



Mineral Deposits Limited

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE SIX MONTHS ENDED
DECEMBER 31, 2008**

Expressed in Australian dollars unless otherwise stated

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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 six months ended December 31, 2008 and should be read in conjunction with the financial statements for the six months ended December 31, 2008 and the notes thereto. The effective date of this report is February 12, 2009.

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 Zircon & Ilmenite Project ("GCZ&IP"), 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 six months ended December 31, 2008 include:

Sabodala Gold Project

- Sabodala Open Pit Mine/ROM Pad

The new Sabodala pit design is approximately 1,000 metres in length, 600 metres across and 250 metres deep. Total contained material is 142 million tonnes, including 120 million tonnes of waste and 22 million tonnes of ore to be processed.

Since mining commenced in June 2008, approximately 3.5 million tonnes of ore and waste have been mined enabling construction of the ROM pad with waste and placing ore ready for crushing. Over 600,000 tonnes of predominantly oxide ore containing in excess of 45,000 ounces of gold have been stockpiled on the ROM pad in preparation for milling.

- Processing Plant

The processing plant is nearing completion with all major items in place.

- Water Supply

As at the end of December, approximately 2.6 million tonnes of water were stored within the site dams, sufficient to support the first year of production. Additionally, construction of the Faleme River pipeline is underway to ensure ample process water is available into the future with all 38 kilometres of pipe delivered to site.

- Power Station

Construction of the Wartsila 30MW heavy fuel oil power station was completed and it was commissioned during late 2008.

- Site Village

The new site village is operating well and at any one time is catering for and accommodating up to 700 workers. During the busy construction phase, over 450 workers have also been accommodated at the nearby exploration camp village. A significant number of local Senegalese are also employed, bringing the total number working at site to in excess of 1,400.

New Sabodala Resource Estimate

On September 15, 2008, the company announced an updated gold mineral resource estimate at Sabodala of 3.51 million ounces. The new resource is up 28% on the previous resource announcement in October 2007. The breakdown of the resources is summarised below:

- the Measured and Indicated (diluted) resource for the Sabodala deposit comprises an estimated 42.1 million tonnes at an average grade of 1.84g/t gold containing 2.5 million ounces and compares with the previous estimate in October 2007 of 28.3 million tonnes grading 2.22g/t gold containing 2.0 million ounces;
- the Inferred resource for the Sabodala deposit now stands at 10.6 million tonnes at an average grade of 1.38g/t gold containing 469,000 ounces compared to the 182,000 Inferred ounces reported in 2007; and
- the Measured and Indicated Niakafiri diluted resource stands at 8.2 million tonnes at an average grade of 1.34g/t containing 355,000 ounces above a cut-off grade of 0.50g/t. An Inferred resource of 6.2 million tonnes at an average grade of 0.97g/t contains 192,000 ounces.

The new diluted resource for Sabodala of 2,963,000 ounces at a 0.65g/t gold cut-off, together with Niakafiri resources of 547,000 ounces, extends the SGP above 3.5 million ounces. The upgraded resources are viewed as an extension of the mineralisation at the Sabodala and Niakafiri deposits.

The latest resource estimates have been classified as a combination of Measured, Indicated and Inferred Mineral Resources in accordance with CIM Definitions (2005) resource reporting classification guidelines and reconciled to the JORC Code (2004).

New Reserve Estimate

On November 18, 2008, the company reported an updated proven and probable reserve for the Sabodala open pit of 1,484,000 ounces at a 0.65g/t gold cut-off. This reserve, together with Niakafiri at 145,000 ounces, extends the SGP to 1.63 million ounces with further opportunities to expand the reserves. The total Sabodala ore reserve for the mining concession is 24.3 million tonnes grading 2.1g/t. Of the total gold reserves:

- the current reserve (diluted) for the Sabodala deposit comprises an estimated 21.7 million tonnes at an average grade of 2.13g/t gold and compares with the previous estimate of 15.8 million tonnes grading 2.49g/t gold in October 2007; and
- the open pit reserve estimate for Niakafiri is 2.7 million tonnes grading 1.68g/t gold.

The grade estimates have been classified as a combination of Measured, Indicated and Inferred Mineral Resources in accordance with CIM Definitions (2005) and JORC (2004) reporting standards.

Grande Côte Zircon & Ilmenite Project

During the period, work focused on the detailed computer modelling and optimisation process to complete a preliminary mine plan for the project.

An internal study was undertaken to cover the production of ilmenite as a commercial sales product which indicated that this approach is both technically feasible and economically attractive. It is planned to finalise the study in the March 2009 quarter and include the results in the updated feasibility study which is expected to be completed by end of the second quarter in 2009.

Deep hydrological drilling continued throughout the quarter to evaluate make-up water supplies for management of the dredge pond levels. The substantial target aquifer is within Maestrichtien sandstones located some 460 metres below surface.

Corporate

Drawdown of Project Finance Facility and Gold Hedging Programme

On August 20, 2008, MDL announced the first drawdown under the US\$70 million Project Finance Facility provided by Macquarie Bank Limited ("MBL"). A condition precedent of the Project Finance Facility was the establishment by the borrower, 90%-owned Sabodala Gold Operations SA, of a gold hedging programme which was put in place.

In total, 460,000 ounces of gold was committed for delivery between February 2009 and February 2014 at a delivery price of US\$861.35 per ounce. In addition, 227,000 ounces of put options were purchased with exercise dates over the same five year period at a strike price of US\$861.35 per ounce. Details of the subsequent restructure of the hedge book follow below.

Revolving Working Capital Facility

On July 1, 2008, the company issued 5,000,000 unlisted options to each of RMB Australia Holdings Limited ("RMB") and MBL under the terms of the earlier Option Deed following the final drawdown of monies under the Working Capital line on June 10, 2008.

Private Placement of Ordinary Shares Approved

On August 6, 2008, the company announced that shareholders had ratified the issue of 63 million ordinary shares at \$0.77 to institutional clients of GMP Securities Europe LLP and Euroz Securities Limited of Australia under a private placement in June 2008. The amount that had been raised was \$48.51 million (before costs) largely applied to funding the construction phase of the Sabodala project in the period just concluded.

Red Back Mining Inc. Investment in MDL

On September 25, 2008, MDL announced that it had received notification from Red Back Mining Inc. of Vancouver, Canada that it had acquired approximately 62 million shares (12.8%) of MDL's issued capital.

Hedge Book Restructure

A substantial portion of the hedge book, consisting of the entire gold put option position of 227,000 ounces and 280,500 ounces of the flat forward sales mentioned above, was closed out during the period to realise proceeds of US\$60 million.

The remaining hedge position was 179,500 ounces of flat forward sales at US\$861/oz. At this time, the available limit under the Project Finance Facility was reduced to US\$25 million to reflect the lower hedging cover.

Subsequently, this gold hedge position was restructured and increased to extend the project debt facility from US\$25 million to \$US52 million allowing flexible management of the corporate debt facility. It is anticipated that during the current quarter, a portion of this increased project finance facility will be used to reduce outstandings under the working capital facility which is due for renegotiation.

The gold hedge book presently comprises 399,000 ounces of flat forward gold sales at a price of US\$846/oz for delivery at quarterly intervals from May 2009 to February 2013.

The company also entered into hedge agreements with respect to oil prices over the same four year period. The agreement consists of 80,000 barrels per annum for four years at a flat forward price of US\$70 per barrel. The contracts settle against Nymex Light Sweet Crude closing prices and represent approximately 50% of the company's Sabodala mine's expected energy consumption during the period.

3. CASH POSITION AND CAPITAL RESOURCES

As at December 31, 2008, the company held cash and cash equivalents of \$48.0 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 December 31, the project finance loan balance stood at US\$25 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. RESULTS OF OPERATIONS

Net profit before minority interests for the six months ended December 31, 2008 was \$49,986,187 compared to a net profit of \$7,097,919 during the corresponding period in 2007. Net profit before minority interests for the three months ended 31 December 2008 was \$93,888,386 compared to \$7,033,676 in the equivalent preceding period.

The main reason that net profit for the period ended December 31, 2008 was considerably larger than the corresponding period in 2007 was taking the impact of the gold hedge restructure to account. Proceeds of the close out of the gold put options and some of the gold flat forwards was \$93,036,527. The company has previously elected not to adopt hedge accounting and, as a consequence, significant volatility in the income statement can be expected from period to period as changes in the company's mark to market gold hedge book are taken into account.

Should the recent increases in the United States dollar denominated gold price persist throughout the current three month period, significant non-cash losses may well be expected.

Administration expenses decreased to \$6,360,372 during the six months ended December 31, 2008 from \$7,120,083 for the previous corresponding period. Administration expenses for the three month period ended December 31, 2008 were \$3,361,371 compared to \$4,066,402 for the prior corresponding period.

The diluted earnings per share for the three months ended December 31, 2008 was 17.84 cents per share compared with a diluted profit of 1.99 cents per share in the corresponding three month period ended December 31, 2007. For the six months ended December 31, 2008, the diluted earnings per share was 8.73 cents per share compared with 2.01 cents per share in the corresponding six month period ended December 31, 2007. The increased diluted earnings per share is largely a result of the restructure of the gold hedge book.

5. BALANCE SHEET

As at December 31, 2008, the company had total assets of \$667,852,006 and total liabilities of \$161,492,503 with net assets of \$506,359,503. Net assets as at June 30, 2008 were \$365,884,349. The increase in net assets between the two periods is largely the result of the proceeds from restructuring the gold hedges as discussed above.

The company had current liabilities of \$110,313,017 as at December 31, 2008 which was largely comprised of the Revolving Working Capital Facility and the initial drawdown of the MBL Project Finance line. Trade and other payables decreased to \$22,770,586 as at December 31, 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 proceeds from the MBL Project Finance Facility and proceeds of the gold hedge restructure.

6. CASH FLOW

Net cash provided by operating activities for the six months ended December 31, 2008 was \$77,353,204 compared with net cash used in operating activities of \$2,732,247 for the corresponding period in 2007. Again, the main reason that net operating cash was significantly higher in the current period was the result of the proceeds of the gold hedge restructure. Payments to suppliers and employees increased to \$16,823,198 for the six months ended December 31, 2008 from \$6,429,329 in the corresponding period ended December 31, 2007. This is in keeping with the increased level of activities and the planned recruitment of operating personnel as the company moves towards production.

Net cash used in investing activities for the six months ended December 31, 2008 was \$132,534,046 compared to \$131,265,036 in the corresponding six month period in 2007.

Net cash provided by financing activities for the six months ended December 31, 2008 was \$58,488,109 compared to \$142,409,274 for the six months ended December 31, 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 and Working Capital facilities rather than the proceeds of equity capital raisings in the corresponding period in 2007.

The net increase in cash in the six months ended December 31, 2008 was \$3,307,267. After allowing for the increase associated with the effect of exchange rates on cash holdings in foreign currencies of \$(655,940), cash and cash equivalents on hand at the end of the period was \$48,015,143.

7. GOLD HEDGING

As part of the project finance facility negotiated with MBL, the company was required to initiate a gold price protection programme to shield the SGP from adverse movements in the gold price.

Following the gold hedge restructure discussed above, the company currently has 399,000 ounces of flat forwards in place at a delivery price of US\$846 per ounce. Deliveries of gold have been scheduled to match expected production from the SGP over a four year term.

Furthermore, it should be noted that the company 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.

8. 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 December 31, 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 Sabodala. The company has agreed that the following amounts will be payable:
- approximately US\$4.2 million to the 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. Payment of this amount is conditional on confirmation by an independent consultant of the additional reserve estimate reported by the company on 18 November 2008. A decision to commission preparation of the requisite technical report has recently been taken by the board of directors.
 - 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 GCZ&IP. 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.

The directors are not aware of any other contingent liabilities at December 31, 2008.

9. 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 December 31, 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.

10. SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

The table below shows selected financial data for each of the eight quarters ended December 31, 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	Dec 08	Sep-08	Jun 08	Mar 08	Dec 07	Sep 07	Jun 07	Mar 07
Interest and other income (\$)	93,188,546	332,667	2,467,295	371,091	11,133,429	3,152,874	5,916,942	1,382,509
Income/(loss) (\$)	93,888,386	(43,902,199)	(9,028,964)	(7,799,326)	7,033,676	64,243	(20,819,712)	(3,454,230)
Income/(loss) per share (cents)	17.84	(9.08)	(2.29)	(2.02)	1.99	0.07	(6.96)	(1.05)
Weighted average number of shares	483,766,775	483,619,234	394,989,617	385,821,271	368,611,409	356,663,367	299,317,659	300,119,234

11. 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 TSX 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.

12. 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 GCZ&IP, 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 GCZ&IP 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 GCZ&IP 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.

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.