



Mineral Deposits Limited

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THREE MONTHS ENDED
SEPTEMBER 30, 2008**

Expressed in Australian dollars unless otherwise stated

MINERAL DEPOSITS LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008

The financial statements of Mineral Deposits Limited ("MDL" or the "company") and the financial information contained in this Management's Discussion and Analysis ("MD&A") were prepared in accordance with International Financial Reporting Standards.

Additional information about the company and its business activities is available on SEDAR at www.sedar.com and on the company's website at www.mineraldeposits.com.au.

The following MD&A of the company is in relation to the three months ended September 30, 2008 and should be read in conjunction with the financial statements for the three months ended September 30, 2008 and the notes thereto. The effective date of this report is November 14, 2008.

1. OVERVIEW SUMMARY

MDL is a mineral development company with a current focus on developing two major projects in Senegal, west Africa.

The projects concerned are the Sabodala Gold Project ("SGP"), which is located approximately 650 kilometres east-southeast of the capital Dakar, and the Grande Côte Mineral Sands Project ("GCMSP"), which is located in the coastal dunal strip commencing approximately 50 kilometres northeast of Dakar.

The company is listed on the Australian Securities Exchange ("ASX") (symbol: MDL) and the Toronto Stock Exchange ("TSX") (symbol: MDM).

2. OVERALL PERFORMANCE

Highlights for the three months ended September 30, 2008 include:

Sabodala Gold Project

- Major resource upgrade at the SGP to 3.51 million ounces, up 28% on the previous announcement in 2007.
- Step-out drilling since 1 September 2007 has extended the Sabodala deposit in all directions and at depth.
- Infill drilling targeted near surface in-pit zones to increase drill confidence from Indicated and Inferred to Measured and Indicated in areas to be mined in 2008 and 2009.
- Construction of the Sabodala mine and processing plant is now 87% complete.
- The power station and processing plant works are well advanced.
- Phase 1 open pit development, ROM pad construction and stockpiling of ore works are progressing well.

Regional Exploration

- New joint venture signed with AXMIN Inc, a Canadian exploration company, covering three exploration permits within 30 kilometres of the Sabodala gold plant.
- Encouraging results received from Bransan and Dembala Berola projects.

Corporate

- First drawdown under the Project Finance Facility of US\$70 million provided by Macquarie Bank Limited ("MBL"). MDL anticipates that this facility will cover all expenditure to first gold production.
- Red Back Mining Inc. acquired approximately 62 million shares (12.8%) of MDL's issued capital.

3. CASH POSITION AND CAPITAL RESOURCES

As at September 30, 2008, the company held cash and cash equivalents of \$11.7 million.

As announced to the ASX and TSX on August 20, 2008, the company made its initial drawdown under the MBL Project Finance Facility. As at September 30, the project finance loan balance stood at US\$40 million. As part of the requirements for accessing the project finance facility, the company was required to put a gold price protection programme in place. Details of the outstanding gold hedging positions can be found below under *Gold Hedging*.

4. CAPITAL RAISINGS

At the end of the reporting period, the company had on issue 483,619,234 ordinary shares and 38,435,000 options at various exercise prices and expiry dates. On 1 July 2008, the company issued 10,000,000 unlisted options (MDLAA) at \$1.40 with an expiration date of 1 July 2011 to its financiers pursuant to the terms of the working capital facility.

5. RESULTS OF OPERATIONS

Net loss for the three months ended September 30, 2008 was \$43,902,199 compared to a net profit of \$64,243 during the corresponding period in 2007.

The main reason that the net loss for the year ended September 30, 2008 was considerably larger than the corresponding period in 2007 was the effect of taking the impact of gold hedge losses to account. The company has elected not to adopt hedge accounting and, as a consequence, significant volatility in the income statement can be expected from quarter to quarter as changes in the company's mark to market gold hedge book are taken into account. It should be noted that this loss is non-cash in nature and relates purely to changes in the gold spot price denominated in United States dollars, as well as movements in gold lease rates and the forward interest rate curve. Should the recent decreases in the United States dollar denominated gold price persist throughout the current three month period, significant reversals of this non-cash loss may well be expected.

Furthermore, it should be noted that the company is not subject to margin calls on this out of the money position. For further details, please refer to *Gold Hedging* below.

The unrealised foreign currency loss for the three months ended September 30, 2008 was \$6,157,608.

Other differences related to interest revenue which decreased to \$259,726 during the three months ended September 30, 2008 compared to \$963,817 for the corresponding period in 2007. The decline in interest received is due to the lower level of average balances held during the course of the three months and is line with the expenditure of capital on the SGP.

The diluted loss per share for the three months ended September 30, 2008 was 9.078 cents per share compared with a diluted profit of 0.071 cents per share in the corresponding 12 month period ended September 30, 2007. The reduced diluted loss per share is largely a result of the non-cash loss associated with bringing the mark to market value of the gold hedge book to account.

6. BALANCE SHEET

As at September 30, 2008, the company had total assets of \$515,513,909 and total liabilities of \$171,539,701 with net assets of \$343,974,208. Net assets as at June 30, 2008 were \$365,884,349. The decrease in net assets between the two periods was largely a result of the impact of bringing the mark to market position of the gold hedges to account and is not related to an actual decline in value of the project assets of the company.

The company had interest bearing liabilities of \$87,314,448 as at September 30, 2008 which was largely comprised of the Revolving Working Capital Facility and the initial drawdown of US\$40 million under the MBL Project Finance Facility. Trade and other payables decreased to \$15,147,060 as at September 30, 2008 compared to \$42,751,767 as at June 30, 2008. The decrease in trade and other payables is primarily associated with the reduction of payables associated with funding from the June equity capital raising, together with proceeds from the MBL Project Finance Facility.

An amount of \$28,503,713 related to purchased gold put options is included as a non-current asset. It is expected that the value of this asset will fluctuate with movements in the United States dollar denominated spot price for gold, interest rates and gold price volatilities over time.

7. CASH FLOW

Net cash used in operating activities for the three months ended September 30, 2008 was \$3,610,964 compared with \$2,116,171 for the corresponding period in 2007. The main reason that net operating cash was lower was a result of the lower amount of interest earned during the period due to lower average cash holdings over the course of 2008 as funds were spent on the development of the SGP. Payments to suppliers and employees increased to \$4,139,597 for the three months ended September 30, 2008 from \$3,374,152 in the corresponding period ended September 30, 2007. This is in keeping with the increased level of activities and the planned recruitment of operating personnel as we move towards production.

Net cash used in investing activities for the three months ended September 30, 2008 was \$77,210,350 compared to \$53,546,451 in the corresponding three month period in 2007. The increase in expenditure highlights the ramp-up of construction activities at the SGP. The level of expenditure on investment activities is expected to reduce towards the end of calendar 2008 as the SGP nears completion.

Net cash provided by financing activities for the three months ended September 30, 2008 was \$45,610,349 compared to \$89,326,437 for the three months ended September 30, 2007. The primary difference between the two periods was that the finance provided during the most recent quarter was a result of borrowing under the Project Finance Facility as opposed to the proceeds of equity capital raisings in the corresponding period in 2007.

The net decrease in cash in the three months ended September 30, 2008 was \$35,210,965. After allowing for the increase associated with the effect of exchange rates on cash holdings in foreign currencies of \$1,584,434, cash and cash equivalents on hand at the end of the period was \$11,737,285. As discussed above, the primary reason for the decrease in cash and cash equivalents was the increased pace of construction at Sabodala together with the significant decrease in trade and other payables.

8. GOLD HEDGING

As part of the Project Finance Facility negotiated with MBL, the company was required to initiate a gold price protection programme to protect the SGP from adverse movements in the gold price.

A total of 687,000 ounces has been protected using a combination of forwards and bought put options. The programme commences in February 2009 until February 2014. In total, the forwards commit the company to deliver at a price of US\$861.35 per ounce for 460,000 ounces or approximately 60% of the forecast production from the SGP over the five year term. In addition, the bought puts give the right, but not the obligation, to the company to deliver 227,000 ounces or approximately 30% of production over the same period.

While the company has protection for approximately 90% of its production from the SGP over the hedging period, it is not obligated to exercise the bought puts in the event that the spot price for gold is higher than US\$861.35 at the time of the relevant options' expiry. In effect, the company is free to sell up to 40% of its production over the first five years of operation at the SGP at the spot gold price.

As discussed above under *Results from Operations*, the company recorded a loss on its gold hedge book. This loss is primarily due to the increase in the spot gold price following the gold hedge being put in place. Subsequent to the end of the quarter, the spot gold price has declined quite markedly. Should this situation continue until the end of the current quarter, and subject to all other factors remaining equal, the company anticipates that it will have a positive value for its gold hedge book.

It is important to note that the mark to market impact recorded in the Income Statement is non-cash in nature. The cash impact of any actual adjustments will be felt at the actual maturity or closing out of an individual gold hedge contract when the company either delivers or cash settles as part of its business operations.

Furthermore, it should be noted that MDL is not subject to margin calls by its financier against fluctuations in the value of the gold hedge book.

The company only has hedges against its United States dollar denominated exposure to the gold price and does not have any currency hedging in place.

9. CONTINGENT LIABILITIES

- (a) The company faces potential contingent liabilities in relation to its rehabilitation obligations on its moribund New South Wales ("NSW") exploration and mining tenements. The nature of these rehabilitation obligations includes water monitoring and revegetation. Some aspects of the rehabilitation obligations extend for a period in excess of 10 years after the cessation of previous mining activities. Ongoing rehabilitation work therefore continued at Mineral Deposits (Operations) Pty Ltd's former mining sites in NSW, Australia. No adverse situations were reported and work continued to schedule. At the time of this report, the company has insurance bonds in place for \$1.39 million and \$1.0 million respectively in favour of its NSW government and MidCoast Water rehabilitation obligations.
- (b) There are no outstanding native title claims against the company which could or would have a financial impact.
- (c) As at September 30, 2008, New Hampton Goldfields Limited, the former parent entity of the company, was continuing to provide a guarantee to GIO Australia in regard to the ongoing provision of environmental bonds by the latter for the mineral sands operations of the group in NSW. The guarantee concerned is a joint one also given by Mineral Deposits Limited.
- (d) The company faces potential liabilities in respect of the SGO. The company has agreed that the following amounts will be payable:
- approximately US\$4.2 million to the Government of the Republic of Senegal ("GRS") in four equal instalments over the first four years of production to which an annual interest rate of 6% applies on a reducing balance basis;
 - US\$6.50 per ounce once-off bonus payment to the GRS for capped mineable reserves exceeding 556,000 ounces for a total of US\$6.52 million;
 - US\$425,000 per annum on social development of local authorities in the surrounding Tambacounda region during the term of the Mining Convention;
 - US\$30,000 per year for logistical support of the territorial administration of the region from date of notification of the Mining Concession; and
 - US\$200,000 per year of production on training of Directorate of Mines and Geology ("DMG") officers.
- (e) The company faces potential liabilities in respect of the GCMSP. The company has agreed that the following amounts will be payable if the project proceeds to production:
- \$500,000 within 30 days of completion of a bankable feasibility study for the project and on securing all the necessary funding either by debt or equity from an internationally recognised banking or financial institution to develop the project;
 - \$500,000 within 30 days of receipt by (the successor to) MDL Senegal SUARL, a subsidiary of MDL, of the first payment for a commercial arm's-length sale of product from the project;
 - US\$150,000 per annum on social development of local communities in the Grande Côte and surrounding region during the term of the Mining Concession; and
 - US\$50,000 per year of production on training of DMG officers and logistical support to the technical services of the Ministry for Mines.
- (f) The company entered into a deed of cross guarantee with its wholly-owned subsidiaries MDL (Mining) Limited and MDL Gold Limited.
- (g) The company confirmed directly or via its holding subsidiaries that it will continue to provide financial support to the subsidiaries to enable them to meet their obligations as they fall due for a period of not less than 12 months.
- (h) The company is required to issue up to 9,000,000 additional options at an exercise price the lesser of \$1.40 per option or the price which is the 20 day VWAP for the period ended December 31, 2008 plus 15% on a pro rata basis should the Revolving Working Capital Facility remain drawn post December 31, 2008.

The directors are not aware of any other contingent liabilities at September 30, 2008.

10. CORPORATE RESPONSIBILITY FOR FINANCIAL REPORTS

MDL's Managing Director and Chief Financial Officer ("CFO") are responsible for establishing and maintaining the company's disclosure controls and procedures. Access to material information with respect to the company is facilitated by the small size of the company's senior management team. The Managing Director and CFO, after evaluating the effectiveness of the company's disclosure controls and procedures as of September 30, 2008, have concluded that the company's disclosure controls and procedures were adequate and effective to ensure that material information relating to MDL and its subsidiaries would have been known to them.

11. SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

The table below shows selected financial data for each of the eight quarters ended September 30, 2008. The financial data is derived from the company's interim unaudited financial statements and its audited financial statements with respect to June 2008 and June 2007, which are prepared in accordance with IFRS.

Financial Data – Last Eight Quarters								
Three months ended	Sep-08	Jun 08	Mar 08	Dec 07	Sep 07	Jun 07	Mar 07	Dec 06
Interest and other income (\$)	332,667	2,467,295	371,091	11,133,429	3,152,874	5,916,942	1,382,509	1,607,279
Income/(loss) (\$)	(43,902,199)	(9,028,964)	(7,799,326)	7,033,676	64,243	(20,819,712)	(3,454,230)	(9,524,540)
Income/(loss) per share (cents)	(9.08)	(2.29)	(2.02)	1.91	0.02	(6.96)	(1.15)	(3.18)
Weighted average number of shares	483,619,234	394,898,617	385,821,271	368,611,409	356,663,367	299,317,659	300,119,234	299,309,234

12. CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This press release contains "forward-looking statements" which are subject to various risks and uncertainties that could cause actual results and future events to differ materially from those expressed or implied by such statements. Investors are cautioned that such statements are not guarantees of future performance and results. Risks and uncertainties about the company's business are more fully discussed in the company's disclosure documents filed from time to time with the Canadian and Australian securities authorities. Readers are cautioned not to rely solely on the summary of such information contained in this release, but should read MDL's financial statements for the financial years ended June 30, 2008 and June 30, 2007, the final prospectus dated December 12, 2007 and related technical reports posted on the company's website (www.mineraldeposits.com.au) and filed on SEDAR (www.sedar.com) and any future amendments to such reports. Readers are also directed to the cautionary notices and disclaimers contained herein. All currency references in this release are to Australian dollars unless otherwise stated.

13. RISKS AND UNCERTAINTIES

The company expects that its financial performance will continue to be affected by exploration and development activities associated with attempting to bring its two mining projects, the SGP and the GCMSP, into commercial production. Until such time as commercial production is achieved, MDL will continue to incur administration costs and exploration development expenditures that are either deferred or expensed, depending on the nature of the expenditure. It is likely that prior to the commencement of commercial production, the company will have insufficient revenue to cover these costs which will result in continuing operating losses. MDL also expects that it is likely to incur some additional costs associated with the evaluation of potential exploration and mining operations in addition to the two projects that it is currently developing.

Should the development of the SGP and GCMSP continue, the financial performance of the company will be closely linked to the prices of gold in the case of the former and the latter as regards zircon, ilmenite and other associated heavy minerals. Commodity price fluctuations of these minerals will significantly affect the results of operations once mining commences and the ongoing economic viability of the two orebodies.

The company reports its financial results in Australian dollars. MDL's group costs, however, are in Australian dollars, Franc cFa, United States dollars and Euro. The Franc cFa is currently pegged to the Euro. If the SGP and the GCMSP reach commercial production, as expected by management, future product sales will be in United States dollars. Fluctuations in these exchange rates or interest rates through the MDL group may therefore significantly affect the future financial results of the company.

As at the date of this report, a condition precedent of the project finance facility and gold hedging programme with MBL was the establishment by MDL of a gold hedging programme. It has been constructed to be a mix of forward sales and put options. In total, 460,000 ounces of gold has been committed for delivery between February 2009 and February 2014 at a delivery price of US\$861.35 per ounce.

The continued exploration and development of the company's properties will require substantial additional financing. Failure to obtain sufficient financing in the future may result in the delay or indefinite postponement of one or both projects. There can be no assurance that bank financing or other types of financing will be available when needed or that, if available, the terms of such financing will be acceptable to MDL.