

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2011

Mineral Deposits Limited ("MDL" or the Company), is an Australian based mining company in the business of finding, mining and processing mineral sands resources (ASX: MDL; TSX: MDM)

MDL owns 50% of TiZir Limited which, effective 1 October 2011, owns the world-class Grande Côte Mineral Sands Project in Senegal, West Africa and an ilmenite upgrading plant in Tyssedal, Norway.

Grande Côte, over an expected mine life of at least 20 years, is anticipated to produce on average approximately 85ktpa of zircon and 575ktpa of ilmenite (and small amounts of rutile and leucoxene) when in full production. Currently being developed and with production expected to commence late-2013, it one of only a few major new projects globally that can take advantage of the supply-constrained mineral sands sector.

The Tyssedal ilmenite upgrading plant smelts ilmenite to produce a high TiO₂ titanium slag which is sold to pigment producers and a high purity pig iron which is sold as a valuable co-product to ductile iron foundries. The facility currently produces approximately 200ktpa of titanium slag and 110ktpa of high-purity pig iron.

The following Management's Discussion and Analysis ("MD&A") provides an analysis of the financial condition and results of operations of the Company for the three months ended 30 September 2011 and has been prepared as of 14 November 2011. This MD&A is intended to complement and supplement, but does not form part of, the unaudited consolidated financial statements of MDL and the notes thereto for the three months ended 30 September 2011 (the "Interim Financial Statements"). It 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 2011 and related notes thereto (the "Annual Financial Statements").

The Annual Financial Statements, the Interim Financial Statements and the financial information contained in this MD&A are prepared in accordance with International Financial Reporting Standards ("IFRS").

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

All dollar amounts contained in this MD&A are expressed in United States dollars, unless otherwise stated.

1. JOINT VENTURE WITH ERAMET

MDL and ERAMET have now completed the formation of a joint venture in the mineral sands sector whereby MDL and ERAMET each own 50% of the newly-created entity TiZir Limited (“TiZir”). With effect from 1 October 2011, MDL has contributed its 90% interest in Grande Côte (with the balance held by the Republic of Senegal), while ERAMET has contributed:

- its 100% interest in an ilmenite upgrading plant in Tyssedal, Norway;
- \$30 million in cash; and
- additional cash to match MDL’s funds advanced for the development of Grande Côte since 1 January 2011, being approximately \$66 million.

ERAMET will also provide a \$45 million unsecured loan to TiZir in the future.

ERAMET is a French-based mining and metallurgical group listed on the Euronext Paris with a market capitalisation of approximately €3 billion. The Group employs approximately 15,000 people in 20 countries and is a leading global producer of alloying metals, particularly manganese and nickel, and high-performance specialty steels and alloys.

An exceptionally strong working relationship has already been established with a number of ERAMET personnel.

Tyssedal ilmenite upgrading plant

The Tyssedal, Norway ilmenite upgrading plant is one of only five such facilities in the world and the only one in Europe.

Ilmenite, containing on average 50% titanium dioxide (or TiO₂), accounts for approximately 90% of titanium feedstock supply which is primarily used to make pigment for paints, plastic and paper. However, more than 40% of ilmenite is first upgraded at facilities such as Tyssedal to titanium slag with a TiO₂ content of at least 80% before being used as feedstock by pigment producers. The primary reason for upgrading is because pigment producers want high TiO₂ content within their feedstock as it reduces waste output, with many having severe waste limitations due to regulatory constraints and environmental issues.

The Tyssedal plant smelts ilmenite to produce a titanium slag with a TiO₂ content of approximately 80%, having separated out the iron to produce a high purity pig iron which is sold as a valuable co-product to ductile iron foundries for various uses, but particularly for the production of wind turbine parts. The facility currently produces approximately 200,000 tonnes per annum of titanium slag and approximately 110,000 tonnes per annum of high-purity pig iron.

The location of the plant provides access to hydro power and, being positioned on the edge of the Hardanger fjord, all ship handling occurs on site.

Strategic rationale of combining Grande Côte and the Tyssedal plant

Combining Grande Côte and the Tyssedal plant within the one entity creates a vertically-integrated player in the titanium feedstock sector. Specifically, it:

- secures off-take for the majority of Grande Côte’s ilmenite and provides a substantially stronger route to market for the ilmenite than if it were sold directly as a feedstock in its raw form to pigment producers; and
- provides long-term security of supply of ilmenite for the Tyssedal plant, which provides the opportunity to build a second furnace, thereby doubling the capacity, and the capability to produce feedstock for both the sulphate and chloride process routes for making pigment.

2. GRANDE CÔTE MINERAL SANDS PROJECT

As the 2011 year has progressed, the momentum behind the development of Grande Côte has increased such that, by the end of September, year to date expenditure was approximately \$55 million, including \$36 million in the September quarter.

During the September quarter, three major works packages were awarded:

- Unithai Shipyard (managed by Ausenco) for fabrication of the Project’s dredge, with the offsite build and commissioning in Thailand expected to be completed by 3Q 2012, ready for delivery to site and reassembly;
- SNC Lavalin for the EPCM contract for the floating (wet) concentrator, mineral separation plant and associated site infrastructure; and
- Wartsila for the build of a 36MW tri-fuel (HFO, diesel and gas) power station, with completion due at the end of the first quarter 2013.

Other significant events during the quarter included:

- commencement of digging the initial dredge pond;
- commencement of the build of a number of roads;
- agreement on land compensation rates and amounts, with compensation having already been distributed for certain sites thereby allowing commencement of earthworks on those sites; and
- more recently, cutting of the first steel in Thailand for the dredge.

3. CORPORATE

At 30 September 2011:

- cash and cash equivalents were \$131 million;
- external debt was zero; and
- 40 million shares were held in Teranga Gold Corporation (“Teranga”) (ASX: TGZ, TSX: TGZ) valued at \$83 million.

4. ISSUED CAPITAL

As at 30 September 2011, the Company had 83,538,786 ordinary shares on issue and 620,000 unlisted options to acquire ordinary shares (at an exercise price of A\$12.78).

5. CONSOLIDATED RESULTS

The following table summarises the Company’s consolidated results:

	Three-months ended 30 September	
	2011 US\$'000	2010 US\$'000
Other income/(expenses)	1,430	63
Administration expenses	(2,744)	(2,051)
Foreign currency gains/(losses)	18,109	(29,752)
Income tax benefit/(expense)	-	-
Profit/(loss) from discontinued operations – Sabodala gold assets*	-	31,936
Profit/(loss) from discontinued operations – mineral sands division*	(23,247)	80
(Profit)/loss attributable to minority interests	606	(644)
Profit/(loss) attributable to owners of the parent	(5,846)	(368)
Earnings per share – continuing and discontinued operations		
Basic earnings per share (cents)	(7.0)	(0.6)
Diluted earnings per share (cents)	(7.0)	(0.6)
Earnings per share – continuing operations		
Basic earnings per share (cents)	20.8	(55.0)
Diluted earnings per share (cents)	20.8	(55.0)

* Full disclosure in relation to discontinued operations can be found in Note 3 of the consolidated interim financial statements for the three months ended 30 September 2011.

First (September 2011) Quarter

The Company did not earn any revenue during the three month period to 30 September 2011 as it continues to develop Grande Côte.

Other income primarily relates to interest earned on cash balances held throughout the period.

Administration expenses for the three month period to 30 September 2011 were \$4.4 million which were significantly higher than previous periods as a result of legal and other completion costs incurred in relation to the joint venture agreement with ERAMET.

As a result of the contribution of the Company’s 90% interest in Grande Cote to the newly created joint venture entity TiZir, the Company recognised a loss of \$23.2 million (2010 - \$0.08 million) from discontinued operations during the three month period to 30 September 2011 which included:

- \$13.7 million exchange differences on inter-company loans and translation foreign operations; and
- \$7.8 million from the reclassification from foreign currency reserve to the statement of comprehensive income.

There are no finance costs from continuing operations as the Company has no external debt.

6. ASSETS CLASSIFIED AS HELD FOR SALE

As described above, the Company has successfully completed a joint venture agreement with ERAMET SA for the creation of TiZir. As part of the joint venture transaction, the Company has contributed its 90% interest in Grande Cote in exchange for 50% of the shares in TiZir.

Under AASB 5, the Grande Cote Mineral Sands Project is therefore classified as a discontinued operation at 30 September 2011. The following assets and liabilities have been classified as held for sale at the end of the period:

	30 Sep 2011 US\$'000
Cash and cash equivalents	7,201
Trade and other receivables – current	322
Inventories	114
Other assets – current	258
Other receivables	251
Property, plant & equipment	68,324
Mine development expenditure	51,591
Capitalised mining convention and concession costs	2,511
Intangible assets	3
Total assets classified as held for sale	130,575
Trade and other payables	1,940
Current tax liabilities	51
Provisions	274
Total liabilities directly associated with assets classified as held for sale	2,265
Net assets of mineral sands division classified as held for sale	128,310

7. CASH FLOW

The following table summarises the Company's cash flow activities:

	Three-months ended 30 September	
	2011 US\$'000	2010 US\$'000
Cash flow		
Operating activities	(5,891)	12,890
Investing activities	(31,824)	(19,857)
Financing activities	775	8,402
Change in cash and cash equivalents during period	(36,940)	1,435
Cash and cash equivalents – beginning of period	173,322	13,832
Effect of exchange rates on cash holdings	(5,653)	1,486
Cash and cash equivalents – end of period	130,729	16,753
Cash and cash equivalents as stated in Statement of Financial Position	123,528	16,753
Cash and cash equivalents included as classified as held for sale	7,201	-
Total cash and cash equivalents at end of period	130,729	16,753

Cash flows used in operating activities totalled \$5.9 million in the September 2011 quarter, which comprised:

- a once-off payment of \$1.1 million registration fee following the assignment of loans between MDL's Mauritian and Senegalese subsidiaries as part of the corporate restructure leading into the joint venture arrangements with ERAMET;
- \$4.2 million in corporate costs associated with Melbourne and Dakar offices, which included payment of \$1.2 million of outstanding creditors at 30 June 2011;
- \$1.2 million of realised foreign exchange losses on payment to suppliers; and
- offset by receipts of \$0.65 million for the provision of administrative support by the Company's Dakar office to former gold operation Sabodala Gold Operations SA.

Cash flows used in investing activities for the three months ended 30 September 2011 was \$31.8 million, primarily comprising:

- \$32.9 million associated with construction expenditure for Grande Côte; and
- offset by \$1.4 million associated with interest earned on the cash balances.

8. FINANCIAL POSITION

The following table summarises the Company's financial position:

	As at 30 September 2011 US\$'000	As at 30 June 2011 US\$'000
Assets classified as held for sale	130,575	-
Current assets	207,301	283,493
Non-current assets	7,918	93,694
Total assets	345,524	377,187
Liabilities directly associated with assets classified as held for sale	2,295	-
Current liabilities	1,431	3,424
Non-current liabilities	38	52
Total liabilities	3,764	3,476
Total equity	341,760	373,711

Current assets increased from \$283.5 million at 30 June 2011 to \$337.6 million, primarily due to:

- the classification of \$122.7 million of property, plant and equipment, mine development expenditure, capitalised mining convention and concession costs, other receivables and intangible assets from non-current to current as a result of the completion of the joint venture with ERAMET. This is described in detail above; and
- offset by:
 - a decrease in cash and cash equivalents from \$173.3 million to \$130.7 million during the three month period, primarily a result of expenditure relating to construction activities at Grande Côte; and
 - a decrease in available for sale financial assets from \$105.1 million to \$82.7 million as a result of the decrease in value of 40 million shares in Teranga which continued to be held at 30 September 2011.

Non-current assets decreased to \$7.9 million at 30 September 2011 from \$93.7 million at 30 June 2011, primarily due to reclassification of non-current assets to current assets classified as held for sale.

Both current and non-current liabilities were consistent with amounts at 30 June 2011. The Company has no external debt.

9. LIQUIDITY AND CAPITAL RESOURCES

During the three month period to 30 September 2011, MDL derived \$0.8 million of proceeds (net of share issue costs) from the issue of ordinary shares, comprising \$0.9 million from the issue of 123,670 shares from the retail component of a 1:4 accelerated non-renounceable pro-rata entitlement offer.

The Company continues to hold 40 million shares in Teranga valued at \$82.7 million as at 30 September 2011.

The Company had no external borrowings as at 30 September 2011.

10. CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Capital Expenditure Commitments

The Company has no capital expenditure commitments contracted but not provided for and payable within one year at 30 September 2011 (30 June 2011 - nil).

Exploration Commitments

There are no exploration expenditure commitments outstanding for the Company.

Contingent liabilities

The Company has a deed of cross guarantee with its wholly-owned subsidiaries MDL (Mining) Limited and MDL Gold Limited.

The Company confirmed directly or via its holding subsidiaries that it will continue to provide financial support to its subsidiaries to enable them to meet their obligations as they fall due for a period of not less than 12 months.

The Company's subsidiary Mineral Deposits (Operations) Pty Ltd faces potential contingent liabilities in relation to its rehabilitation obligations on its New South Wales ("NSW") exploration and mining tenements. The nature of these rehabilitation obligations includes 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 the sites in NSW, Australia. No adverse situations were reported and work continued as scheduled.

There are no outstanding native title claims against the Company which could or would have a financial impact.

11. SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

The table below shows selected unaudited financial data for each of the eight most recently completed quarters:

Three months ended	Sep-11	Jun 11	Mar 11	Dec 10	Sep 10	Jun 10	Mar 10	Dec 09
							Restated	Restated
Revenue (\$m)	-	-	-	-	-	-	-	-
Net income/(loss) (\$m)	16.8	(4.5)	(4.5)	311.6	(32.4)	12.4	(6.6)	(30.1)
Profit/(loss) from Discontinued Ops (\$m)	(23.2)	(0.7)	0.1	(45.7)	32.0	(26.5)	13.5	13.1
Total net income/(loss) (\$m)	(6.4)	(5.2)	(4.4)	265.9	(0.4)	(14.1)	6.7	(17.0)
Basic net income/(loss) per share (cents) (i)	(7.0)	(8.5)	(7.3)	437.9	(0.6)	(24.6)	11.7	(30.0)
Diluted net income/(loss) per share (cents) (i)	(7.0)	(8.5)	(7.3)	437.9	(0.6)	(24.6)	11.7	(30.0)
Weighted average number of shares	83.5	61.3	60.7	60.7	58.9	57.4	57.4	57.0

(i) Weighted average number of shares has been adjusted for each previous period disclosed above as if the share consolidation had taken place in each period. This has resulted in changes to both basic and diluted earnings per share values for each quarter disclosed.

12. CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the consolidated interim financial statements for the three months ended 30 September 2011 are consistent with those adopted and disclosed in the Company's Annual Report for the financial year ended 30 June 2011.

13. INFORMATION ON OUTSTANDING SHARES

As at 14 November 2011, the Company had on issue 83,538,786 ordinary shares and 620,000 unlisted options to acquire ordinary shares at various exercise prices and expiry dates as follows:

ASX Code	Issue Date	Expiry Date	Exercise Price A\$	No.
MDLAU	19 July 2007	18 July 2012	12.78	45,000
MDLAW	29 November 2007	29 November 2012	12.78	475,000
MDLAY	5 December 2007	5 December 2012	12.78	100,000
				620,000

No share options were issued to directors, senior personnel or employees since period end.

14. 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) is 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, after evaluating the effectiveness of the Company's disclosure controls and procedures as of 30 September 2011, has 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, 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.

15. 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 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 2011, the Annual Information Form for 2011 and technical reports 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.

16. ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A has been prepared as of 14 November 2011. Additional information about the Company, including its Annual Financial Statements and Interim Financial Statements, is available on SEDAR at www.sedar.com and on the Company's website at www.mineraldeposits.com.au.

17. 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 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.