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Dear Shareholder,

### **Shareholder Update**

The recent turbulent markets have resulted in many calls to us seeking an update on MDL's various activities and so I have taken the opportunity of this mail out to bring you up to date with our progress and current position.

As you know, we have two large projects in Senegal West Africa with the first of these, the Sabodala Gold Project well into the construction phase and the Grande Cote Mineral Sands Project now fully permitted and awaiting development approval from our board. Let me commence by updating you on progress at Sabodala then move on to developments at Grande Cote and finally address the various issues regarding the financing of the projects and the company.

#### ***Sabodala – Project Construction 60% Complete***

I am pleased to report that the construction of Sabodala is now in excess of 60% complete. We expect to have practical completion of the plant towards the end of this year and undertake commissioning shortly thereafter. We expect to produce approximately 165,000 ounces of gold in calendar 2009.

This is a very large project with a cost well in excess of US\$ 200m including capital, working capital and initial operating costs. Included with this letter is a brochure which will give you a feel for the progress achieved to date.

The world wide environment for large scale capital projects has been exceedingly difficult due to rapidly rising costs, a worldwide shortage of qualified people in the engineering and construction industries, an acute shortage of major capital equipment and a restricted number of manufacturers of heavy engineering items. This is largely a result of the commodities boom and, of course, the oil price. We haven't been immune from these issues and have at various times revised our cost estimates. However, with the project construction now at an advanced stage and with most of the major items of capital equipment installed or on site, we are increasingly confident that we will complete the project within our current estimates. To date, we have constructed two large water collection dams, a modern village for over 600 people, and are nearing completion of a 30 mega-watt power station. The CIL tanks are erected and the crusher is being installed as are the two large grinding mills. The new mining fleet of drills, face shovels and trucks is on site and at work and the Phase 1 open pit is now approximately 40 metres below surface with the mining of ore for stockpiling at the plant about to commence. The bulk of the work left is completion of the installation of various heavy engineering items and installation of the piping and electrics along with various site works. We are also planning to lay a water pipeline approximately 40kms to a major river to ensure we have ample process water if, in the future, a wet season fails to deliver enough water to the site's dams. This is a good example of the thorough approach to this project which we expect to be operating for many years.

In times of rapidly rising capital costs, it is tempting to try and make savings by deviating from the project design. This inevitably leads to problems at commissioning and ends up costing more down the track. We have been careful to stay with our intended approach, and while this has been difficult at times with regard to cost and schedule, we are very confident of delivering a project built to the highest standards.

Our projected operating costs, are of course, affected by the oil price but the project overall is much more sensitive to the gold price and so we are very encouraged by the current price and outlook. In the current oil price environment, we are projecting cash operating costs in the first full year of production at around US\$380 - \$420 per ounce and a life of mine cost in the current oil price environment of approximately US\$460 – \$480 per ounce.

One of our key strategies has been an early recognition that the Sabodala district is likely to develop into a world class mining district and that having the only large scale treatment facility in the district this would put us in a position of strength in the years to come. With this in mind, the plant has been designed to rapidly and cheaply expand from the present 2 million tonnes per year of ore treatment capacity to 3 million tonnes. It is now apparent that some of the companies surrounding us are making exciting discoveries, such as Oromin Explorations Ltd of Canada, who have announced two significant discoveries within a few kilometres of the Sabodala plant. We think that the district will continue to expand and our strategic position will continue to strengthen over the next few years.

MDL itself has large exploration interests in the district and we have been recently expanding these holdings. Over the last twelve months, most of our focus has been in and around the mine lease as we have many quality targets close to the mill. We continue to drill a number of these targets which have produced the best results so far and hope to add further to the announced resources later this year. More regionally, we have a number of targets already indicating further potential and we will work these up further in the next few years.

### **Grande Cote Mineral Sands Project**

THE Grande Cote Project has been through a long period of resource definition, metallurgical pilot studies and engineering design and in parallel, environmental approvals and mine permitting procedures. The project has been ready to commence since earlier this year, pending financing. The worldwide pressure on people and engineering services and the enormous internal focus required to get Sabodala into and through the construction phase has seen us defer the start up at Grande Cote this year.

At the same time, much has changed in the dynamics of this industry and, in particular, the Titanium segment. You may recall that our project concept from early days has been to focus on the zircon component and stockpile the considerable amount of ilmenite that was also to be produced with the zircon. Our thinking here was that the margin available for ilmenite was unlikely to make the extra capital expenditure worthwhile. What has emerged however is that the huge increases in the cost of shipping bulk commodities around the world has meant that the ilmenite at Grande Cote has become very competitive due to the proximity of Senegal to the main northern hemisphere markets. This has led us to revisit the ilmenite and to do a series of new metallurgical pilot studies to optimise both zircon and ilmenite recoveries and metallurgical flow sheets. We have been very pleased with the results of this work and are presently reworking the development plan and feasibility study to incorporate ilmenite. At the same time, we have begun work on identifying appropriate markets for our ilmenite. We plan to produce approximately 700,000 tonnes of ilmenite of various grades and successful sale of this product will have a major impact on projected financial returns.

This project is of a similar scale to Sabodala and we are being careful not to stretch our resources further than appropriate. To date, we have spent approximately A\$86 million on this project, which includes quite a lot of equipment including some long lead time heavy engineering items like the dredge pump and gear box and quite a bit of mobile equipment, most of which currently deployed at Sabodala. The resultant operation will have a very long life and time needs to be taken to ensure that our products have an appropriate niche in the market for the long term. We note that Chinese demand for zircon and titanium products is increasing rapidly and the price of these commodities and particularly zircon is starting to respond positively which is most encouraging. We look forward to 2009 for commencement of development at Grande Cote. Development of this project remains to be financed and this will be one of the main challenges facing the board next year. However, the long life of the project and its strategic position open up many financing options which we are actively exploring. We are mindful of any further dilution of our shareholders equity in this respect.

### **Financing Activities**

Until recently, MDL has financed both the Grande Cote project and Sabodala out of equity. There is considerable concern amongst professional investors in respect of the ability of companies such as MDL mid way through development to arrange appropriate debt facilities and this has been impacting negatively on sentiment and on our share price and on the prices of many like us.

Earlier this year, we arranged a total of \$130m in debt facilities. Details of these facilities can be found on our website in the "Investor Centre / News Releases" section. To date, we have drawn down the US\$35m working capital facility from RMB and Macquarie Bank and soon will commence drawing under our main project finance facility.

We had intended to use bank debt exclusively to complete Sabodala but the recent worldwide credit crisis has dramatically changed the debt landscape and your directors recently resolved to issue 63 million new shares to strengthen the Balance Sheet in the face of this uncertainty to ensure we were prudently positioned. We have negotiated with Macquarie Bank a project finance facility of US\$70m and expect to begin drawing from this facility in the coming months to complete the construction of Sabodala. Our mining fleet has been purchased from equity, and later this year, we will access an approved Societe Generale bank facility to re-finance this fleet as a further funding mechanism. At this stage, the company has no gold hedging committed but it is a requirement of the Macquarie Bank project finance facility agreement that we enter into hedging arrangements. We expect to be able to report on these activities in August.

We are often asked if we would consider separating the gold and mineral sands assets into separate listed entities and our answer has always been that this would only be appropriate once at least one of them was near, or in production. This time is fast approaching and your board continues to look at this as one possible option.

I hope this update has been useful and informative. Please feel free to ring or email us (via our website), if you want clarification on the various matters raised above.

For a pictorial update on the Sabodala Gold Project, please click here:

<http://www.mineraldeposits.com.au/user/files/Investor%20Centre/Brochures/Sab%20pic%20brochure%20a4.pdf>

Nic Limb

Chairman