

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED 31 DECEMBER 2009**

*Expressed in **United States dollars** unless otherwise stated*

The following Management's Discussion and Analysis ("MD&A") of Mineral Deposits Limited ("MDL" or the "Company") is for the three and six months ended 31 December 2009 and has been prepared as of 12 February 2009. This MD&A supplements, but does not form part of, the unaudited consolidated financial statements of MDL and the notes thereto for the six months ended 31 December 2009 (the "Interim Financial Statements"). This MD&A should be read in conjunction with the Interim Financial Statements and with the Company's audited consolidated financial statements for the year ended 30 June 2009 and related notes thereto (the "Annual Financial Statements").

The Company's Annual Financial Statements and Interim Financial Statements and the financial information contained in this MD&A were prepared in accordance with International Financial Reporting Standards.

Additional information about the Company, including its Annual Financial Statements and Interim Financial Statements, and Annual Information Form, is available on SEDAR at www.sedar.com and on the company's website at www.mineraldeposits.com.au.

FORWARD LOOKING STATEMENTS

Certain information included in this MD&A, including any information as to the Company's future financial or operating performance and other statements that express management's expectations or estimates of future performance, constitute "forward-looking statements". The words "expect", "will", "intend", "estimate" and similar expressions identify forward looking statements. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties and contingencies. The Company cautions the reader that such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual financial results, performance or achievements of MDL to be materially different from the Company's estimated future results, performance or achievements expressed or implied by those forward-looking statements and the forward-looking statements are not guarantees of future performance. These risks, uncertainties and other factors include, but are not limited to: fluctuations in metal prices (principally the price of gold, zircon and ilmenite), capital and operating cost estimates, borrowing risks, production estimates, need for additional financing, uncertainty in the estimation of mineral reserves and mineral resources, the inherent danger of mining, infrastructure risk, hedging activities, insured and uninsured risks, environmental risks and regulations, government regulation, ability to obtain and renew licenses and permits, foreign operations risks, title to properties, competition, dependence on key personnel, currency, repatriation of earnings and stock exchange price fluctuations.

OVERVIEW

MDL is a mineral development company with a current focus in Senegal, West Africa through a producing gold mine, the Sabodala Gold Operation, and a to be developed mineral sands project, the Grande Côte Mineral Sands Project. The Company is listed on the Australian Securities Exchange ("ASX") (symbol: MDL) and the Toronto Stock Exchange ("TSX") (symbol: MDM).

The Sabodala Gold Operation, which poured its first gold in March 2009, is located 650 kilometres east of the capital Dakar within the West African Birimian geological belt in Senegal, and about 90 kilometres from major gold mines and discoveries in Mali. The Grande Côte Mineral Sands Project is located on the coast of Senegal starting approximately 50 kilometres north of Dakar and extending northwards for more than 80 kilometres.

December 2009 Quarter (2nd Quarter) Highlights

Financial Performance and Position

- Revenue from gold sales for the December quarter was \$47.1 million resulting from the sale of 50,078 ounces of gold at an average price of \$941 per ounce
- Mine EBITDA was \$21.0 million and operating profit (before other income and expenses) was \$9.7 million
- Operating cash flow was \$10.5 million (1.8 cents per share ⁽¹⁾)
- Cash at 31 December was \$25.3 million
- Project Finance Facility at 31 December was \$21 million (30 June 2009 – \$38 million) with a repayment schedule now in place to fully pay out the balance by 30 June 2010
- Mining Fleet Lease facility at 31 December was \$12.7 million (30 June 2009 – \$16.9 million)
- Delivered 33,000 ounces into gold hedges during the quarter leaving 295,500 ounces outstanding at 31 December (at \$846/oz)

Sabodala Gold Operation

- Gold production for the December quarter was 45,792 ounces, giving 100,052 ounces for the six months ended 31 December 2009. The expected fall in output relative to the September quarter of 54,260 ounces was primarily due to the anticipated normalisation in head grade to 2.63g/t from 3.66g/t. Gold production from commencement in March 2009 to December 2009 was 162,529 ounces, exceeding production guidance of 160,000 ounces
- Total tonnes mined for the quarter was a record 4.2 million tonnes, comprising 820,000 tonnes of ore and 3,420,000 tonnes of waste. Mill throughput for the quarter was also a record 600,000 tonnes – an annualised rate of 2.4 million tonnes per annum ("Mtpa") (well above nameplate capacity of 2.0 Mtpa)
- Gross cash operating costs (excluding royalties) for the December quarter were higher at \$532/oz, partly a function of higher costs (due to increased volumes) on a lower level of production but also due to increased inventories and higher overall costs. Gross cash costs averaged \$413/oz (excluding royalties) over the three full quarters since commencement in March 2009, bettering guidance of \$420-440/oz
- The planned expansion of the Sabodala gold plant to double nameplate capacity to approximately 4.0 Mtpa from mid-2011 was announced in January 2010
- Exploration programs on the mine lease and regional land package are being ramped up with a budget of more than \$14 million for calendar year 2010

Grande Côte Mineral Sands Project

- Work on the Definitive Feasibility Study ("DFS") for the project continued, which included financial modelling, updating the estimated capital cost, hydrological modelling, extension of the geological block model following additional drilling, further mine path design and circuit model test work
- Drilling continues to underpin additional years of the initial mine path, with a target of 15 years

¹ Operating cash flow per share is calculated by dividing the consolidated cash flow from operating activities by the weighted average number of ordinary shares on issue during the period

RESULTS OF OPERATIONS

Sabodala Gold Operation (MDL interest – 90%)

Production Statistics

		Dec 2009 Quarter	Sep 2009 Quarter	Jun 2009 Quarter
Ore mined	('000t)	820	807	854
Waste mined	('000t)	3,420	2,485	1,992
Total mined	('000t)	4,240	3,292	2,846
Strip ratio	waste/ore	4.2	3.1	2.3
Ore processed	('000t)	600	499	575
Head grade	(g/t)	2.63	3.66	3.27
Gold recovery	(%)	90.6	92.2	93.8
Gold produced ⁽¹⁾	(oz)	45,792	54,260	58,943
Gross cash costs (excl. royalties)	\$/oz	532	382	350
Gross cash costs (incl. royalties)	\$/oz	564	412	373
Net cash costs (after inventory adjustments, excluding royalties)	\$/oz	515	393	394
Gold sold	(oz)	50,078 ⁽²⁾	57,443	52,325
Average price received	\$/oz	941	890	878

Notes:

- (1) Gold produced is gold poured and does not include gold-in-circuit at period end
(2) Includes 5,665 ounces shipped before period end but not converted to cash.

Performance Overview

Sabodala's December quarter production was 45,792 ounces, compared with 54,260 ounces in the September quarter, giving 100,052 ounces for the first half of FY2010. The expected fall in output in the December quarter relative to the September quarter was primarily a reflection of the anticipated decline in head grade from 3.66g/t in the September quarter to 2.63g/t in the December quarter.

Total tonnes mined for the quarter was a record 4.2 million tonnes, comprising 820,000 tonnes of ore and 3,420,000 tonnes of waste. Low broken stocks continue to be an issue due to inadequate availability of the drill fleet, although this did not affect overall production due to the presence of free dig material in Phase 2 of the mine plan. To alleviate the problem of limited broken stocks, a second contract drill rig was engaged during the quarter, increasing the number of drills in the pit to five.

Mill throughput for the quarter was also a record 600,096 tonnes, equating to 2.4 Mtpa, well above nominal nameplate capacity of 2.0 Mtpa. The quarter included throughput of approximately 213,000 tonnes in each of November and December (the first time 200,000 tonnes has been exceeded in a month). Throughput was lower in October as a result of an unscheduled SAG mill shutdown and an extended ball mill shut down. Recoveries were slightly lower at 90.6% compared to the previous two quarters, primarily a result of more fresh rock and less oxide ore in the mill feed and less residence time in the CIL tanks with the higher throughput. Throughput was approximately 80% fresh rock and 20% oxide ore during the quarter.

Gross cash operating costs for the quarter were higher at \$532/oz excluding royalties, compared to \$382/oz in the September quarter. The increase was a result of increased mining and mill volumes (and hence increased costs) against lower gold production, an increase in inventories (particularly gold-in-circuit), as well as higher overall costs.

Gross cash costs excluding royalties averaged \$413/oz over the three full quarters since production commenced in March 2009, bettering guidance of \$420-440/oz.

Expansion

Planning is now underway to expand the Sabodala gold plant from a nominal capacity of 2.0 Mtpa to approximately 4.0 Mtpa. Upon completion of the expanded operations, anticipated to be in mid-2011 (calendar year), it is expected gold output will increase to an average of approximately 200,000 ounces per annum and the mine life of the existing Sabodala pit will be reduced from the current 11 years to seven years (based on existing reserves).

Given the original plant was designed and constructed with future expansion in mind, with certain key parts of the existing infrastructure (such as the 30MW power plant) already having the capacity to handle the proposed increased throughput, the estimated capital cost of the expansion is approximately \$80 million, comprising \$60 million (including contingency) for the processing plant and associated infrastructure (which includes a new gyratory primary crusher and a second ball mill) and \$20 million for additional mining equipment (including a hydraulic shovel, five haul trucks and two blast hole drill rigs).

Detailed engineering, delivery of long lead time equipment items and construction are anticipated to take approximately 15 months.

Under the expanded production rates, it is anticipated that cash costs per ounce will be reduced by at least 10% through leverage of existing fixed costs and economies of scale. In addition, all of the incremental ounces of gold produced can be sold into the spot market, which would see approximately 55% of financial year 2012 forecast production, 75% of 2013 and 100% thereafter able to be sold at spot.

EXPLORATION AND DEVELOPMENT

In the December 2009 quarter, the Company incurred \$3.4 million on exploration and development projects, comprising:

- \$2.2 million in relation to gold exploration activities around the Sabodala gold mine; and
- \$1.2 million associated with the Grande Côte Mineral Sands Project.

Sabodala Gold Exploration

Exploration around Sabodala on both the Mining Concession and regional land package of approximately 1,600 square kilometres (comprising seven Exploration Permits in various joint ventures) is being significantly ramped up.

Eleven targets have been prioritised on the Mining Concession. The area is well understood structurally and many of these targets have significant drill intercepts from earlier MDL drilling. A major RC and diamond drilling campaign is about to commence with 15,000 metres of RC and 12,000 metres of diamond drilling planned over the next six months with a budgeted expenditure of approximately \$4 million.

Regionally, with much of the area covered by shallow laterite, basic exploration work over the last few years has generated a large number of targets displaying encouraging geochemical responses. A major RAB drilling program commenced in late 2009 to systematically drill the targets by testing the underlying bedrock to shallow depths, with some trenching also being undertaken. The RAB program will continue throughout calendar 2010 and beyond with at least two rigs in operation at all times. Encouraging results have been received on a number of projects from the approximate 20,000 metres of RAB drilling undertaken to date and RC drilling will shortly commence to test these RAB intercepts at depth. Expenditure during calendar 2010 will, to some extent, be results driven but is currently expected to exceed \$10 million.

Grande Côte Mineral Sands Project

Work on the DFS for the project continued during the quarter, which included financial modelling, updating the estimated capital cost, hydrological modelling, extension of the geological block model following additional drilling, further mine path design and circuit model test work. Further infill drilling continues to underpin additional years of the initial mine path.

FINANCIAL RESULTS

Comprehensive income

	Three months ended 31 Dec 2009 \$m	Six Months ended 31 Dec 2009 \$m
Revenue		
Gold Sales	47.1	98.3
Cash cost of sales		
Mine Operating costs	(23.7)	(44.9)
Royalities	(1.5)	(3.1)
Change in inventories	(0.9)	(2.8)
Total cash cost of sales	(26.1)	(50.8)
Mine EBITDA	21.0	47.5
Non-cash cost of sales		
Depreciation and amortisation	(8.3)	(15.6)
Gross Profit from mining activities	12.7	31.9
Corporate administration expenses	(3.0)	(6.3)
Operating profit before other income / (expense)	9.7	25.6
Other income / (expenses)		
Other income	0.3	0.5
Gold hedge unrealised gains/(losses)	(23.9)	(36.9)
Oil hedge unrealised gains/ (losses)	3.0	1.6
Net foreign exchange gain	0.3	(0.2)
Finance costs	(1.3)	(2.7)
Total other income /(expense)	(21.6)	(37.7)
Loss before tax	(11.9)	(12.1)
Income tax benefit / (expense)	(5.1)	(5.3)
Net loss after tax	(17.0)	(17.4)
Profit attributable to minority interests	1.6	1.9
Loss attributable to equity holders of the Company	(15.4)	(15.5)

DISCUSSION AND ANALYSIS

Statement of comprehensive income

- Revenue from gold sales for the three months ended 31 December 2009 was \$47.1 million, resulting from the sale of 50,078 ounces of gold at an average price of \$941 per ounce. Revenue from gold sales for the six months ended 31 December 2009 was \$98.3 million, resulting from the sale of 107,521 ounces of gold at an average price of \$914 per ounce
- Mine gross cash costs (excluding royalties) for the three months ended 31 December 2009 were \$23.7 million, equating to \$532 per ounce of gold produced (45,792 ounces). This compares with gross cash costs (excluding royalties) for the September 2009 quarter of \$20.7 million, equating to \$382 per ounce of gold produced (54,260 ounces). The increase was a result of increased mining and mill volumes (and hence increased costs) against lower gold production, an increase in inventories (particularly gold-in-circuit), as well as higher overall costs through increased contract drilling, higher processing costs from increased power usage and higher camp costs generally. Mine gross cash costs (excluding royalties) for the six months ended 31 December 2009 were \$44.9 million, equating to \$451 per ounce of gold produced (100,052 ounces)
- Mine EBITDA for the three months ended 31 December 2009 was \$21.0 million, compared with \$26.5 million for the three months ended 30 September 2009. Mine EBITDA for the six months ended 31 December 2009 was \$47.5 million
- Corporate administration expenses for the three months ended 31 December 2009 were \$3.0 million (including \$0.2 million of non-cash amortisation of options and \$0.2 million of depreciation), down from \$3.3 million for the three months ended 30 September 2009
- The unrealised hedge loss on the gold hedge book was \$23.9 million, a non-cash effect from marking-to-market the hedge book at the end of the quarter

Statement of financial position

- Cash at 31 December 2009 was \$25.3 million, which decreased from \$25.8 million at 30 September 2009 and increased from \$18.2 million at 30 June 2009
- Total assets decreased from \$496.3 million at 30 September 2009 to \$492.1 million at 31 December 2009, primarily a function of depreciation and amortisation and the de-recognition of the deferred tax asset as a result of a restructure in the Australian tax consolidated group
- As at 31 December 2009, the outstanding hedge position was 295,500 ounces of flat forward sales at \$846 per ounce which, on mark-to-market (based on a gold price of \$1,105 per ounce), equated to a negative position of \$79.7 million (unrealised)
- Debt outstanding under the Project Finance Facility as at 31 December 2009 was \$21 million (30 September 2009 – \$30 million, 30 June 2009 – \$38 million). As at 31 December 2009, certain undertakings relating to this facility had not been complied with, however, a revised waiver letter with Macquarie Bank Limited was agreed until 31 December 2009 and a repayment schedule is now in place to fully pay out the balance by 30 June 2010. MDL is currently in negotiations with Macquarie Bank Limited to extend the waiver on the outstanding undertakings
- Mining Fleet Lease facility at 31 December 2009 was \$12.7 million (30 September 2009 – \$14.8 million, 30 June 2009 – \$16.9 million)
- Net assets declined from \$359.7 million at 30 June 2009 to \$346.9 million at 31 December 2009

Statement of cash flows

- Operating cash flow for the three months ended 31 December 2009 was \$10.5 million (1.8 cents per share)
- Cash flow used in investing activities for the three months ended 31 December was \$4.7 million, comprising \$3.4 million for exploration and development expenditure (refer Exploration and Development section) and \$1.3 million for capital expenditure
- Cash flow used in financing activities for the three months ended 31 December was \$6.6 million, primarily comprising \$9 million repayment of the Project Finance Facility (which had a balance of \$21 million at 31 December 2009) and \$2.1 million repayment of the Mining Fleet Lease facility (which had a balance of \$12.7 million at 31 December 2009) offset by \$4.5 million in the issue of shares on exercise of unlisted options
- Net cash flow for the quarter was \$(0.8) million

SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

The table below shows selected unaudited financial data for each of the eight quarters ended 31 December 2009.

Three months ended	Dec 09	Sep 09	Jun 09	Mar 09	Dec 08	Sep 08	Jun 08	Mar 08
Revenue (\$m)	47.2	51.0	45.7	3.3	62.7	0.3	0.2	0.4
Income/(loss) (\$m)	(17.0)	(2.9)	(5.2)	(30.4)	63.2	(39.1)	2.1	(7.4)
Income/(loss) per share (cents)	(3.5)	(0.5)	(0.9)	(5.6)	13.1	(8.1)	0.5	(1.8)
Weighted average number of shares	483.8	563.4	555.4	548.0	483.8	483.6	422.3	420.6

ISSUED CAPITAL

As at 31 December 2009, the company had on issue 573,625,950 ordinary shares and 35,350,000 unlisted options to acquire ordinary shares at various exercise prices and expiry dates.

OUTLOOK

Key points of note are:

- For the Sabodala Gold Operation, expected production for each of the next two quarters is in the range 35,000 to 40,000 ounces per quarter, which would result in gold output of 170,000 to 180,000 ounces for the financial year to 30 June 2010
- Work will continue on the planned expansion of the Sabodala gold plant, including detailed engineering work, enquiries in relation to long lead time equipment items and overall implementation planning during the current quarter
- Exploration for gold on both the Sabodala Gold Operation mine lease and regional land package will continue to ramp up during the current quarter
- Work will be finalised during the current quarter in relation to the DFS for the Grande Côte Mineral Sands Project, subject to completion of infill drilling and mine path planning

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures

MDL's Managing Director (as Chief Executive Officer ("CEO") of the company) 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 CEO and CFO, after evaluating the effectiveness of the company's disclosure controls and procedures as of 31 December 2009, 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 and evaluated for possible disclosure to the market.

Internal controls over financial reporting

Management of the Company, with the participation of the CEO and the CFO, are responsible for establishing and maintaining adequate internal controls over financial reporting. The Company's internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes. There have been no significant changes in the Company's internal control over financial reporting or in other factors that could significantly affect internal controls.

RISKS AND UNCERTAINTIES

The Company is subject to various financial and operational risks and uncertainties that could have a significant impact on profitability and levels of operating cash flow. These risks and uncertainties include, but are not limited to: fluctuations in metal prices (principally the price of gold, zircon and ilmenite), capital and operating cost estimates, borrowing risks, production estimates, need for additional financing, uncertainty in the estimation of mineral reserves and mineral resources, the inherent danger of mining, infrastructure risk, hedging activities, insured and uninsured risks, environmental risks and regulations, government regulation, ability to obtain and renew licenses and permits, foreign operations risks, title to properties, competition, dependence on key personnel, currency, repatriation of earnings and stock exchange price fluctuations.

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 should read MDL's financial statements for the financial years ended 30 June 2009 and 30 June 2008, the final prospectus dated 12 December 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.

CRITICAL ACCOUNTING JUDGEMENTS

The following are critical judgements that management has made in the process of applying the group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Ore reserves

The consolidated entity estimates its ore reserves based upon information compiled by Competent Persons as defined in accordance with the Australasian code for reporting Exploration Results, Mineral Resources and Ore Resources of December 2004 and as defined in NI43-101. The estimated quantities of economically recoverable reserves are based upon interpretations of geological models and require assumptions to be made regarding factors such as estimates of short and long-term exchange rates, estimates of short and long-term commodity prices, future capital requirements and future operating performance. Changes in reported reserves estimates can impact the carrying value of property, plant and equipment, provision for rehabilitation obligations, the recognition of deferred tax assets, as well as the amount of depreciation and amortisation charged to the income statement.