important to understand the nature of these risks and the impact they may have on our business, financial condition and operating results.

Some of the most relevant risks are summarized below and have been organized into the following categories:

- Risks related to our business and operations;
- Risks related to the gold mining industry;
- Risks related to doing business in South Africa; and
- Risks related to ownership in our ordinary shares or American Depositary Shares, or ADSs.

Risks related to our business and operations

Changes in the market price for gold, which in the past has fluctuated widely, and exchange rate fluctuations affect the profitability of our operations and the cash flows generated by those operations.

As the majority of our production costs are in rands, while gold is generally sold in dollars, our financial condition has been and could be materially harmed in the future by an appreciation in the value of the rand. Due to the marginal nature of our underground mine any sustained decline in the market price of gold, below the cost of production, could result in the closure of our underground mine which would result in significant costs and expenditure, for example, incurring retrenchment costs earlier than expected, that would negatively and adversely affect our business, operating results and financial condition.

We do not enter into forward contracts to reduce our exposure to market fluctuations in the dollar gold price or rate movements of the rand. We exchange gold and trade our foreign currency at the spot price in the market on the date of trade. If the dollar gold price should fall and the regional functional currencies should strengthen against the dollar, resulting in revenue below our cost of production and remain at such levels for any sustained period, we may experience losses and may be forced to curtail or suspend some or all of our operations. In addition, we might not be able to recover any losses we may incur during that period or maintain adequate gold reserves for future exploitation.

Exchange rates are influenced by global economic trends which are beyond our control. In fiscal 2011, 2010 and 2009 the rand strengthened against the dollar by 10.8%, 2.9% and 1.0% respectively (based on exchange rates at June 30 of each year). From December 2001, when it reached R13.44 = $1.00, the rand has appreciated by 49.2% against the dollar to R6.83= $1.00 at June 30, 2011 (based on closing rates). At September 30, 2011 the rand traded at R7.90 = $1.00, a 15.7% weakening relative to the Dollar from June 30, 2011.

A decrease in the dollar gold price and a strengthening of the foreign exchange rate of the rand could result in a decrease in our profitability. In fiscal 2011, 2010 and 2009 100% of production was from our South African mines providing significant exposure to the strengthening of the rand and a decrease in profitability. If the rand were to continue to appreciate against the dollar, our operations could experience a reduction in cash flow and profitability and this would negatively and adversely affect our business, operating results and financial condition.

Inflation may have a material adverse effect on our results of operations.

South Africa has experienced high rates of inflation in the past. Because we are unable to control the market price at which we sell the gold we produce, it is possible that significantly higher future inflation in South Africa may result in an increase in our future operational costs in rand, without a concurrent devaluation of the rand against the dollar or an increase in the dollar price of gold. This could have a material adverse effect upon our results of operations and our financial condition. Significantly higher and sustained inflation in the future, with a consequent increase in operational costs, could result in operations being discontinued or reduced or rationalized at higher cost mines.

***We have incurred losses in the past as well as in the current year and may incur losses in the future*.**

We had a net loss of R415.4 million for fiscal 2011, and achieved net profits of R203.4 million and R110.7 million for fiscal 2010 and 2009, respectively. The loss in fiscal 2011 related to an impairment of R546.6 million against the property, plant and equipment of Blyvooruitzicht Gold Mining Company Limited, or Blyvoor, due to the uncertainties surrounding the business rescue proceedings they are undergoing and other factors.

Our profits and cash flows of our operations are directly exposed to the strength of the rand and higher input costs as we do not hedge. Blyvoor's underground mine is also regarded as an older, higher cost and lower grade gold producer. In addition, our ability to identify Ore Reserves that have reasonable prospects for economic extraction while maintaining sufficient controls on production and other costs, will have a material influence on the future viability of our operations.

We may not be able to meet our cash requirements because of a number of factors, many of which are beyond our control.

Management's estimates on future cash flows are subject to risks and uncertainties, such as the gold price, production volumes, recovered grades, costs and seismicity. If we are unable to meet our cash requirements out of cash flows generated from our operations, we would need to fund our cash requirements from alternative financing and we cannot guarantee that any such financing would be on acceptable terms, or would be permitted under the terms of our existing financing arrangements, or would be available at any terms. In the absence of sufficient cash flows or adequate financing, our ability to respond to changing business and economic conditions, make future acquisitions, react to adverse operating results, meet our debt service obligations or fund required capital expenditures or increased working capital requirements may be adversely affected.

The failure to discover or acquire new Ore Reserves could negatively affect our cash flow, results of operations and financial condition.

Our future cash flow, results of operations and financial condition are directly related to the success of our exploration and acquisition efforts in the regions in which we operate and any new regions that we identify for future growth opportunities. Our Ore Reserves for fiscal 2011 increased by 5% due to the higher rand gold price used in the Ore Reserve calculation. Our Ore Reserves for fiscal 2010 increased by 15% as a result of the higher rand gold price used in the Ore Reserve calculation together with the expected increase in Crown's deposition capacity as a consequence of the construction of the Crown/Ergo pipeline linking Crown Gold Recoveries (Pty) Limited, or Crown, to Ergo's Brakpan deposition site. Ergo collectively refers to Ergo Mining (Pty) Limited, or the Ergo JV, and ErgoGold. Our Ore Reserves for fiscal 2009 increased by 16%, primarily due to the inclusion of the Elsburg tailings owned by East Rand Proprietary Mines Limited, or ERPM. Mining higher grade reserves in our underground mine is likely to be more difficult in the future, due to the age of this mine and safety concerns, and could result in increased production costs and reduced profitability. We are currently also conducting exploration activities in Zimbabwe. We can make no assurances that any new or ongoing exploration programs will result in new mineral producing operations [illegible] sustain [illegible] our Ore Reserves. A failure to discover or acquire new Ore Reserves in sufficient quantities to maintain and grow the current level of our reserves will negatively affect our future cash flow, results of operations and financial condition.

We may need to improve our internal controls over financial reporting and our independent auditor may not be able to attest to their effectiveness because of inherent limitations.

We have evaluated our internal controls over financial reporting for the current fiscal period so that management can attest the effectiveness of these controls, as required by Section 404 of the United States Sarbanes-Oxley Act of 2002. Management has determined that these controls are effective for the 2011, 2010 and 2009 fiscal years respectively and did not identify any material weaknesses within our internal controls surrounding the financial reporting process. These internal controls over financial reporting may not be sufficient to prevent significant deficiencies or material weaknesses in the future, and we may also identify other conditions that could result in significant deficiencies or material weaknesses. In this event, we could experience a negative reaction in the financial markets and incur additional costs in improving the condition of our internal controls. For a detailed discussion of controls and procedures, see Item 15.: "Controls and Procedures."

Increased production costs could have an adverse effect on our results of operations.

Our historical production costs have varied significantly and we may not be able to accurately predict and adequately provide for an increase in our production costs. Production costs are affected by, among other things:

- labor stability, lack of productivity and increases in labor costs;
- increases in crude oil, steel, electricity and water prices;
- unforeseen changes in ore grades and recoveries;
- unexpected changes in the quality or quantity of reserves;
- unstable or unexpected ground conditions and seismic activity;
- technical production issues;
- environmental and industrial accidents;
- gold theft;
- environmental factors; and
- pollution.

The majority of our production costs consist of labor, steel, electricity, water, fuels, lubricants and other oil and petroleum based products. The production costs incurred at our operations have, and could in the future, increase at rates in excess of our annual expected inflationary increase and result in the restructuring of these operations at substantial cost. The majority of our South African labor force is unionized and their wage increase demands are usually above the then prevailing rates of inflation. As at September 30, 2011, we were still engaged in wage negotiations at all of our operations for the fiscal 2012 and 2013 wage increases. In October 2011, Blyvoor signed a three-year wage settlement agreement with the National Union of Mineworkers (NUM) and the United Association of South Africa (UASA). In terms of the settlement, employees in Categories 4 and 5 miners would receive a 7% increase and employees in Categories 6 - 8, miners, artisans and officials would receive a 6% increase in each year, with the third year being the greater of these percentages or CPI as at 1 July 2013. In addition, employees in both recognition units will participate in a gold price/profit linked profit share bonus scheme, in terms of which their overall increases can rise to a total of 15%. In addition, in the past, we have been impacted by large price increases imposed by our South African steel suppliers and parastatal entities which supply us with electricity and water. These, combined with the increases in labor costs, could result in our costs of production increasing above the gold price received. Discussions with steel suppliers and parastatal entities to moderate price increases have been unsuccessful in the past.

The costs of fuels, lubricants and other oil and petroleum based products have increased in fiscal 2011 as a result of the general increase in the cost of crude oil in global markets. During fiscal 2010, the average brent crude oil price was approximately $75 per barrel and in fiscal 2011, the average brent crude oil price was approximately $97 per barrel. In the event that crude oil prices continue increasing, this could have a significant impact on our production costs.

Our initiatives to reduce costs, such as reducing our labor force, negotiating lower price increases for consumables and stringent cost controls such as comparing whether actual costs stay within budget parameters, may not be sufficient to offset the increases imposed on our operations and could negatively affect our business, operating results and financial condition.

Our operations are subject to extensive environmental regulations which could impose significant costs and liabilities.

Our operations are subject to increasingly extensive laws and regulations governing the protection of the environment, under various state, provincial and local laws, which regulate air and water quality, hazardous waste management and environmental rehabilitation and reclamation. Our mining and related activities impact the environment, including land, habitat, streams and environment near the mining sites. Delays in obtaining, or failures to obtain government permits and approvals may adversely impact our operations. In addition, the regulatory environment in which we operate could change in ways that could substantially increase costs and regulatory compliance, therefore having a material adverse effect on our profitability.

We have made, and expect to make in the future, expenditures to comply with these environmental laws and regulations. We have estimated our aggregate Group Rehabilitation, Reclamation and Closure cost provision at R490.2 million included on our statement of financial position as at June 30, 2011. However, the ultimate amount of rehabilitation costs may in the future exceed the current estimates due to influences beyond our control, such as changing legislation, higher than expected cost increases, or unidentified rehabilitation costs. We have funded these environmental rehabilitation costs by making contributions over the life of the mine to environmental trust funds established for our operations. If any of the operations are prematurely closed, the rehabilitation funds may be insufficient to meet all the rehabilitation obligations of those operations. The closure of mining operations, without sufficient financial provision for the funding of rehabilitation liabilities, or unacceptable damage to the environment, including pollution or environmental degradation, may expose us and our directors to litigation and potentially significant liabilities.

Seismicity and other natural disasters could impact the going concern of our operations.

We run the inherent risk that seismic activity and/or other natural disasters could cripple our operations and affect their ability to continue production. Seismic activity has had, and may continue to have, a harmful effect on our business, operating results and financial condition. For example, on May 29, 2009, the Blyvoor operations suffered the effects of a seismic event which knocked out a number of its high grade panels in the 38/29 section at No. 5 Shaft. This resulted in gold production being approximately 151kg lower than expected for the four month period ended October 31, 2009 (this excludes the impact of the strike action by our NUM employees during the months of September and October 2009).

Flooding at our operations may cause us to incur liabilities for environmental damage.

Flooding of underground mining areas is an inherent risk at our underground operations. If the rate of rise of water is not controlled, water from underground mining areas could potentially rise to the surface or decant into surrounding underground mining areas or natural underground water sources. Due to the withdrawal of government pumping subsidies at Durban Deep and West Wits, we have ceased active pumping of underground water at these mines. We also stopped pumping of underground water at our ERPM underground operation on August 20, 2009. Progressive flooding where these operations and operations from other mining companies are located could eventually cause the discharge of polluted water to the surface and to local water sources.

Estimates of the probable rate of rise of water in those mines are contradictory and lack underground water levels not reach a natural subterranean equilibrium, and in the event that underground water rises to the surface, we may face, together with all other mining companies in those areas, claims relating to environmental damage as a result of pollution of ground water, streams and wetlands. These claims may have a material adverse effect on our business, operating results and financial condition.

We have ageing assets, which exposes us to greater risk of our infrastructure failing, higher maintenance costs and potentially greater health, safety and environmental liabilities.

Some of our assets, especially at our underground mine, are mature assets, which we acquired after they had reached the end of the planned production cycle under their previous owners, and our strategy has been to revive these assets through specialist planning and mining techniques. The ageing infrastructure and installations typical of these operations require constant maintenance and continuing capital expenditure. This materially increases our operational expenditure. In addition, the technology applied in many of our installations was not regularly updated by the previous owners and accordingly has become obsolete compared to the technology used in more modern mines. As a result, the risk of technology failure is high, and the maintenance of these installations, costly. Due to the nature of the business and because our marginal underground mine predominantly comprises of aged infrastructures, we inherently run the risk of exposure to greater health, safety and environmental liabilities which we closely monitor, but are unable to fully mitigate.

Limited tailings dam capacity at Crown exposes us to greater risk of financial loss due to lower production and to health, safety and environmental liabilities.

Our ageing tailings facilities at Crown are exposed to numerous risks and events, the occurrence of which may result in the failure or breach of such a facility. These may include sabotage, failure by our employees to adhere to the codes of practice and natural disasters such as excessive rainfall and seismicity. In the event that we are limited on how much treated ore, sand or slime we can deposit at Crown’s deposition sites and deposition capacity created by the Ergo/Crown pipeline project, we could be forced to stop or limit operations, the dams could overflow and the health and safety of our employees and communities living around these dams could be jeopardized. In the event that this occurs, our Crown operations will be adversely affected and this in turn could have a material adverse effect on our business, operating results and financial condition.

Ergo also have tailings facilities that are exposed to the same risks as described above.

Due to the nature of our business, our Operations face extensive health and safety risks.

Regrettably one person died in a work-related incident during fiscal 2011, compared to two fatalities in fiscal 2010. The employee succumbed to a suspected heat stroke during a reconnaissance exercise at Blyvoor's No. 5 shaft and died in hospital the next day. On September 20, 2011, Blyvoor had a seismic event at their No 5 shaft where five people had been injured. According to section 54 of the Mine, Health and Safety Act of 1996, if an inspector believes that any occurrence, practice or condition at a mine endangers or may endanger the health or safety of any person at the mine, the inspector may give any instruction necessary to protect the health or safety of persons at the mine. These instructions could include the suspension of operations at the whole or part of the mine. While seismic monitoring continues to be an invaluable tool in the management of seismicity, there is still a risk of seismic induced fatalities occurring which we may not be able to prevent. These incidents could lead to mine operations being halted and that will increase our unit production costs, due to loss of production. This could have a material adverse effect on our business, operating results and financial condition.

Events may occur for which we are not insured which could affect our cash flows and profitability.

Because of the nature of our business, we may become subject to liability for pollution or other hazards against which we are unable to insure, including those in respect of past mining activities. Our existing property, business interruption and other insurance contains certain exclusions and limitations on coverage. We have insured property, including loss of profits due to business interruption in the amount of about R8.2 billion. Claims for each and every event are limited by the insurers to R500 million. Business interruption is only covered from the time the loss actually occurs and is subject to time and amount deductibles that vary between categories. General liability, fidelity, directors and officers, and other insurance cover are also in place.

Future insurance coverage may not cover the extent of claims brought against us, including claims for environmental, industrial or pollution related accidents, for which coverage is not available. If we are required to meet the costs of claims which exceed our insurance coverage, our costs may increase which could have a material adverse effect on our business, operating results and financial condition.

If we are unable to attract and retain key personnel our business may be harmed.

The success of our business will depend, in large part, upon the skills and efforts of a small group of management and technical personnel including our Chief Executive Officer and our Chief Financial Officer. In addition, we compete with mining and other companies on a global basis to attract and retain key human resources at all levels with appropriate technical skills and operating and managerial experience necessary to operate the business. Factors critical to retaining our present staff and attracting additional highly qualified personnel include our ability to provide these individuals with competitive compensation arrangements, equity participation and other benefits. If we are not successful in retaining or attracting highly qualified individuals in key management positions, our business may be harmed. We do not maintain “key man” life insurance policies on any members of our executive team. The loss of any of our key personnel could delay the execution of our business plans, which may result in decreased production, increased costs and decreased profitability.

The Crown/Ergo pipeline is a start-up project and forecasts may not be achieved.

Implementation of the Crown/Ergo pipeline project commenced during June 2010 and is scheduled for completion by December 2011. The pipeline will provide two of Crown’s plants with access to Ergo’s Brakpan deposition site, allowing Crown to restore its maximum deposition capacity to 600 000tpm. Crown’s deposition capacity was reduced to 400 000tpm in fiscal 2009 due to capacity constraints at its deposition site. Restored deposition capacity allowed Crown to account for new Ore Reserves on the Western and Central Witwatersrand, thus increasing production and extending its life-of-mine. The Crown/Ergo pipeline project is exposed to numerous risks associated with similar projects, including delays in completion, total abandonment of the project, higher operating costs or lower production than forecasted which could have a material adverse effect on our business, operating results and financial condition.

Blyvoor is under business rescue proceedings and the outcome of these proceedings could negatively affect our business, results of operations and financial condition.

On June 23, 2011, we announced that our Board of Directors had decided to suspend financial assistance to our 74%-owned subsidiary, Blyvoor, and on July 7, 2011, the Registrar of Companies agreed to appoint the nominated business rescue practitioner to produce a business rescue plan for Blyvoor. The decision followed the promulgation of the new Companies Act of South Africa, effective from May 1, 2011, which requires directors of parent companies to seek the consent of the parent company shareholders and then to consider the effects on the solvency and liquidity of the parent company as conditions precedent to the provision of financial assistance to subsidiaries. Blyvoor’s production had been trending down in the last quarter of fiscal 2011, as a result of a drop in grade, public holiday interruptions and seismicity-related work stoppages, while costs had increased mainly because of higher electricity charges, and particularly power utility Eskom’s winter tariff which had added R11.0 million a month to overhead costs.
On July 29, 2011, DRDGOLD's shareholders approved the appointment of a business rescue practitioner for Blyvoor. The practitioner has been granted extension until November 1, 2011, to publish a business rescue plan and until December 2, 2011, for the business rescue process in terms of section 132(3) of the Companies Act, 2008. Further extension may however be granted. Should the outcome of the business rescue proceedings not have a successful impact on the sustainability of Blyvoor, then our business, financial condition and results of operations could be materially, adversely affected.

We may need to improve our cyber security controls which our cyber security strategy, internal controls over cyber security and our independent auditors may not be able to attest to their effectiveness because of inherent limitations.

We have implemented a cyber security strategy and internal controls which involves the prevention, detection, correction and recovery of data in the event of cyber security breaches. Our internal auditors also perform regular effectiveness of control reviews and an annual external review of the effectiveness of our network security is also performed. Management has determined that these controls are effective for the 2011, 2010 and 2009 fiscal years respectively and did not identify any material weaknesses within our internal controls surrounding cyber security. These internal controls over cyber security may not be sufficient to prevent significant deficiencies or material weaknesses in the future, and we may also identify other conditions that could result in significant deficiencies or material weaknesses. In this event, we could experience the corruption or loss of data, misappropriation of assets or sensitive information or operational disruption and incur additional costs to replace assets and improving our internal controls.

To the extent that we seek to expand and grow through acquisitions we may experience difficulty in managing these acquisitions and integrating them with our existing operations.

Our objective is to grow our business by improving efficiency at our existing operations as well as through acquisitions. From time to time we consider the acquisition of mining assets including ore reserves, development properties, operating mines or mining companies. Our expansion through acquisitions of new gold mining operations involves a number of risks including:

- maintaining our financial and strategic focus while integrating the acquired business;
- implementing uniform standards, controls, procedures and policies at the acquired business;
- assimilating the operations of an acquired business in a timely and efficient manner;
- unifying our periodic and year-end financial audit processes;
- increasing pressures on existing management to oversee an expanding company;
- to the extent that we make an acquisition outside of markets in which we have previously operated, conducting and managing operations in a new operating environment;
- the market for acquisitions is competitive and we may not always be successful in identifying and purchasing assets that fit our strategy;
- the ability to conduct a comprehensive due diligence analysis could be restricted due to unavailable information;
- we may need to use a combination of historical and projected data in order to evaluate the financial and operational feasibility of the target assets. These analyses are based on a variety of factors including historical operating results, estimates of and assumptions about future reserves, cash and other operating costs, metal prices and projected economic returns and evaluations of existing or potential liabilities associated with the property and its operations. Other than historical operating results, all of these parameters could differ significantly from the estimates and assumptions used in the evaluation process, which could result in an incorrect evaluation of the quality of the assets to be acquired;
- our inability to make suitable acquisitions at an appropriate price could adversely affect our ongoing business and financial condition, particularly if the rand strengthens against the dollar;
- we may experience difficulty in negotiating acceptable terms with the seller of the business to be acquired;
- we may not be able to obtain the financing necessary to complete future acquisitions;
- we may not be able to obtain necessary approvals from regulatory authorities;
- acquisitions financed through the issue of shares may result in a dilution in the value of our shares if the value of the business acquired is not realized; and
- we could experience financial loss through costs incurred in evaluating and pursuing failed acquisitions or overpaying for an acquisition.

Any problems experienced in achieving successful integration or in connection with an acquisition as a result of one or more of these factors could have a material adverse effect on our business, operating results and financial condition.

Risks related to the gold mining industry

A change in the price of gold, which in the past has fluctuated widely, is beyond our control.

Historically, the gold price has fluctuated widely and is affected by numerous industry factors, over which we have no control, including:

- the physical supply of gold from world-wide production and scrap sales, and the purchase, sale or divestment by central banks of their gold holdings;
- the demand for gold for investment purposes, industrial and commercial use, and in the manufacturing of jewelry;
- speculative trading activities in gold;
- the overall level of forward sales by other gold producers;
- the overall level and cost of production of other gold producers;
- international or regional political and economic events or trends;
- the strength of the dollar (the currency in which gold prices generally are quoted) and of other currencies;
- financial market expectations regarding the rate of inflation;
- interest rates;
- gold hedging and de-hedging by gold producers; and
- actual or expected gold sales by central banks and the International Monetary Fund.

Our profitability may be negatively impacted if revenue from gold sales drops below the cost of production for an extended period.

Current economic conditions may adversely affect the profitability of the Group's operations.

The global economy is currently undergoing a period of prolonged recession and, despite recent signs of stabilization, the future economic environment is likely to be less favorable than that of recent years. Since September 2008, the global financial system has experienced difficult credit and liquidity conditions and disruptions resulting in major financial institutions consolidating or going out of business, tightened credit markets, reduced liquidity, and extreme volatility in fixed income, credit, currency and equity markets. These conditions may adversely affect the Group's business. For example, tightening credit conditions may make it more difficult for the Group to obtain financing on commercially acceptable terms or make it more likely that one or more of our key suppliers may become insolvent and lead to a supply chain breakdown. In addition, general economic indicators have deteriorated, including declining consumer sentiment, increased unemployment, declining economic growth and uncertainty regarding corporate earnings. To the extent the current economic downturn worsens or the economic environment in which the Group operates does not recover, the Group could experience a material adverse effect on its business, results of operations and financial condition.

The exploration of mineral properties is highly speculative in nature, involves substantial expenditures, and is frequently unproductive.

We must continually replace Ore Reserves that are depleted by production. Notably, underground operations at ERPM have been halted since October 2008 and a decision was reached at the end of August 2009 to suspend underground production at ERPM. Our future growth and profitability will depend, in part, on our ability to identify and acquire additional mineral rights, and on the costs and results of our continued exploration and development programs. Gold mining companies may undertake exploration activities to discover gold mineralization, which in turn may give rise to new gold bearing ore bodies. Exploration is highly speculative in nature and requires substantial expenditure for drilling, sampling and analysis of ore bodies in order to quantify the extent of the gold reserve. Many exploration programs, including some of ours, do not result in the discovery of mineralization and any mineralization discovered may not be of sufficient quantity or quality to be mined profitably. If we discover a viable deposit, it usually takes several years from the initial phases of exploration until production is possible.

During this time, the economic feasibility of production may change. Moreover, we rely on the evaluations of professional geologists, geophysicists, and engineers for estimates in determining whether to commence or continue mining. These estimates generally rely on scientific and economic assumptions, which in some instances may not be correct, and could result in the expenditure of substantial amounts of money on a deposit before it can be determined with any degree of accuracy whether or not the deposit contains economically recoverable mineralization. Uncertainties as to the metallurgical recovery of any gold discovered may not warrant mining on the basis of available technology. As a result of these uncertainties, we may not successfully acquire additional mineral rights, or identify new Proven and Probable Ore Reserves in sufficient quantities to justify commercial operations in any of our mines. Our mineral exploration rights may also not contain commercially exploitable reserves of gold. The costs incurred on unsuccessful exploration activities are, as a result, not likely to be recovered and we could incur a write-down on our investment in that interest or the irrecoverable loss of funds spent.

There is uncertainty with our Ore Reserve estimates.

Our Ore Reserve figures described in this document are the best estimates of our current management as of the dates stated and are reported in accordance with the requirements of Industry Guide 7 of the SEC. These estimates may be imprecise and may not reflect actual reserves or future production.

Should we encounter mineralization or formations different from those predicted by past drilling, sampling and similar examinations, reserve estimates may have to be adjusted and mining plans may have to be altered in a way that might ultimately cause our results of operations and financial condition to decline. Moreover, if the price of gold declines, or stabilizes at a price that is lower than recent levels, or if our production costs, and in particular our labor, water, steel and electricity costs, increase or recovery rates decrease, it may become uneconomical to recover Ore Reserves containing relatively lower grades of mineralization. Under these circumstances, we would be required to re-evaluate our Ore Reserves. Short-term operating factors relating to the Ore Reserves, such as the need for sequential development of ore bodies and the processing of new or different grades, may increase our production costs and decrease our profitability during any given period. These factors have and could result in reductions in our Ore Reserve estimates, which could in turn adversely impact upon the total value of our mining asset base and our business, operating results and financial condition.

Gold mining is susceptible to numerous events that could have an adverse impact on a gold mining business.

The business of gold mining takes place in underground mines, open pit mines and surface operations for the retreatment of rock dumps and tailings dams. These operations are exposed to numerous risks and events, the occurrence of which may result in the death of, or personal injury to, employees, the loss of mining equipment, damage to or destruction of mineral properties or production facilities, monetary losses, delays in production, environmental damage, loss of the license to mine and potential legal claims. The risks and events associated with the business of gold mining include, but are not limited to:

- environmental hazards and pollution, including the discharge of gases, toxic chemicals, pollutants, radioactive materials and other hazardous material into the air and water;
- seismic activity which could lead to rock bursts, cave-ins, pit slope failures or, in the event of a significant event, total closure of sections or an entire underground mine;
- unexpected geological formations which reduce or prevent mining from taking place;
- flooding, landslides, sinkhole formation, ground subsidence, ground and surface water pollution, and waterway contamination;
- underground fires and explosions, including those caused by flammable gas;
- accidents caused from and related to drilling, blasting, removing, transporting and processing material, and the collapse of pit walls and tailings dams; and
- a decrease in labor productivity due to labor disruptions, work stoppages, disease, slowdowns or labor strikes.

In addition, deep level underground mines in South Africa, as compared to other gold mining countries, involve significant risks and hazards not associated with open pit or surface rock dump and tailings dam retreatment operations. These risks and hazards include underground fires, encountering unexpected geological formations, unanticipated ground and water conditions, fall-of-ground accidents and seismic activity. The level of seismic activity in a deep level gold mine varies based on the rock formation and geological structures in the mine. The occurrence of any of these hazards could delay production, increase production costs and may result in significant legal claims.

Risks related to doing business in South Africa

Political or economic instability in South Africa may reduce our production and profitability.

We are incorporated and own operations in South Africa. As a result, political and economic risks relating to South Africa could reduce our production and profitability. Large parts of the South African population are unemployed and do not have access to adequate education, health care, housing and other services, including water and electricity. Government policies aimed at alleviating and redressing the disadvantages suffered by the majority of citizens under previous governments may increase our costs and reduce our profitability. In recent years, South Africa has experienced high levels of crime. These problems have impeded fixed inward investment into South Africa and have prompted emigration of skilled workers. As a result, we may have difficulties attracting and retaining qualified employees.

Recently, the South African economy has been growing at a relatively slow rate, inflation and unemployment have been high by comparison with developed countries, and foreign currency reserves have been low relative to other emerging market countries. In the late 1980s and early 1990s, inflation in South Africa reached highs of 20.6%. This increase in inflation resulted in considerable year on year increases in operational costs. The inflation rate in South Africa still remains relatively high compared to first world countries. As of June 2011, the Consumer Price Inflation Index, or CPI, stood at 5.3%, up from 4.2% in June 2010, and down from 6.9% in June 2009. The relatively high inflation rate continued at 5.7% as at September 30, 2011. Continuing high levels of inflation in South Africa for prolonged periods, without a concurrent devaluation of the rand or increase in the price of gold, could result in an increase in our costs which could reduce our profitability. In January 2009, the South African Reserve Bank changed the way inflation is measured by expanding the range of consumer goods used and changing the benchmark measure from CPIX (CPI minus mortgage costs) to CPI. Mortgage costs have been replaced by owners' equivalent rental (OER) to capture housing costs, making CPIX redundant. The closest measure to CPIX is CPI minus OER.

Power stoppages or increases in the cost of power could negatively affect our results and financial condition.

Our mining operations are dependent on electrical power supplied by Eskom, South Africa's state owned utility company. As a result of substantial increasing demand and insufficient generating capacity, Eskom has warned that the country could face significant disruptions in electrical power supply in the foreseeable future. The available generating capacity of electricity was constrained mainly as a result of unplanned maintenance at some of Eskom's power stations, insufficient supply of coal to the coal fired plants and skills shortages. On January 25, 2008, Eskom announced that they could no longer guarantee the supply of electricity to the South African mining industry. Eskom subsequently cut off power supply to the mining industry for five days in fiscal 2008 and a number of power outages followed over several months thereafter. Eskom did manage to contain electricity stoppages but the fact remains that the country's current reserve capacity is insufficient and the risk of electricity stoppages is expected to continue through 2013. Apart from the five-day closure, our production has not been affected, however further power supply stoppages or power cost increases could have an adverse effect on our operating results and financial condition. Eskom have indicated that they do not have sufficient funding required for planned infrastructure development, and have imposed the following average tariff increases: from July 1, 2009 an average tariff increase of 31.3%, from April 1, 2010 an average tariff increase of 24.8%, from April 1, 2011 an average tariff increase of 25.8% and from April 1, 2012 an average tariff increase of 25.9%. These increases have had an adverse effect on our production costs particularly at our operations and could have a material adverse effect on our business, operating results and financial condition.

AIDS poses risks to us in terms of productivity and costs.

Acquired Immune Deficiency Syndrome, or AIDS, and tuberculosis which is closely associated with the onset of the disease and is exacerbated in the presence of HIV/AIDS, represents a very serious health care challenge in the mining industry. Human immunodeficiency virus, or HIV, is the virus that causes AIDS and South Africa has one of the highest HIV infection rates in the world. It is estimated that approximately 30% - 35% of the mining industry workforce in South Africa are HIV positive. The exact extent to which our mining workforce within South Africa is infected with HIV/AIDS is unknown at this stage. The existence of the disease poses a risk to us in terms of the potential reduction in productivity and increase in health and safety and medical costs, aside from the Company's social responsibility.

The treatment of occupational health diseases and the potential liabilities related to occupational health diseases may have an adverse effect on the results of our operations and our financial condition.

The primary area of focus in respect of occupational health within our operations is noise-induced hearing loss (NIHL), occupational lung diseases (OLD) and tuberculosis (TB). We provide occupational health services to our employees at our occupational health centers and continue to improve preventive occupational hygiene initiatives. If the costs associated with providing such occupational health services increase significantly, such increase could have an adverse effect on the results of our operations and our financial condition.

Increased theft at our work sites, particularly of copper, may result in greater risks to employees or interruptions in production.

Crime statistics available in South Africa indicate an increase in theft. This together with commodity price increases for copper has resulted in the increased theft of copper cable. All of our operations experience high incidents of copper cable theft despite the implementation of security measures. In addition to the general risk to employees' lives in an area where theft occurs, we may suffer production losses and incur additional costs as a result of power interruptions caused by cable theft.

Possible scarcity of water may negatively affect our results and financial condition.

National studies conducted by the Water Research Commission, released during September 2009, found that water resources were 4% lower than estimated in 1995 which may lead to the revision of water usage strategies by several sectors in the South African economy, including electricity generation and municipalities. This may result in rationing or increased water costs in the future. Such changes would adversely impact all of our operations, which require water to operate. In particular our surface retreatment operations, which use water to transport the slimes or sand from reclaimed areas to the processing plant and to the tailings facilities, would be adversely impacted. In addition, as our gold plants and piping infrastructure were designed to carry certain minimum throughputs, any reduction in the volume of available water may require us to adjust production at these operations. We are currently considering a project which envisages the pumping of underground water at ERPM for use by our surface retreatment operations.

Government policies in South Africa may adversely impact our operations and profits.

Government Regulation

The mining industry in South Africa is extensively regulated through legislation and regulations issued through the government's administrative bodies. These involve directives in respect of health and safety, the mining and exploration of minerals, and managing the impact of mining operations on the environment. A variety of permits and authorities are required to mine lawfully, and the government enforces its regulations through the various government departments. The formulation or implementation of government policies may be unpredictable on certain issues, including changes in laws relating to mineral rights, ownership of mining assets and the rights to prospect and mine and in extreme cases, nationalization.

The African National Congress, or ANC, which is the ruling political party in South Africa has appointed a task team to investigate the feasibility of, and potential policies for, nationalization of the mining industry. The results from this task force investigation are only expected after the ANC conference during 2012. Should any of our mines be nationalized it will adversely affect our operations and our shareholders' investment in our Company.

The Mineral and Petroleum Resources Development Act, 2002

On May 1, 2004, the new Minerals and Petroleum Resources Development Act, or the MPRD Act, came into effect, which places all mineral and petroleum resources under the custodianship of the state. Private title and ownership in minerals, or the "old order rights," are to be converted to "new order rights," essentially the right to mine.

Where new order rights are obtained under the MPRD Act, these rights will not be equivalent to our existing property rights. The area covered by the new order rights may be reduced by the Department of Mineral Resources, or DMR, if it finds that the prospecting or mining work program submitted by an applicant does not substantiate the need to retain the area covered by the old order rights. The duration of the new order rights will no longer be perpetual but rather, in the case of new order mining rights, for a maximum of 30 years with renewals of up to 30 years each and, in the case of prospecting rights, up to five years with one renewal of up to three years. In addition, the new order rights will only be transferable subject to the approval of the Minister of Mineral Resources. Mining or prospecting must commence within one year or 120 days, respectively, of the mining right or prospecting right becoming effective, and must be conducted continuously and actively thereafter. The new rights can be suspended or cancelled by the Minister of Mineral Resources in the event of a breach or, in the case of mining rights, non-optimal mining in accordance with the mining work program.

The implementation of the MPRD Act will result in significant adjustments to our property ownership structure. We have lodged applications to convert all of our old order rights, however, to the extent that we are unable to convert some of our old order rights to new order rights, and that the exclusive rights to minerals we enjoyed under the previous statutory regime are diminished, the operations of the MPRD Act may result in significant adjustments to our property ownership structure, which in turn could have a material adverse effect on the underlying value of our operations. In addition, to the extent that we are unable to convert some of our old order rights, we may have a claim for compensation based on expropriation. It is not possible to forecast with any degree of certainty whether a claim will be enforceable against the DMR, and if enforceable, the level of compensation we will receive, if any.
As at September 30, 2011, a substantial portion of our old order mining rights are yet to be converted into new order mining rights.
The MPRD Act states that the conversions must be granted by the minister if all requirements are completed but it does not stipulate any time frame. The MPRD Act also provides for holders of old order rights to continue to operate under the terms and conditions of such rights until conversions under the MPRD Act have been completed. See Item 4B. "Business Overview".

Mining royalties and other taxation reform

The Mineral and Petroleum Resources Royalty Act, No.28 of 2008 was enacted on November 21, 2008 and was published in the South African Government Gazette on November 24, 2008. The Mineral and Petroleum Resources Royalty Act (Administration), No.29 of 2008, published on November 26, 2008, became effective from March 1, 2010. These acts provide for the payment of a royalty, calculated through a royalty rate formula (using rates of between 0.5% and 5.0%) applied against gross revenue per year, payable half yearly with a third and final payment thereafter. The royalty is tax deductible and the cost after tax amounts to a rate of between 0.33% and 3.3% at the prevailing marginal tax rates applicable to the group. The royalty is payable on old (unconverted) mining rights and new converted mining rights. Introduction of further revenue based royalties or any adverse future tax reforms would have an adverse effect on the business, operating results and financial condition of our operations.

On February 21, 2007, the South African Government announced a proposal to replace Secondary Tax on Companies (STC) with a 10% withholding tax on dividends and other distributions payable to shareholders. Although this may reduce the tax payable by the company or our subsidiaries, the withholding tax could reduce the amount of dividends or other distributions received by its shareholders. The proposal was expected to be implemented in 2010, but its implementation has been delayed to April 1, 2012.

Climate change

Climate change is a global problem that requires both a concentrated international response and national efforts to reduce greenhouse gas, or GHG, emissions. The United Nations Framework Convention on Climate Change is the main global response to climate change. The associated Kyoto Protocol is an international agreement that classifies countries by their level of industrialization and commits certain countries to GHG emission reduction targets. Although South Africa is not one of the developing countries identified, it ranked among the top 20 countries measured by absolute carbon dioxide emissions. During the 2009 Copenhagen climate change negotiations, South Africa voluntarily announced that it would act to reduce domestic GHG emissions by 34% by 2020 and 42% by 2025, subject to the availability of adequate financial, technological and other support. The two main economic policy instruments available for setting a price on carbon and curbing GHG emissions are carbon taxation and emissions trading schemes. In a discussions paper on carbon taxation by the South African Government released in December 2010 different methods of carbon taxation were discussed. Should these methods be implemented, they might have a direct or indirect negative cost impact on our operations which could have an adverse effect on the business, operating results and financial condition of our operations.

The Broad Based Socio-Economic Empowerment Charter

The Broad Based Socio-Economic Empowerment Charter for the South African Mining Industry, or Mining Charter (effective from May 1, 2004), established certain numerical goals and timeframes to transform equity participation in the mining industry in South Africa. The goals set by the Mining Charter include that each mining company must achieve 15 percent ownership by historically disadvantaged South Africans, or HDSA, of its South African mining assets within five years and 26 percent ownership within ten years from May 1, 2004. This is to be achieved by, among other methods, the sale of assets to historically disadvantaged persons on a willing seller/willing buyer basis at market value.

In September 2010, the DMR released amendments to the Mining Charter. The intention behind the amendments was to clarify certain ambiguities and uncertainties which existed under the Mining Charter and to provide more specific targets. However, there are a number of matters that still require clarification and discussions in respect of interpretations of the requirements are in progress with the DMR. The goals set by the amendments to the Mining Charter include: minimum 26% HDSA ownership by March 2015; procurement of a minimum 40% of capital goods, 50% of consumer goods and 70% of services from Black Economic Empowerment, or BEE, entities by March 2015; minimum 40% HDSA representation at each of executive management level, senior management level, middle management level, junior management level and core and critical skills levels; minimum 3% investment of annual payroll in skills training; investment in community development; and attain an occupancy rate of one person per room in on-site accommodation.

When considering applications for the conversion of existing rights, the State will take a "scorecard" approach, evaluating the commitment of each company to the different facets of promoting the objectives of the Mining Charter. Failure on our part to comply with the requirements of the Mining Charter and the "scorecard" could subject us to negative consequences. We may incur expenses in giving additional effect to the Mining Charter and the "scorecard", including costs which we may incur in facilitating the financing of initiatives towards ownership by historically disadvantaged persons. There is also no guarantee that any steps we might take to comply with the Mining Charter would ensure that we could successfully acquire new order mining rights in place of our existing rights. In addition, the terms of such new order rights may not be as favorable to us as the terms applicable to our existing rights. We run the risk of losing our mining rights if we do not comply with the requirements stipulated in the Mining Charter. This could have an adverse affect on our business, operating results and financial condition.

Land claims

Our privately held land and mineral rights in South Africa could be subject to land restitution claims under the Restitution of Land Rights Act, 1994 (as amended), or Land Rights Act. Under the Land Rights Act, any person who was dispossessed of rights to land in South Africa as a result of past racially discriminatory laws or practices is granted certain remedies, including the restoration of the land. The initial deadline for such claims was December 31, 1998. We have not been notified of any land claims, but it is possible that administrative delays in the processing of claims could have delayed such notification. Any claims of which we are notified in the future could have a material adverse effect on our right to the properties to which the claims relate and prevent us using that land and exploiting any Ore Reserves located there. This could have an adverse affect on our business, operating results and financial condition.

Since our South African labor force has substantial trade union participation, we face the risk of disruption from labor disputes and non-compliance with South African labor laws.

Labor costs constitute 35% of our production costs for fiscal 2011, 34% for fiscal 2010 and 39% for fiscal 2009. As of June 30, 2011, we employ and contract 6,875 people, of whom approximately 86% are members of trade unions or employee associations. We have entered into various agreements regulating wages and working conditions at our mines. Unreasonable wage demands could increase production costs to levels where our operations are no longer profitable. This could lead to accelerated mine closures and labor disruptions. In addition, we are subject to strikes by workers from time to time, which result in disruptions to our mining operations. For example, from September 15, 2009 until October 11, 2009, a strike by members of the NUM union in connection with a dispute over new wage agreements resulted in an average daily gold production loss of 320 ounces, almost entirely from Blyvoor's deep-level underground mining operations.

In recent years, labor laws in South Africa have changed in ways that significantly affect our operations. In particular, laws that provide for mandatory compensation in the event of termination of employment for operational reasons and that impose large monetary penalties for non-compliance with the administrative and reporting requirements of affirmative action policies could result in significant costs to us. In addition, future South African legislation and regulations relating to labor may further increase our costs or alter our relationship with our employees. Labor cost increases could have an adverse effect on our business, operating results and financial condition.

Labor unrest and xenophobia could affect production.

We may experience labor unrest at our operations. In particular, during October and November 2002, ERPM experienced some labor unrest during which several striking contract workers were wounded and two workers were killed by employees of a private security company. Furthermore, during fiscal 2008, South Africa fell victim to a slew of xenophobic attacks when a series of riots started in the township of Alexandra. This violence of locals attacking migrants from other African countries had a direct impact on our operations at ERPM. Three employees died and attendance was down at the operation for several days. Although these attacks have been contained, the challenge for the South African Government is to come up with a long-term and judicious immigration policy.

A repeat of such events could have an adverse effect on our business, operating results and financial condition.

Our financial flexibility could be materially constrained by South African currency restrictions.

South African law provides for exchange control regulations, which restrict the export of capital from the Common Monetary Area, including South Africa. The Exchange Control Department of the South African Reserve Bank, or SARB, is responsible for the administration of exchange control regulations. In particular, South African companies:

- are generally not permitted to export capital from South Africa or to hold foreign currency without the approval of SARB;
- are generally required to repatriate, to South Africa, profits of foreign operations; and
- are limited in their ability to utilize profits of one foreign business to finance operations of a different foreign business.

While the South African Government has relaxed exchange controls in recent years, it is difficult to predict whether or how it will further relax or abolish exchange control measures in the future. For further information see Item 10D.: "Exchange Controls."

Risks related to ownership of our ordinary shares or ADSs

Your ability to sell a substantial number of ordinary shares may be restricted by the limited liquidity of ordinary shares traded on JSE Limited, or JSE.

Our primary listing for our ordinary shares is the JSE and the principal trading market for our ADSs is the Nasdaq Capital Market, or Nasdaq. On a historical basis, the trading volumes and liquidity of shares listed on the JSE have been low in comparison with the Nasdaq. For the 12 months ended June 30, 2011, only 33% of our ordinary shares publicly traded were traded on the JSE. The limited liquidity of the ordinary shares traded on the JSE could limit your ability to sell a substantial number of ordinary shares on the JSE in a timely manner, especially by means of a large block trade.

Sales of large volumes of our ordinary shares or ADSs or the perception that these sales may occur, could adversely affect the prevailing market price of such securities.

The market price of our ordinary shares or ADSs could fall if substantial amounts of ordinary shares or ADSs are sold by our stockholders, or there is the perception in the marketplace that such sales could occur. Current holders of our ordinary shares or ADSs may decide to sell them at any time. Sales of our ordinary shares or ADSs, if substantial, or the perception that these sales may occur to be substantial, could exert downward pressure on the prevailing market prices for our ordinary shares or ADSs, causing their market prices to decline. Trading activity of hedge funds and the ability to borrow script in the market place will increase trading volumes and may place our share price under pressure.

Your rights as a shareholder are governed by South African law, which differs in material respects from the rights of shareholders under the laws of other jurisdictions.

Our Company is a public limited liability company incorporated under the laws of the Republic of South Africa. The rights of holders of our ordinary shares, and therefore many of the rights of our ADS holders, are governed by our memorandum and articles of association and by South African law. These rights differ in material respects from the rights of shareholders in companies incorporated elsewhere, such as in the United States. In particular, South African law significantly limits the circumstances under which shareholders of South African companies may institute litigation on behalf of a company.

We may be subject to an increase in compliance costs with our continued efforts to increase the transparency of our reporting requirements and changing corporate governance initiatives.

As a result of our listings on Nasdaq and JSE, we are required to comply with new and changing reporting requirements that have over recent years emphasized an increase in the transparency of public disclosure. The associated regulatory standards set forth by the exchanges' governing bodies may change over time and may be subject to interpretation. As a result we may not execute the application of these standards properly and will congruently experience an increase in the cost of our compliance efforts. For example, management's required assessment of our internal controls over the financial reporting process stipulated by Section 404 of the Sarbanes-Oxley Act of 2002 commands the need for resources from management in addition to our external auditors who are required to attest to our internal control over financial reporting. Maintaining high standards of corporate governance and public disclosure is highly prioritized in our organization and with our continued efforts to comply with these laws currently effective and any future legislative introductions or changes, we will continue to incur the related costs.

It may not be possible for you to effect service of legal process, enforce judgments of courts outside South Africa or bring actions based on securities laws of jurisdictions other than South Africa against us or against members of our board.

Our Company, certain members of our board of directors and executive officers are residents of South Africa. In addition our cash producing assets are located outside the United States and a major portion of the assets of members of our board of directors and executive officers are either wholly or substantially located outside the United States. As a result, it may not be possible for you to effect service of legal process, within the United States or elsewhere outside South Africa, upon most of our directors or officers, including matters arising under United States federal securities laws or applicable United States state securities laws.

Moreover, it may not be possible for you to enforce against us or the members of our board of directors and executive officers judgments obtained in courts outside South Africa, including the United States, based on the civil liability provisions of the securities laws of those countries, including those of the United States. A foreign judgment is not directly enforceable in South Africa, but constitutes a cause of action which will be enforced by South African courts provided that:

- the court which pronounced the judgment had jurisdiction to entertain the case according to the principles recognized by South African law with reference to the jurisdiction of foreign courts;
- the judgment is final and conclusive (that is, it cannot be altered by the court which pronounced it);
- the judgment has not lapsed;
- the recognition and enforcement of the judgment by South African courts would not be contrary to public policy, including observance of the rules of natural justice which require that no award is enforceable unless the defendant was duly served with documents initiating proceedings, that he was given a fair opportunity to be heard and that he enjoyed the right to be legally represented in a free and fair trial before an impartial tribunal;
- the judgment was not obtained by fraudulent means;
- the judgment does not involve the enforcement of a penal or revenue law; and
- the enforcement of the judgment is not otherwise precluded by the provisions of the Protection of Business Act, 1978 (as amended), of South Africa.

It is the policy of South African courts to award compensation for the loss or damage actually sustained by the person to whom the compensation is awarded. Although the award of punitive damages is generally unknown to the South African legal system that does not mean that such awards are necessarily contrary to public policy. Whether a judgment was contrary to public policy depends on the facts of each case. Exorbitant, unconscionable, or excessive awards will generally be contrary to public policy. South African courts cannot enter into the merits of a foreign judgment and cannot act as a court of appeal or review over the foreign court. South African courts will usually implement their own procedural laws and, where an action based on an international contract is brought before a South African court, the capacity of the parties to the contract will usually be determined in accordance with South African law. It is doubtful whether an original action based on United States federal securities laws may be brought before South African courts. A plaintiff who is not resident in South Africa may be required to provide security for costs in the event of proceedings being initiated in South Africa. Furthermore, the Rules of the High Court of South Africa require that documents executed outside South Africa must be authenticated for the purpose of use in South African courts. It is not possible therefore for an investor to seek to impose criminal liability on us in a South African court arising from a violation of United States federal securities laws.