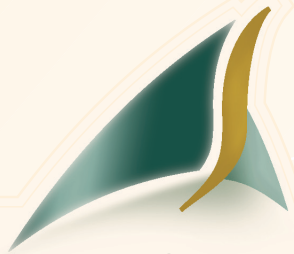
Investment Insights

- December 2007 / January 2008 -



Anglorand Securities

Jhb: (011) 484 7440
CT: (021) 975 4790
www.anglorand.co.za

Compiled By: Leandro Gastaldi & Desmond Esakov

Financial Market Insights

SYNOPSIS

In this issue we investigate specific dynamics within the commodity markets and the potential impact on the outlook for uranium prices over the near-term. Specifically we focus on the evolving dynamic within the market for sulphuric acid and the implications for uranium and domestic mining companies positioning themselves to become significant uranium producers. Given current market dynamics we assess the potential implications specifically with regard to the current scramble for resources in the form of tailings dams on the Witwatersrand. Accordingly we highlight and analyze which companies are best-placed and likely to offer investors upside potential from current levels, based on these fundamentals.

SULPHURIC ACID AND THE URANIUM MARKET

Sulphuric acid is a critical input in the production of uranium oxide (yellowcake) and is used in a process known as "leaching". Sulphuric acid is also used in certain mining operations known as "in situ" leach mining. Uranium is extracted from shallow ore by the injection of sulphuric acid in order to leach the uranium from the ore-body. This mining procedure is used extensively in Kazakhstan, an increasingly important supplier of uranium to the global market. However, globally sulphuric acid is an important reagent in a number of processes including the manufacture of fertilizers (60%), oil refining and many metallurgical processes (smelters). As such, the demand for sulphuric acid is closely tied to the demand for commodities and global industrial production. In particular, the boom in agricultural commodities and agricultural-related production has led to a significant increase in demand for fertilizers. With prices rising, fertilizer production has and will increase with related demand-side implications for the sulphuric acid market.

As a result prices for sulphuric acid have been rising steadily and many analysts expect a significant supply crunch over the near-term. Prices for sulphuric acid have recently risen to ZAR 500 per ton and could reach ZAR 1000 per ton over the next 12 months. Once again, many years of low prices for sulphuric acid have led to capacity constraints in the industry. The time and cost to construct an acid plant, as well as securing adequate sulphur supplies suggest that the current demand/supply imbalance is likely to remain a feature of the market for at least the next 2 – 3 years. Sulphur, the primary input for the production of sulphuric acid, is only produced as a by-product, typically from oil and natural gas production, suggesting that the production of sulphur is unlikely to respond quickly to changes in sulphur and sulphuric acid prices.

As highlighted in a previous issue, the near-term demand/supply equation in the uranium market remains extremely tight, with the market likely to remain in deficit during 2007 and 2008. Supply-side fundamentals should improve from 2010 onwards given some of the projects that are currently in the pipeline. However, in the near-term new production in the uranium market is largely dependent on the successful ramp-up of production in Kazakhstan. Uranium One's recent admission that it would not meet its current production targets due to a shortage of sulphuric acid has significant implications for the uranium market and uranium prices in the near-term. Uranium one recently reduced its 2008 production target from 7.6mn pounds to 4.6mn, largely due to downward revisions from its operations in Kazakhstan.

SULPHURIC ACID AND THE URANIUM MARKET

Global Uranium New Mine Supply 2007 - 2010
(all figures in mn pounds)

	2007	2008	2009	2010
Uranium One (Dominion, Ex Kazak)	0.5	1	2	3
First Uranium (Simmers)	0	0.5	1.5	2
Mintails	0	0.5	1	1.5
(ERA*) Rossing/Ranger	0	1	1	1
Kazakstan	2	4.5	9	16
Alta Mesa/ChurchRock	1	0	0	0
Midwest (Mclean)	1	0	0	0
Total	4.5	7.5	14.5	23.5

Global Uranium Market Outlook 2007 - 2010
(all figures in mn pounds)

	2007	2008	2009	2010
Total Estimated Demand	175.00	177.38	177.38	181.38
Total Estimated Supply	167.50	170.50	178.50	188.50
Projected Surplus/Deficit	-7.50	-6.88	1.12	7.12

As can be seen from the above projections (please refer to Sep/Oct Inv Insights). The new supply due to come from Kazakhstan is critical in retaining a near-term equilibrium in the market. A reduction of 30% in estimated production levels from the metrics shown above could see the current supply deficit remain in place until 2010 and possibly lead to a renewed price spike towards the highs registered earlier this year. As a result we now expect spot uranium prices to remain at current elevated levels (USD 80 – USD 120) at least through 2011 and could easily average USD 100 per pound over a seven-year timeframe. This will have positive implications for a host of uranium producers and explorers, which are not currently discounting uranium prices of higher then USD 50 per pound.

TAILINGS DAMS OFFER UNIQUE OPPORTUNITY

Local mining companies with large resources in the form of aboveground tailings dams accumulated from past gold mining operations are uniquely positioned to benefit from the current market imbalance in the uranium and sulphuric acid markets. Uranium is widely found throughout the Witwatersrand basin and South Africa's gold mining companies have in the past been significant producers of uranium. This uranium (with the exception of AngloGold's ERGO operation) was mainly produced as a by-product from underground mining operations and as a result many tailings dams have been left untreated for uranium. Simmers through its Buffelsfontein surface project is hoping to recover both gold and uranium from various acquired tailings dams in the area and is the first such mining company to focus

significant capital expenditure on such a project. High uranium and gold prices coupled with low (relative to underground) processing costs have led to the potential for significant profits from the above-ground operations.

However, mining companies developing surface recovery operations are also likely to benefit from rising prices for sulphuric acid. Sulphur is also found within the Witwatersrand basin, with concentrations varying from between 1% and 3%. Once again, the production of sulphur is only viable as a by-product from existing gold operations, with the production of sulphuric acid requiring additional infrastructure such as floatation and acid plants. Tailings operations targeting the recovery and production of uranium are required to construct and utilize a floatation plant in order to produce a pyrite concentration. As a result, the infrastructure required to also produce large amounts of sulphuric acid is largely already in place. As a result, tailings recovery operations will enjoy significant cost advantages over traditional producers of sulphuric acid that are required to purchase sulphur and construct an acid plant. Even underground mining operations that have access to ore containing sulphur will still need to construct the relevant floatation and acid plant infrastructure in order to produce sulphuric acid.

The floatation process separates most of the uranium from the gold in the slurry coming from the tailings dam. The pyrite concentration will thus contain mainly uranium (some residual gold) but more notably also contains sulphides. Oxidising the pyrite concentration using a pressure leach process will separate the sulphides from the uranium and in the process produce a sulphuric acid by-product. According to a technical report commissioned for First Uranium's (Simmers) Buffelsfontein surface project, the current process could lead to a net gain of 80kg per ton of processed material. However, the company is still in the preliminary stages of assessing whether the current "atmospheric pressure leach" process would be viable for the large scale production of sulphuric acid. Failing this the company has said it would probably enter into a JV with a chemicals company and construct a dedicated acid plant, which would still see the company well placed to benefit from the production of the by-product.

THE PLAYERS IN THE TAILINGS DAM "GOLD RUSH"

All of the major gold mining companies will have significant aboveground resources, however, with the possible exception of Harmony, these resources are unlikely to make a significant impact in terms of overall profitability given the large base on which the revenues would be added to. The greatest potential leverage from tailings recovery operations will come from the smaller operators, including Simmers, DRDGold, Pamodzi Gold and Australian-listed Mintails. Below we provide some background on each of the companies and provide some valuation metrics based on projected output levels and current prices for gold, uranium and sulphuric acid. We have assumed an average ZAR gold price of 170,000 per Kg (USD 776), an average ZAR uranium price of ZAR 600 per pound (USD 90) and average sulphuric acid price of ZAR

SULPHURIC ACID AND THE URANIUM MARKET

600 per ton. We believe the product prices for these commodities, due to specific supply/demand issues are likely to be higher over the next few years, but lower towards the end of the forecast horizon. As a result, feel the above prices represent reasonable 10-year average price levels.

Although in many cases, the lives of these operations are expected to run beyond the current envisaged 10-year period, calculations are based solely on a 10-year timeframe.

All our calculations are done in real terms (assuming nominal price increases to offset rise in nominal costs), a corporate tax rate of 29%. Minority interests, assessed losses and cash and financing requirements are specific to each company. We do not adjust for anticipated changes in working capital and have not factored in the potential for royalties from 2009 onwards.

Modeling for tailings operations is based on the technical feasibility study done by First Uranium for its Buffelsfontein surface project. The following metrics are relevant –

Operating costs – ZAR 30 per ton (based on feed throughput rates of between 1.25mn and 2mn tons per month).

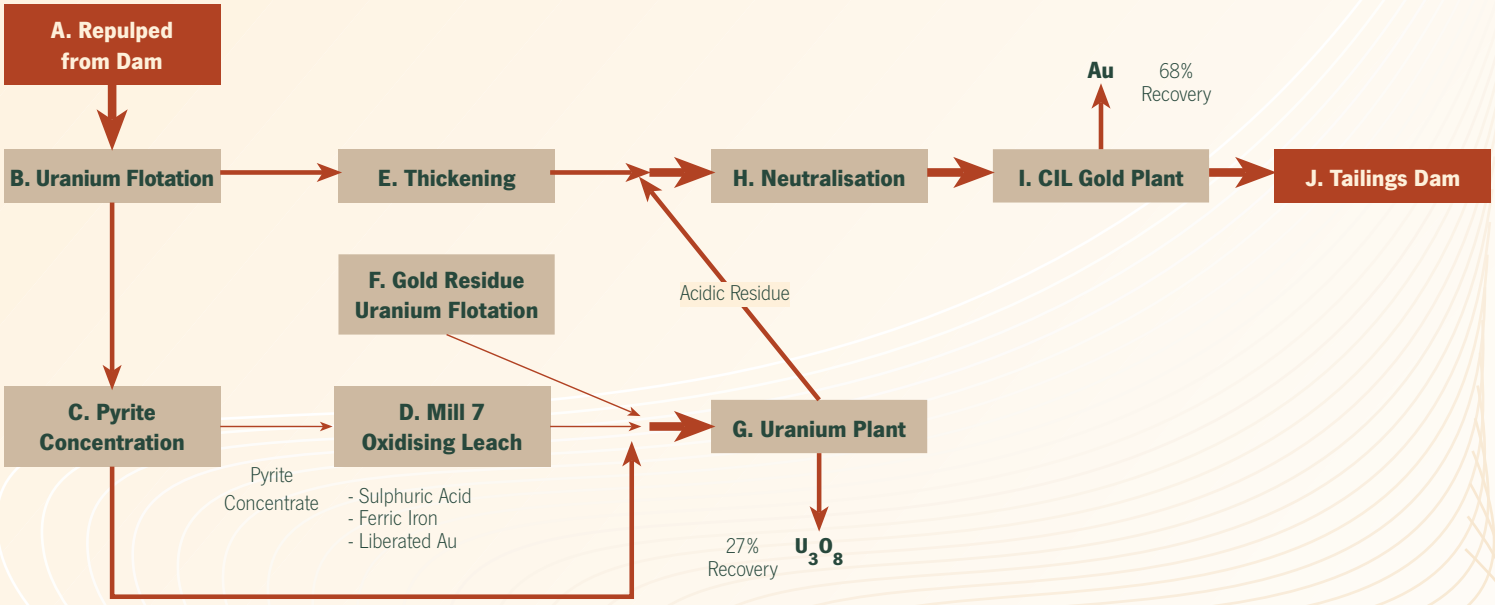
Gold recovery rates of 70% and uranium recovery rates of 30%.

Operating costs associated with the production of Sulphuric acid is negligible.

SIMMERS

Through its well-timed acquisition of Buffelsfontein in 2005 and aggressive timeline, Toronto-listed subsidiary First Uranium (FIU) (a 65% subsidiary of Simmers) has made significant strides and is scheduled to begin production in 2008. FIU has two major projects, the Ezulwini underground mine and the Buffelsfontein tailings treatment operation. FIU is in the process of building a Carbon-in-leach (CIL) gold plant and uranium floatation and processing plants.

First Uranium Corporation - Buffelsfontein Project - South Africa
Process Flow Sheet



The valuations below for Ezulwini and the Buffelsfontein surface project are based on a technical study by independent consultants on behalf of First Uranium. However, the feasibility study does not incorporate the potential for the production of sulphuric acid. Accordingly, incorporating projections for sulphuric acid production, as well as existing underground mining operations at Bufflesfontein (wholly-owned by Simmers), we have the following valuation assessment. Our NPV models have not taken into account development capital expenditure given the large consolidated cash balance of ZAR 2.8bn, which is likely to prove more then sufficient for the company's current projects and particularly given the large free cash flows likely to be generated from the tailings treatment project in the first few years (given assessed tax losses etc). We have assumed that the Buffels tailings operation will not attract any taxation during the first two years. Sulphuric acid production expected to reach 45,000 tons per month or 550,000 tons per annum.

Buffelsfontein Tailings Treatment = **ZAR 3.65 per share**

Ezulwini Underground Project (10 years only) = **ZAR 2.65 per share**

SIMMERS

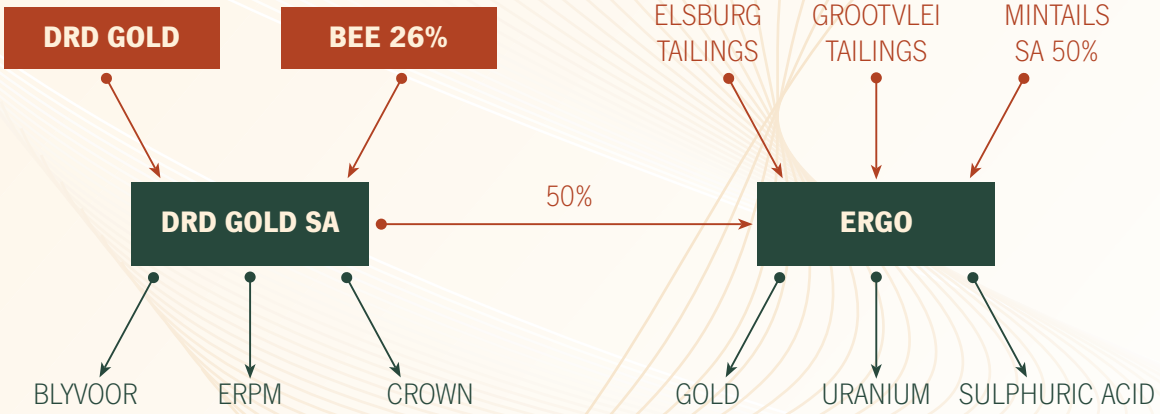
Value for current underground mining operations at Buffelsfontein, based on increase in production to 48,000 ounce per quarter and additional resource from acquisition of Minewaste solutions = **ZAR 1.40 per share**. Cash costs are expected to average 135,000 Kg, down from current operating costs of ZAR 150,000 per Kg.

Thus our current fair value estimate for Simmers is ZAR 7.70, a 32% discount to the current share price.

DRD GOLD / MINTAILS

We focus on the prospects for DRDGold (DRD) and as such do not offer specific analysis of Mintails, only where it relates to DRD. As highlighted in a previous issue, Mintails is currently developing a tailings treatment facility on the West Rand and in its first phase is aiming to produce 80,000 ounces of gold and 900,000 pounds of uranium. Given its advanced development plans and access to other resources, we continue to believe that Mintails remains best placed to profit from the lucrative potential from its tailings dams resources. However, Mintails is only listed on the Australian Stock Exchange and only local investors with appropriate foreign exchange clearance can invest in the share.

Despite DRD's poor performance over recent years, the company remains relatively well positioned to benefit from the rise in gold, uranium and sulphuric acid prices. DRD has currently entered into 2 separate JV projects with Mintails, one on the West Rand and the other on the East Rand, which is likely to see the rehabilitation of AngloGold's old ERGO plant. The JV on the West Rand is limited to the exploration and possible recommissioning of a number of old underground mines. The "West Wits" JV will lead to the establishment of a separate company to be listed on the Australian Stock Exchange. We have not attributed any value to this JV, as near-term production from any of these projects is unlikely or at least into 2010. It should be noted that the West Wits JV with Mintails does not include Mintails tailings treatment on the West Rand.



From DRD's perspective there are primarily two projects or resources that could yield significant near-term benefits and our analysis will focus on these.

BLYVOOR SURFACE TAILINGS

The first is the potential for an expanded surface recovery project at its Blyvoor mine to include uranium. DRD currently has a surface gold recovery operation at its Blyvoor mine, while its existing crown operation is solely focused on the treatment of tailings dams. In a recently feasibility study covering tailings dams at its Blyvoor mine, the company has detailed a measured and indicated resource of 17.4mn pounds of uranium, 1.4mn ounces of gold and 795,000 tons of sulphur. The average head grades for both the uranium (40-80 g/ton) and gold components (0.3g/ton) are sufficient for an expanded treatment project, however, the total tonnage of material is probably not sufficient for stand alone project and a viable life-of-mine. As a result management have indicated that they may look at a JV with another company able access additional tailings material. As a result the potential value we would place on the uranium resource should be limited to an in-ground ZAR per pound value. In this regard we have used a figure of ZAR 17, which equates to the same value placed on Pamodzi Gold's Grootvlei tailings dam in a recent deal between them and Australian-listed Mintails.

Based on this assumption we arrive at a value of **ZAR 0.90** per DRD share.

ERGO

However, the project with probably the greatest potential is the planned recommissioning of AngloGold's old ERGO plant. AngloGold's ERGO operation treated over 900mt of tailings material over a 27-year period producing 8.3mn ounces of gold and roughly 2,500 tons of uranium. ERGO was purchased by Skeat Mining from AngloGold and is now owned by Mintails following the merger of Skeat Mining and Mintails in 2006. Almost all infrastructure remains in place, including two 1.25mn CIL circuits, a uranium floatation and uranium treatment plant as well as a sulphuric acid plant. Thus, a full refurbishment of ERGO could see the plant operate at a feed of 2.5mn tons per month and produce gold, uranium and sulphuric acid in fairly large quantities.

Mintails currently owns the ERGO plant as well as the Daggafontein plant and tailings dams. The Daggafontein plant has been cannibalized, with existing infrastructure used in the construction of Mintails West Rand treatment facility (WERGO). Originally, the uranium circuit from ERGO was also due to be used for WERGO, however, Mintails recent decision to explore uranium production opportunities on the East Rand have led management to construct an entirely new uranium plant at WERGO and keep the existing infrastructure at ERGO intact.

Mintails and DRD recently announced a 50/50 JV, which will see Mintails contribute the entire ERGO plant infrastructure as well as the recently acquired Grootvlei tailings dams from

ERGO

Pamodzi Gold. DRD will contribute the Elsburg tailings and each JV partner will contribute ZAR 200mn (initially) to the project. Although results from current drilling work has yet to be released, it is our opinion that there is a high probability that the Elsburg tailings of over 180mn tons contain an extractable uranium resource as well as potentially lucrative sulphuric acid resource. According to company management, a refurbished ERGO with initial feed stock of 280mn tailings material (Elsburg and Grootvlei) could treat up to 2.5mn tons per month and produce 4650 kg of gold, 660,000 pounds of uranium and 855,000 tons of sulphuric asset per annum.

For purposes of calculating an initial potential value for DRD's interest from the ERGO recovery project and the potential uranium resource present in the Elsburg tailings dams, we have assumed that there will be one entity producing gold, uranium and sulphuric acid and that DRD will ultimately end up with a 50% stake. This stake will be held within DRDGold SA, which includes the 26% BEE interest held by DRD's empowerment partners.

Assuming a full refurbishment and capital cost of ZAR 900mn, it is likely that ERGO's two CIL circuit trains could once again run at a feed rate of 2.5mn tons. It should also be noted that the ERGO JV is also looking to extract further value from the sale of water and property following the recovery of the various tailings dumps.

Based on these assumptions

We calculate an attributable NPV for the ERGO project of **ZAR 3.67** per DRD share (after BEE interest).

A recent update from company management suggests the operation could reach anticipated production levels by late 2009/early 2010.

Including DRD's current gold operations we calculate a potential fair value for DRD as follows:

Existing DRD operations and cash on hand fair value - **ZAR 6.80**

Expanded Blyvoor surface operations - **ZAR 0.90**

Value attributable to ERGO operation - **ZAR 3.67**

Total potential fair value for DRD = ZAR 11.37

Given the potential for escalating costs over and above those currently forecast we would apply a 10% discount to arrive at out target price of ZAR 10.23

Please refer to Appendix 1 attached at the end of this document for a breakdown of our fair value calculation for DRD's existing gold operations excluding the above uranium potential. Nevertheless, at current levels DRD appears to be trading at a substantial discount to potential intrinsic value.

SUMMARY

Recent developments in the market for sulphuric acid suggest that supply will remain tight and that prices are likely to remain elevated for a sustained period of time. Mining companies that are positioned to exploit the large number of tailings dumps on the Witwatersrand are in a unique position to profit from both the boom in uranium prices as well as sulphuric acid prices. Furthermore, the shortage of sulphuric acid is likely to hinder both the production of uranium and mining of uranium using the "in-situ" leach process, particularly with regard to production in Kazakhstan. We have highlighted three companies that are best-positioned to benefit from this confluence of dynamics, namely Simmers, DRDGold and Australian-listed Mintails and believe all three offer decent upside potential from current levels and recommend investors accumulate the shares at current levels.

APPENDIX ONE DRD GOLD TRADING NOTE 20 NOVEMBER 2007

Trading Note: 21 November 2007

Company: DRD

Sector: GOLD

Price: 5.60 **Rating:** BUY

BUY	HOLD	SELL
5.60<	5.60-7.50	>7.50

COMPANY OVERVIEW

DRDGold is an unhedged gold producer with three major operations comprising the Blyvooruitzicht Gold Mining Company Ltd (Blyvoor), Crown Gold Recoveries (Pty) Ltd (CGR) and East Rand Proprietary Mines Ltd (ERPM). DRDGold has undergone a major restructuring and is once again a focused South African producer. DRDGold has a proven and probable reserve base of over 6mn ounces and is exploring the potential of its uranium assets. DRDGold has a 26% empowerment shareholding, which meets current mining charter requirements. The BEE interest is accounted for as a minority interest in the company's financial statements, as the holding is at the operating level.

APPENDIX ONE DRD GOLD TRADING NOTE 20 NOVEMBER 2007

FINANCIAL METRICS

EPS Estimates 2008 - 2010

Year-end	**2008/06/30 (F)**	**2009/06/30 (F)**	**2010/06/30 (F)**
Share Price	**535**	**535**	**535**
EPS*	40	76	76
Cash Per Share	230	230	230
PE (Net Of Cash)	**7.6**	**4.0**	**4.0**
PE Jse**	15.1	15.3	11.6
Disc/Prem	-49.5%	-73.8%	-65.4%

* Inet-bridge Consenus Estimates, ** Unweighted

Historical Financial Metrics

(All Figures Zar Mn)

Year-end	**2005**	**2006**	**2007**
Reserves* (Oz,Mn)	7	8	6
Mkt Cap	1489	2400	2021
Mkt Cap/Oz	212.71	300.00	336.83
Gold Price Zar/KG	84690	109721	170000
Cash Cost Zar/KG	75109	89900	134000
Net Debt	Na	Na	-630
Net Current Assets	Na	Na	0
Shares In Issue	331Mn	331Mn	376Mn
EV/Oz**	Na	Na	231.83

*Proven And Probable + Ergo And Revised Blyvoor Surface,After Min Interest

**EV = ENTERPRISE VALUE = MKT CAP ADJUSTED FOR NET DEBT, NET CURRENT ASSETS

ANALYSIS

Following the recent completion of the sale of its Australian subsidiary Emperor, DRD is now once again a focused South African gold producer. The recent restructuring has resulted in DRD transforming itself into a fundamentally different company then was the case a mere 6 to 8 months ago. The sale of its Australian assets has left the company essentially debt-free and with a cash resource of ZAR 897mn or ZAR 2.40 per share. Capital expenditure at its current operations is limited to maintenance capex with the current reserve base likely to sustain average output (higher over next few years, but lower levels in final 4 years) at current levels for at least the next 8 years (current ERPM production profile ends in 2015). DRD has a substantial resource base which could become economically viable in the current environment

of higher gold prices. Furthermore, for the first time in living memory DRD has substantial cash resources to fund any expansion plans, suggesting the trend of sustained share issuance, which has been a feature of the company, is likely to cease. Furthermore, the company has a large assessed tax loss, which implies that its average tax rate over the next few years is likely to be substantially lower then the actual corporate tax rate, which has positive free cash flow implications. Given these fundamentals and current ZAR-denominated gold prices, we calculate that DRD is trading at its cheapest valuation since Q4 2001 following the ZAR collapse. However, in contrast to that period, the current ZAR gold price is likely to prove sustainable, given the threat of recession in the US and South Africa's massive current account deficit.

In its most recent set of quarterly results, DRD reported an improved set of operating metrics and further highlighting the ongoing recovery at its SA operations. Gold production increased by 11% to 2,773 Kg from 2,500 Kg, while cash operating costs for its SA operations actually decreased marginally to ZAR 133,673 per Kg from ZAR 134,456 per Kg. These improved metrics resulted in a cash operating profit for the quarter of ZAR 62.3mn. Although operating costs are likely to rise going forward, given recent labour wage agreements, we believe that the sharp cost increases evident over the past year will not be repeated. DRD has the potential to increase its current production level in the near-term with the commencement of the ERGO gold recovery project, where operating costs should be lower then current underground operations at Blyvoor and ERPM. Furthermore, the likely outperformance of gold relative to input cost commodities such as steel, copper etc will also help improve margins. As a result we have used a real operating cost of ZAR 140,000 Kg for our valuation calculations, using an eight-year timeline. The assumption over the forecast period is that the rise in nominal operating costs will match the rise in nominal ZAR-denominated gold prices. Again this is based on a long-term negative view for the ZAR and a long-term positive view on the dollar gold price. At current production levels DRD produces roughly 11,000 Kg per annum. Including the ERGO gold recovery project, DRD production levels could reach 12,500 kg per annum. ERGO is a 50% JV with Australian-listed Mintails which aims to recover up to 200kg of gold per month upon commencement, with the potential for this to increase further overtime. The ERGO project is expected to commence operations in 2009. Operating costs for surface operations are typically lower then those for underground operations and should, as previously noted, lower the cost profile for the group as a whole.

Apart from the ZAR 200mn estimated capital cost for the ERGO gold recovery project, current mining operations do not require significant new development capex and thus cash capex costs should be limited to operating or maintenance capex. Including corporate and administrative costs, cash outflows not related to direct operating costs are expected to average ZAR 100mn per annum in real terms (increasing at 9% per annum on a nominal basis). We have assumed that existing assessed tax losses will be sufficient to cover net profits for between 2 and 3 years, depending upon expected levels of profitability. We have calculated three fair value price targets based on a ZAR gold price of 160,000 per Kg (e.g. USD gold price of 700 and

ANALYSIS

USD/ZAR exchange rate of 7.15), 170,000 per Kg (current level) and 190,000 per Kg (e.g. USD gold price of 950 and USD/ZAR exchange rate of 6.15). We have accounted for a current cash resource of ZAR 697mn, after taking into account the estimated ZAR 200mn to be spent on the ERGO surface operation. We have added ZAR 1.00 to our DCF for the value attributable to DRD's considerable measured and indicated resource base as well as the uranium potential. However, apart from the Blyvoor surface tailings, DRD's uranium potential is based on the long-term viability of underground resources comprising the West Wits JV with Mintails, which would rely on uranium prices remaining at current elevated levels for a sustained period (5 year's plus) of time, which, in our opinion, is not very likely. Excluding the uranium potential, a valuation for the resource base of ZAR 1.00 per share, would translate to a mere ZAR 22 per attributable resource ounce. A very low metric when measured on both a historic (absolute) basis and relative basis.

Based in these assumptions our lower target price is ZAR 4.75, median target price is ZAR 6.05 and higher target price is ZAR 10.00. Although we would place a higher probability on the two higher estimates, given the current economic backdrop, assuming an equal probability, a current fair value of **ZAR 6.85** is reached. Although DRD has failed to capitalize on past rises in the gold price and build a sustainable gold mining business, the company will once again, over the next few years, have another opportunity to do so. Given some of the management changes that have taken place over the past year, the counter is trading at valuation levels that probably offer a sufficient margin of safety given the company's inherent risk profile. In particular, should the company's uranium assets prove economically viable, then DRD at current levels is easily trading at its cheapest valuation in six years, both on an absolute and relative basis. Accordingly we would rate **DRD** a speculative **BUY** but only for investors with a higher risk tolerance. DRD can still **NOT** be regarded as investment grade and suitable for long-term focused investment portfolios, until such time as current management have exhibited a proven track record in building a sustainable and profitable gold mining business for the long-term.

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