

Consolidated financial statements of

# **Eastern Platinum Limited**

June 30, 2008  
(Unaudited)

# Eastern Platinum Limited

June 30, 2008

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# Eastern Platinum Limited

## Consolidated statements of operations

(Expressed in thousands of U.S. dollars, except per share amounts - unaudited)

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
<b>Revenue</b>	\$ 50,143	\$ 22,324	\$ 106,551	\$ 53,656
Cost of operations				
Production costs	21,058	17,853	40,808	37,616
Depletion and depreciation	4,450	(325)	8,812	2,393
	<b>25,508</b>	17,528	<b>49,620</b>	40,009
<b>Mine operating earnings</b>	<b>24,635</b>	4,796	<b>56,931</b>	13,647
Expenses				
General and administrative	5,309	5,049	9,642	8,787
Stock-based compensation	340	1,642	1,567	14,224
	<b>5,649</b>	6,691	<b>11,209</b>	23,011
Operating income (loss)	<b>18,986</b>	(1,895)	<b>45,722</b>	(9,364)
Other income (expense)				
Interest income	1,855	1,493	4,310	1,581
Interest expense	(1,935)	(2,917)	(2,162)	(3,401)
Foreign exchange (gain) loss	71	(1,938)	1,128	(2,880)
Income (loss) before income taxes and non-controlling interests	<b>18,977</b>	(5,257)	<b>48,998</b>	(14,064)
Future income tax (expense) recovery	(5,532)	976	(13,780)	1,290
Non-controlling interests (Note 8)	(740)	(412)	(2,551)	(1,858)
<b>Net earnings (loss) for the period</b>	<b>\$ 12,705</b>	\$ (4,693)	<b>\$ 32,667</b>	\$ (14,632)
Basic and diluted earnings (loss) per share	<b>\$ 0.02</b>	\$ (0.01)	<b>\$ 0.05</b>	\$ (0.03)
Weighted average number of common shares outstanding - basic	<b>677,772,370</b>	604,376,451	<b>673,822,281</b>	562,481,710
Weighted average number of common shares outstanding - diluted	<b>713,615,412</b>	604,376,451	<b>716,094,886</b>	562,481,710

# Eastern Platinum Limited

## Consolidated balance sheets

(Expressed in thousands of U.S. dollars - unaudited)

	June 30, 2008	December 31, 2007
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 90,734	\$ 18,818
Short-term investments	104,653	171,038
Trade receivables	42,435	33,157
Inventories (Note 3)	6,417	6,888
	<b>244,239</b>	229,901
Property, plant and equipment (Note 4)	778,145	813,461
Refining contract (Note 5)	15,562	18,467
Other assets	1,152	1,247
	<b>\$ 1,039,098</b>	\$ 1,063,076
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 26,664	\$ 22,967
Future income taxes	9,186	6,416
Current portion of long-term liability	4,011	3,837
	<b>39,861</b>	33,220
Asset retirement obligation (Note 6)	2,711	2,889
Capital leases and other long-term liabilities	3,976	9,127
Future income taxes	136,678	143,616
	<b>183,226</b>	188,852
Non-controlling interests (Note 8)	<b>23,380</b>	23,402
Commitments (Note 11)		
<b>Shareholders' equity</b>		
Share capital (Note 7)	<b>889,854</b>	868,045
Contributed surplus	<b>28,862</b>	27,428
Accumulated other comprehensive income (loss)	<b>(50,759)</b>	23,481
Deficit	<b>(35,465)</b>	(68,132)
	<b>(86,224)</b>	(44,651)
	<b>832,492</b>	850,822
	<b>\$ 1,039,098</b>	\$ 1,063,076

Approved by the Board

**"David Cohen"**

David Cohen, Director

**"Robert Gayton"**

Robert Gayton, Director

## Eastern Platinum Limited

### Consolidated statements of shareholders' equity

(Expressed in thousands of U.S. dollars - unaudited)

	Common Shares Without Par Value		Contributed Surplus	Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount				
<b>Balance June 30, 2007</b>	<b>667,778,358</b>	<b>865,103</b>	<b>17,897</b>	<b>(55,928)</b>	<b>(23,024)</b>	<b>804,048</b>
Warrants exercised	100,000	178	-	-	-	178
Stock options exercised	1,153,333	2,764	(720)	-	-	2,044
Stock-based compensation	-	-	10,251	-	-	10,251
Net loss for the period	-	-	-	(12,204)	-	(12,204)
Currency translation adjustment	-	-	-	-	46,505	46,505
<b>Balance December 31, 2007</b>	<b>669,031,691</b>	<b>\$ 868,045</b>	<b>\$ 27,428</b>	<b>\$ (68,132)</b>	<b>\$ 23,481</b>	<b>\$ 850,822</b>
Warrants exercised	2,117,400	3,936	-	-	-	3,936
Stock options exercised	160,000	370	(81)	-	-	289
Stock-based compensation	-	-	1,227	-	-	1,227
Net earnings for the period	-	-	-	19,962	-	19,962
Currency translation adjustment	-	-	-	-	(96,506)	(96,506)
<b>Balance March 31, 2008</b>	<b>671,309,091</b>	<b>\$ 872,351</b>	<b>\$ 28,574</b>	<b>\$ (48,170)</b>	<b>\$ (73,025)</b>	<b>\$ 779,730</b>
Warrants exercised	8,706,677	17,277	-	-	-	17,277
Stock options exercised	150,991	226	(52)	-	-	174
Stock-based compensation	-	-	340	-	-	340
Net earnings for the period	-	-	-	12,705	-	12,705
Currency translation adjustment	-	-	-	-	22,266	22,266
<b>Balance June 30, 2008</b>	<b>680,166,759</b>	<b>\$ 889,854</b>	<b>\$ 28,862</b>	<b>\$ (35,465)</b>	<b>\$ (50,759)</b>	<b>\$ 832,492</b>

### Consolidated statements of comprehensive loss

(Expressed in thousands of U.S. dollars - unaudited)

	3 months ended June 30, 2008	3 months ended June 30, 2007	6 months ended June 30, 2008	6 months ended June 30, 2007
Net income (loss) for the period before other comprehensive loss	\$ 12,705	\$ (4,693)	\$ 32,667	\$ (14,632)
Other comprehensive loss - currency translation adjustment	22,266	37,290	(74,239)	29,730
<b>Comprehensive income (loss)</b>	<b>\$ 34,971</b>	<b>\$ 32,597</b>	<b>\$ (41,572)</b>	<b>\$ 15,098</b>

# Eastern Platinum Limited

## Consolidated statements of cash flows

(Expressed in thousands of U.S. dollars - unaudited)

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
<b>Operating activities</b>				
Net income (loss) for the period	\$ 12,705	\$ (4,693)	\$ 32,667	\$ (14,632)
Items not involving cash				
Accretion (Note 6)	86	273	166	459
Depletion and depreciation	4,450	(325)	8,812	2,393
Stock-based compensation	340	1,642	1,567	14,224
Foreign exchange (gain) loss	(71)	(4,752)	(1,128)	2,053
Future income tax expense (recovery)	5,532	(976)	13,780	(1,290)
Non-controlling interests	740	412	2,551	1,858
	<b>23,782</b>	<b>(8,419)</b>	<b>58,415</b>	<b>5,065</b>
Net changes in non-cash working capital items				
Trade receivables	17,480	8,488	(13,321)	4,962
Inventories	(670)	(1,347)	(356)	3,335
Accounts payable and accrued liabilities	3,871	1,254	6,233	4,341
	<b>44,463</b>	<b>(24)</b>	<b>50,971</b>	<b>17,703</b>
<b>Financing activities</b>				
Common shares issued for cash, net of share issue costs	17,452	223,107	21,676	228,415
Repayment of short-term debt	(88)	(31,075)	292	(31,410)
Other long-term liabilities	(2,970)	6,023	(3,270)	6,023
	<b>14,394</b>	<b>198,055</b>	<b>18,698</b>	<b>203,028</b>
<b>Investing activities</b>				
Purchase of debt	-	8,677	-	8,563
Acquisitions, net of cash acquired	-	(51,215)	-	(51,215)
Maturity of short-term investments	7,758	(150,021)	62,325	(139,025)
Property, plant and equipment expenditures	(34,643)	(5,814)	(58,349)	(39,042)
	<b>(26,885)</b>	<b>(198,373)</b>	<b>3,976</b>	<b>(220,719)</b>
Effect of exchange rate changes on cash and cash equivalents	563	1,993	(1,729)	1,545
Increase in cash and cash equivalents	32,535	1,651	71,916	1,557
Cash and cash equivalents, beginning of period	58,199	4,541	18,818	4,635
<b>Cash and cash equivalents, end of period</b>	<b>\$ 90,734</b>	<b>\$ 6,192</b>	<b>\$ 90,734</b>	<b>\$ 6,192</b>
Cash and cash equivalents are comprised of:				
Cash in bank	\$ 40,597	\$ 6,077	\$ 40,597	\$ 6,077
Short-term money market instruments	50,137	115	50,137	115
	<b>\$ 90,734</b>	<b>\$ 6,192</b>	<b>\$ 90,734</b>	<b>\$ 6,192</b>
Supplementary cash flow information				
Interest paid	\$ 245	\$ 39	\$ 363	\$ 191
Income taxes paid	\$ -	\$ -	\$ 69	\$ -

# Eastern Platinum Limited

## Notes to the consolidated financial statements

(Expressed in thousands of U.S. dollars, except number of shares and per share amounts)

(Unaudited)

### 1. Nature of operations

Eastern Platinum Limited (the "Company") is a platinum group metal ("PGM") producer engaged in the acquisition, development and mining of PGM properties located in various provinces in South Africa.

Effective July 1, 2007 the Company changed its fiscal year end from June 30 to December 31 to better align with financial reporting year ends that are predominant in the mining industry.

### 2. Summary of significant accounting policies

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited annual financial statements except as noted below. These unaudited interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the six months ended December 31, 2007, as they do not contain all disclosures required by Canadian GAAP for annual financial statements.

#### *(a) Adoption of new accounting standards and accounting pronouncements*

Effective January 1, 2008, the Company adopted four new accounting standards that were issued by the Canadian Institute of Chartered Accountants. These accounting policy changes were adopted on a prospective basis with no restatement of prior period financial statements.

##### (i) Financial Instrument Disclosures and Presentation

CICA Handbook Sections 3862 *"Financial Instruments – Disclosures"* and Section 3863 *"Financial Instruments – Presentation"* replace Section 3861 *"Financial Instruments – Disclosure and Presentation"*. The new standards carry forward the presentation requirements for financial instruments and enhance the disclosure requirements by placing increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

##### (ii) Capital Disclosures

CICA Handbook Section 1535 requires the company to disclose (a) its objectives, policies and processes for managing capital; (b) quantitative data about what the entity regards as capital; (c) whether the entity has complied with any capital requirements; and (d) if it has not complied, the consequences of such non-compliance.

##### (iii) Inventories

CICA Handbook Section 3031 replaced the existing inventories standard. The new standard requires inventory to be valued on a first-in, first-out or weighted average basis, which is consistent with the Company's current treatment. The adoption of CICA 3031 did not have a significant impact on the Company's accounting for inventory or associated disclosures as at January 1, 2008 or for the six months ended June 30, 2008.

# Eastern Platinum Limited

## Notes to the consolidated financial statements

(Expressed in thousands of U.S. dollars, except number of shares and per share amounts)

(Unaudited)

### 2. Summary of significant accounting policies (continued)

#### (b) International Financial Reporting Standards

In February 2008, the CICA announced that Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. Accordingly the conversion from Canadian GAAP to IFRS will be applicable to the Company's reporting for the first quarter of 2011 for which the current and comparative information will be prepared under IFRS. The Company expects the transition to IFRS to impact accounting, financial reporting, and IT systems and processes. The Company is currently assessing the impact of the transition to IFRS. Training and additional resources will be engaged to ensure the timely conversion to IFRS.

### 3. Inventories

	June 30, 2008	December 31, 2007
Consumables	\$ 5,849	\$ 5,446
Ore and concentrate	568	1,442
	<b>\$ 6,417</b>	<b>\$ 6,888</b>

### 4. Property, plant and equipment

	June 30, 2008		
	Cost	Accumulated depreciation/ depletion	Net book value
Mining plant and equipment	\$ 240,059	\$ 57,491	\$ 182,568
Mineral properties			
Crocodile River Mine (a)	121,723	10,846	110,877
Kennedy's Vale Project (b)	339,785	210	339,575
Spitzkop PGM Project (c)	117,643	-	117,643
Mareesburg JV (c)	27,371	-	27,371
Other property, plant and equipment	141	30	111
	<b>\$ 846,722</b>	<b>\$ 68,577</b>	<b>\$ 778,145</b>
	December 31, 2007		
	Cost	Accumulated depreciation/ depletion	Net book value
Mining plant and equipment	\$ 216,380	\$ 58,597	\$ 157,783
Mineral properties			
Crocodile River Mine (a)	138,163	9,711	128,452
Kennedy's Vale Project (b)	377,804	238	377,566
Spitzkop PGM Project (c)	121,442	-	121,442
Mareesburg JV (c)	28,076	-	28,076
Other property, plant and equipment	191	49	142
	<b>\$ 882,056</b>	<b>\$ 68,595</b>	<b>\$ 813,461</b>



## Eastern Platinum Limited

### Notes to the consolidated financial statements

(Expressed in thousands of U.S. dollars, except number of shares and per share amounts)

(Unaudited)

#### 4. Property, plant and equipment (continued)

(a) *Crocodile River Mine ("CRM")*

The Company holds directly and indirectly 85% of CRM, which is located on the eastern portion of the western limb of the Bushveld Complex. The Maroelabult, Zandfontein, and Crocette sections are currently in production with the Kareespruit deposit and other potential near-surface opportunities being in the development stages.

(b) *Kennedy's Vale Project ("KV")*

The Company holds directly and indirectly 85% of KV, which is located on the eastern limb of the Bushveld Complex, near Steelpoort in the Province of Mpumalanga. It comprises PGM mineral rights on five farms in the Steelpoort Valley.

(c) *Spitzkop PGM Project and Mareesburg Joint Venture*

The Company holds directly and indirectly a 93.4% interest in the Spitzkop PGM Project and a 75.5% interest in the Mareesburg project. The Company currently acts as the operator of both the Mareesburg Platinum Project Joint Venture and Spitzkop PGM Project, both located on the Eastern Limb of the Bushveld Complex.

#### 5. Refining Contract

As at June 30, 2008, the refining contract had a total aggregate value of \$15,562. The value of the contract is amortized on a units-of-production basis. The amortization expense for the three and six months ended June 30, 2008 was \$383 and \$723 respectively. The accumulated amortization at June 30, 2008 was \$4,997.

#### 6. Asset retirement obligation

Although the ultimate amount of the asset retirement obligation is uncertain, the fair value of these obligations is based on information currently available, including closure plans and applicable regulations. Significant closure activities include land rehabilitation, demolition of buildings and mine facilities and other costs.

The liability for the asset retirement obligation at June 30, 2008 is approximately 21.2 million Rand (\$2,711). The undiscounted value of this liability is approximately 84 million Rand (\$10,699). An accretion expense component of approximately \$86 for the three months ended June 30, 2008 and \$166 for the six months ended June 30, 2008 (6 months ended December 31, 2007 - \$180) has been charged to operations for the corresponding period ended June 30, 2008 to reflect an increase in the carrying amount of the asset retirement obligation which has been determined using a discount rate of 13%. Changes to the asset retirement obligation during the three and six months ended June 30, 2008 are as follows:

Balance, December 31, 2007	\$	2,889
Foreign exchange movement		(444)
Accretion		80
<b>Balance, March 31, 2008</b>	<b>\$</b>	<b>2,525</b>
Foreign exchange movement		100
Accretion		86
<b>Balance, June 30, 2008</b>	<b>\$</b>	<b>2,711</b>

## Eastern Platinum Limited

Notes to the consolidated financial statements

(Expressed in thousands of U.S. dollars, except number of shares and per share amounts)

(Unaudited)

### 7. Share capital

#### (a) Authorized

- Unlimited number of preferred redeemable, voting, non-participating shares without nominal or par value
- Unlimited number of common shares with no par value

#### (b) Stock options

The Company has an incentive plan ("2008 Plan"), approved by the Company's shareholders at its annual general meeting held on June 4, 2008, under which options to purchase common shares may be granted to its directors, officers, employees and others at the discretion of the Board of Directors. Under the terms of the 2008 Plan, 75 million common shares are reserved for issuance upon the exercise of options. All outstanding options at June 4, 2008 granted under the Company's previous plan ("2005 Plan") will continue to exist under the 2008 Plan provided that the fundamental terms governing such options will be deemed to be those under the 2005 Plan. Upon adoption of the 2008 Plan, options to purchase a total of 27,525,000 common shares were available for grant under the 2008 Plan, representing 75,000,000 less the 47,475,000 outstanding options at June 4, 2008 granted under the 2005 Plan.

Under the 2008 Plan, each option granted shall be for a term not exceeding five years from the date of being granted and the vesting period is determined based on the discretion of the Board of Directors. The option exercise price is set at the date of the grant and cannot be less than the closing market price of the Company's common shares on the Toronto Stock Exchange on the day immediately preceding the day of the grant of the option. The changes in stock options during the six months ended June 30, 2008 were as follows:

	June 30, 2008		December 31, 2007	
	Number of options	Weighted average exercise price Cdn\$	Number of options	Weighted average exercise price Cdn\$
Balance outstanding, beginning of period	46,360,000	1.94	32,450,000	1.76
Options granted	1,500,000	3.38	15,180,000	2.31
Options exercised	(320,000)	1.53	(1,153,333)	1.79
Options expired	-	-	-	-
Options cancelled	(170,000)	2.54	(116,667)	1.70
Balance outstanding, end of period	47,370,000	1.99	46,360,000	1.94

## Eastern Platinum Limited

Notes to the consolidated financial statements

(Expressed in thousands of U.S. dollars, except number of shares and per share amounts)

(Unaudited)

### 7. Share capital (continued)

#### (b) Stock options (continued)

The following table summarizes information concerning outstanding and exercisable options at June 30, 2008:

Options outstanding	Options exercisable	Exercise price	Remaining Contractual Life (Years)	Expiry date
		Cdn\$		
550,000	550,000	0.56	0.35	November 5, 2008
187,500	187,500	1.00	1.16	August 26, 2009
7,725,000	7,725,000	1.70	2.90	May 24, 2011
250,000	250,000	1.70	3.41	November 27, 2011
22,187,500	22,187,500	1.82	3.69	March 7, 2012
14,880,000	12,880,000	2.31	9.27	October 5, 2017
90,000	30,000	2.50	9.46	December 12, 2017
1,000,000	600,000	3.38	9.65	February 20, 2018
500,000	200,000	3.38	9.75	March 27, 2018
<b>47,370,000</b>	<b>44,610,000</b>		<b>5.46</b>	

#### (c) Share purchase warrants

The changes in warrants during the six months ended June 30, 2008 were as follows:

	June 30, 2008		December 31, 2007	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
		Cdn\$		Cdn\$
Balance outstanding, beginning of period	71,248,050	1.83	71,348,050	1.83
Warrants exercised	(10,824,077)	1.97		
Warrants expired	(1,937,977)	2.00	(100,000)	1.80
Balance outstanding, end of period	<b>58,485,996</b>	<b>1.80</b>	71,248,050	1.83

At June 30, 2008, the Company had 58,485,996 warrants outstanding, each warrant exercisable at Cdn\$1.80 per common share and expiring on March 28, 2009.

### 8. Non-controlling interests

The non-controlling interests are comprised of the following:

Balance, December 31, 2007	\$	23,402
Non-controlling interests' share of income in Barplats		(2,652)
Non-controlling interests' share of interest on advances to Gubevu		841
Foreign Exchange Movement		178
Balance, March 31, 2008	\$	21,769
Non-controlling interests' share of income in Barplats		6,931
Non-controlling interests' share of interest on advances to Gubevu		(2,570)
Foreign Exchange Movement		(2,750)
Balance, June 30, 2008	\$	23,380

## Eastern Platinum Limited

### Notes to the consolidated financial statements

(Expressed in thousands of U.S. dollars, except number of shares and per share amounts)

(Unaudited)

#### 9. Related party transactions

The Company incurred the following expenses in the normal course of operations, measured at the exchange amount which is determined on a cost recovery basis, with companies related by way of directors and officers in common:

	June 30, 2008 (3 months)	June 30, 2007 (3 months)	June 30, 2008 (6 months)	June 30, 2007 (6 months)
Consulting fees (a)	\$ 25	\$ 91	\$ 42	\$ 179
General and administrative expenses	82	50	155	99
Management fees (b)	311	113	669	219
Rent	-	284	-	305
	<b>\$ 418</b>	<b>\$ 538</b>	<b>\$ 866</b>	<b>\$ 802</b>

- (a) The Company paid fees to a private company controlled by a director of the Company for consulting services performed outside of his capacity as a director.
- (b) The Company paid management fees and expenses to private companies controlled by officers and directors of the Company.
- (c) Amounts due to related parties are unsecured, non-interest bearing and due on demand. Accounts payable at June 30, 2008 included \$Nil (Dec 31, 2007 - \$2,550) which were due to private companies controlled by officers of the Company.

#### 10. Segmented information

- (a) Operating segment - The Company's operations are primarily directed towards the acquisition, exploration and production of PGMs in South Africa.
- (b) Geographic segments - The Company's revenues and expenses by geographic areas for the three and six months ended March 31 2008 and 2007 are as follows:

	June 30, 2008 (3 months)		
	South Africa	Canada	Total
Property, plant and equipment	778,047	98	778,145
Total Assets	837,656	201,442	1,039,098
Property, plant and equipment expenditures	34,657	1,020	35,677
Revenues	\$ 50,143	\$ -	\$ 50,143
Production costs	(21,058)	-	(21,058)
Depletion and depreciation	(4,450)	-	(4,450)
Expenses	(4,111)	(1,198)	(5,309)
Stock based compensation	-	(340)	(340)
Interest income	905	950	1,855
Interest expense	(2,024)	89	(1,935)
Foreign exchange gain (loss)	49	22	71
Income (loss) before income taxes and non-controlling interests	\$ 19,454	\$ (477)	\$ 18,977

## Eastern Platinum Limited

Notes to the consolidated financial statements

(Expressed in thousands of U.S. dollars, except number of shares and per share amounts)

(Unaudited)

### 10. Segmented information (continued)

(b) Geographic segments (continued)

June 30, 2007 (3 months)			
	South Africa	Canada	Total
Property, plant and equipment	757,184	109	757,293
Total Assets	810,596	198,084	1,008,680
Property, plant and equipment expenditures	5,711	103	5,814
Revenues	\$ 23,190	\$ -	\$ 23,190
Production costs	(18,420)	-	(18,420)
Depletion and depreciation	239	(7)	232
Expenses	(3,445)	(1,724)	(5,169)
Stock based compensation	-	(1,782)	(1,782)
Interest income	303	1,227	1,530
Interest expense	(2,945)	-	(2,945)
Foreign exchange gain (loss)	(715)	(1,222)	(1,937)
Income (loss) before income taxes and non-controlling interests	\$ (1,793)	\$ (3,508)	\$ (5,301)

June 30, 2008 (6 months)			
	South Africa	Canada	Total
Property, plant and equipment expenditures	57,312	1,037	58,349
Revenues	\$ 106,551	\$ -	\$ 106,551
Production costs	(40,808)	-	(40,808)
Depletion and depreciation	(8,812)	-	(8,812)
Expenses	(6,958)	(2,684)	(9,642)
Stock based compensation	(1)	(1,566)	(1,567)
Interest income	1,491	2,819	4,310
Interest expense	(2,251)	89	(2,162)
Foreign exchange gain (loss)	1,107	21	1,128
Income (loss) before income taxes and non-controlling interests	\$ 50,319	\$ (1,321)	\$ 48,998

## Eastern Platinum Limited

### Notes to the consolidated financial statements

(Expressed in thousands of U.S. dollars, except number of shares and per share amounts)

(Unaudited)

#### 10. Segmented information (continued)

(b) Geographic segments (continued)

	June 30, 2007 (6 months)		
	South Africa	Canada	Total
Property, plant and equipment expenditures	38,939	103	39,042
Revenues	\$ 54,522	\$ -	\$ 54,522
Production costs	(38,183)	-	(38,183)
Depletion and depreciation	(2,479)	(7)	(2,486)
Expenses	(5,956)	(2,951)	(8,907)
Stock based compensation	(144)	(14,220)	(14,364)
Interest income	(86)	1,704	1,618
Interest expense	(3,429)	-	(3,429)
Foreign exchange gain (loss)	(2,876)	(3)	(2,879)
Income (loss) before income taxes and non-controlling interests	\$ 1,369	\$ (15,477)	\$ (14,108)

For the period ended June 30, 2008 and 2007, 100% of the Company's PGM production was sold to one customer (Note 13(b)).

#### 11. Commitments

The Company has committed to capital expenditures on projects of approximately 370million Rand (\$47,358) as at June 30, 2008.

#### 12. Management of capital risk

The capital structure of the Company consists of equity attributable to common shareholders, comprising of issued capital, contributed surplus, retained earnings and accumulated other comprehensive income. The Company's objectives when managing capital are to: (i) preserve capital, (ii) obtain the best available net return, and (iii) maintain liquidity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic condition and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments.

The Company's policy is to invest its excess cash in highly liquid, fully guaranteed, bank-sponsored instruments. The Company staggers the maturity dates of its investments over different time periods and dates to minimize exposure to interest rate changes. This strategy is unchanged from 2007.

The Company is not subject to externally imposed capital requirements.

#### 13. Management of financial risk

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk, interest risk and commodity price risk. The Company's exposure to these risks and its methods of managing the risks remain consistent.

## Eastern Platinum Limited

### Notes to the consolidated financial statements

(Expressed in thousands of U.S. dollars, except number of shares and per share amounts)

(Unaudited)

#### 13. Management of financial risk (continued)

##### (a) Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company receives revenue in South African Rand, incurs expenses in Canadian dollars and South African Rand and its reporting currency is the US dollar. A significant change in the currency exchange rates between the Canadian dollar and South African Rand relative to the US dollar could have an effect on the Company's results of operations, financial position or cash flows. The Company has not entered into any derivative financial instruments to manage exposures to currency fluctuations.

At June 30, 2008, the Company is exposed to currency risk through the following financial instruments denominated in South African Rand and Canadian dollars:

	June 30, 2008 Cdn\$ (000's)	December 31, 2007 Cdn\$ (000's)	June 30, 2008 ZAR (000's)	December 31, 2007 ZAR (000's)
Cash and cash equivalents	65,631	18,107	206,047	3,326
Short-term investments	106,713	169,546	0	0
Trade receivables	2,357	1,880	313,504	215,195
Short-term liabilities	3,208	3,804	6,759	0
Long-term liabilities	Nil	3,294	31,067	39,958
Accounts payable and accruals	483	3,646	204,746	132,797

The sensitivity of the Company's net earnings and other comprehensive income due to changes in the exchange rate between the Canadian dollar and the South African Rand is summarized in the tables below:

	3 months ended June 30, 2008	
	10% increase in Canadian dollar	10% decrease in Canadian dollar
Increase (decrease) in net earnings	(779)	955
Increase (decrease) in other comprehensive income	2,405	(2,442)
Comprehensive income (loss)	1,626	(1,487)

	6 months ended June 30, 2008	
	10% increase in Canadian dollar	10% decrease in Canadian dollar
Increase (decrease) in net earnings	(2,092)	2,558
Increase (decrease) in other comprehensive income	(41,484)	50,986
Comprehensive income (loss)	(43,576)	53,544

## Eastern Platinum Limited

### Notes to the consolidated financial statements

(Expressed in thousands of U.S. dollars, except number of shares and per share amounts)

(Unaudited)

#### 13. Management of financial risk (continued)

##### (a) Currency risk (continued)

The sensitivity of the Company's net earnings and other comprehensive income due to changes in the exchange rate between the Canadian dollar and the United States dollar is summarized in the tables below:

	3 months ended June 30, 2008	
	10% increase in Canadian dollar	10% decrease in Canadian dollar
Increase (decrease) in net earnings	1,272	(1,269)
Increase (decrease) in other comprehensive income	2,226	(2,227)
Comprehensive income (loss)	3,498	(3,496)

	6 months ended June 30, 2008	
	10% increase in Canadian dollar	10% decrease in Canadian dollar
Increase (decrease) in net earnings	3,267	(3,266)
Increase (decrease) in other comprehensive income	(7,424)	7,424
Comprehensive income (loss)	(4,157)	4,158

##### (b) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's cash equivalents and short-term investments are held through large Canadian and South African financial institutions. Short-term and long-term investments (including those presented as part of cash and cash equivalents) are composed of financial instruments issued by Canadian and South African banks and companies with high investment-grade ratings. These investments mature at various dates over the current operating period. The Company did not invest in any asset backed commercial paper.

The Company currently sells all of its concentrate production to one customer under an off-take contract. The loss of this customer or unexpected termination of the off-take contract could have a material adverse effect on the Company's results of operations, financial condition and cash flows. The Company has not experienced any bad debts with this customer.

The Company minimizes credit risk by reviewing the credit risk of the counterparty to the arrangement and has made any necessary provisions related to credit risk at June 30, 2008.

##### (c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its expansionary plans. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents.



## Eastern Platinum Limited

Notes to the consolidated financial statements

(Expressed in thousands of U.S. dollars, except number of shares and per share amounts)

(Unaudited)

### 13. Management of financial risk (continued)

#### (d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its short-term investments. The risk that the Company will realize a loss as a result of a decline in the fair value of short-term investments is limited because these investments, although available for sale, are generally held to maturity. The Company monitors its exposure to interest rates and has not entered into any derivative financial instruments to manage this risk.

#### (e) Price risk

The Company is exposed to price risk with respect to the revenues and costs of production. These costs include electricity, labour, and diesel amongst others. The Company closely monitors these prices to determine the appropriate course of action to be taken by the Company. The Company has not entered into any derivative financial instruments to manage exposures to price fluctuations.

A sensitivity analysis has not been completed at June 30, 2008 as it would not be representative of the actual risk. The future costs of production are unknown and are expected to change frequently.

### 14. Fair value estimation of financial instruments

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined using a Black-Scholes model based on assumptions that are supported by observable current market conditions. Changes in these assumptions to reasonably possible alternative assumptions would not significantly affect the Company's results.

The fair values of cash and cash equivalents, short-term investments, trade receivables and accounts payable approximate their carrying values due to the short-term to maturities of these financial instruments.

The fair value of short-term debt was determined using discounted cash flows at prevailing market rates and the fair value is considered to approximate carrying value.

**EASTERN PLATINUM LIMITED**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS**  
**AND RESULTS OF OPERATIONS**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008**

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*The following Management's Discussion and Analysis ("MD&A") is intended to assist the reader to assess material changes in financial condition and results of operations of Eastern Platinum Limited ("Eastplats" or the "Company") as at June 30, 2008 and for the three and six months then ended in comparison to the same periods in 2007. This MD&A should be read in conjunction with the unaudited consolidated financial statements for the three and six months ended June 30, 2008 and supporting notes that have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Company reports certain non-GAAP measures such as EBITDA and cash costs per ounce which are explained in Section 1.2 of this MD&A.*

*All monetary amounts are in U.S. dollars unless otherwise specified. The effective date of this MD&A is August 14, 2008. Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).*

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#### **Overview**

Eastplats is an expanding platinum group metals ("PGM") producer engaged in the mining and development of PGM's with properties located in various provinces in South Africa. All of the Company's properties are situated on the western and eastern limbs of the Bushveld Complex ("BC"), the geological environment that supports over 75% of the world's PGM supply.

The Company's primary operating asset is an 85% direct and indirect interest in Barplats Investments Limited ("Barplats"), whose main assets are the PGM producing Crocodile River Mine ("CRM") located on the western limb of the BC and the non-producing Kennedy's Vale Project located on the eastern limb of the BC. The Company also has a 75.5% direct and indirect interest in Mareesburg Platinum JV ("Mareesburg") and a 93.4% direct and indirect interest in Spitzkop PGM Project ("Spitzkop") both located on the eastern limb of the BC.

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#### **Highlights for the quarter ended June 30, 2008 ("Q2 2008")**

Eastplats recorded **net earnings of \$12,705,000 (\$0.02 per share)** compared to a net loss of \$4,693,000 (\$0.01 loss per share) in the second quarter of 2007 ("Q2 2007"). The Company's results improved over Q2 2007 primarily due to a significant increase in revenues and PGM production.

- **Production at the Crocodile River Mine ("CRM") increased by 21% to 30,311 PGM ounces**, from 25,111 PGM ounces in Q2 2007.
- **Revenues from CRM increased by 125% to \$50,143,000** compared to \$22,324,000 in Q2 2007.
- **The average sales price per PGM ounce increased by 49% to \$1,657** compared to \$1,113 in Q2 2007.
- **EBITDA increased by 538% to \$29,085,000** from \$5,033,000 in Q2 2007.

- **Operating cash costs decreased by 1% to \$696 per ounce**, compared to \$702 per ounce in Q2 2007.
  - **Recovery rates improved to 73%**, compared to 69% in Q2 2007, following planned improvements to the concentrator circuit at the Crocodile River Mine.
  - **Grades improved to 4.03 grams per tonne (5PGE+Au)** compared to 3.97 grams per tonne (5PGE+Au) in Q2 2007.
  - **Stoping units for the quarter increased by 25% to a record 44,277 square meters**, compared to 35,315 square meters in Q2 2007.
  - **Total underground development increased by 16% to 5,575 meters** during the quarter (4,807 meters in Q2 2007) as the Company continues to make substantial progress in the development of the ore reserve at CRM.
  - **The average mining rate increased by 25% to 101,711 tonnes per month** during Q2 2008 from 81,425 tonnes per month in Q2 2007.
  - At June 30, 2008, the Company had a cash position (including cash and cash equivalents and short term investments) of \$195,387,000 (December 31, 2007 – \$189,856,000).
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## **Contents of the MD&A**

1. Results of operations for the three and six months ended June 30, 2008
    - 1.1. Mining operations at the Crocodile River Mine (“CRM”)
    - 1.2. CRM non-GAAP measures
    - 1.3. Development projects – CRM
    - 1.4. Development projects – Spitzkop and Kennedy’s Vale
    - 1.5. Development projects – Mareesburg
    - 1.6. Corporate and other expenses
  2. Liquidity and Capital Resources
    - 2.1. Outlook
    - 2.2. Share capital
    - 2.3. Contractual Obligations and Commitments
  3. Related party transactions
  4. Adoption of new accounting standards and accounting pronouncements
  5. Internal control over financial reporting
  6. Cautionary statement on forward-looking information
-

## 1. Results of Operations for the three and six months ended June 30, 2008

The following table sets forth selected consolidated financial information for the three and six months ended June 30, 2008 and 2007:

<b>Consolidated statements of operations</b>				
(Unaudited, expressed in thousands of U.S. dollars, except share and per share amounts)				
	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Revenue	\$ 50,143	\$ 22,324	\$ 106,551	\$ 53,656
Cost of operations				
Production costs	(21,058)	(17,853)	(40,808)	(37,616)
Depletion and depreciation	(4,450)	325	(8,812)	(2,393)
Mine operating earnings	24,635	4,796	56,931	13,647
Expenses				
General and administrative	(5,309)	(5,049)	(9,642)	(8,787)
Stock-based compensation	(340)	(1,642)	(1,567)	(14,224)
Operating income (loss)	18,986	(1,895)	45,722	(9,364)
Other income (expense)				
Interest income	1,855	1,493	4,310	1,581
Interest expense	(1,935)	(2,917)	(2,162)	(3,401)
Foreign exchange gain (loss)	71	(1,938)	1,128	(2,880)
Income (loss) before income taxes and non-controlling interests	18,977	(5,257)	48,998	(14,064)
Future income tax (expense) recovery	(5,532)	976	(13,780)	1,290
Non-controlling interests	(740)	(412)	(2,551)	(1,858)
Net income (loss) for the period	12,705	(4,693)	32,667	(14,632)
Basic and diluted income (loss) per share	\$ 0.02	\$ (0.01)	\$ 0.05	\$ (0.03)
Weighted average common shares outstanding				
Basic	677,772,370	604,376,451	673,822,281	562,481,710
Fully diluted	713,615,412	604,376,451	716,094,886	562,481,710
<b>Consolidated balance sheets</b>	June 30,	December 31,		
	2008	2007		
Total assets	\$ 1,038,098	\$ 1,063,076		
Total long-term liabilities	\$ 143,365	\$ 155,632		

The table below sets forth selected results of operations for the Company's eight most recently completed quarters (in thousands of U.S. dollars, except per share amounts). All financial data previously reported in Canadian dollars have been converted to U.S. dollars.

	2008		2007				2006	
	June 30	March 31	Dec 31	Sept 30	June 30	March 31	Dec 31	Sept 30
Revenues	\$ 50,143	\$ 56,408	\$ 34,126	\$ 31,452	\$ 22,324	\$ 31,332	\$ 25,062	\$ 22,488
Cost of operations	(25,508)	(24,112)	(26,095)	(24,388)	(17,528)	(22,481)	(19,842)	(17,738)
Mine operating earnings	24,635	32,296	8,031	7,064	4,796	8,851	5,219	4,750
Expenses (G&A and stock-based compensation)	(5,649)	(5,560)	(18,022)	(3,534)	(6,691)	(16,320)	(4,020)	(3,365)
Operating income (loss)	18,986	26,736	(9,991)	3,530	(1,895)	(7,469)	1,199	1,385
Net income (loss)	\$ 12,705	\$ 19,962	\$ (10,814)	\$ (1,390)	\$ (4,693)	\$ (9,939)	\$ 6,550	\$ (2,190)
Income (loss) per share - basic	\$ 0.02	\$ 0.03	\$ (0.02)	\$ -	\$ (0.01)	\$ (0.02)	\$ 0.01	\$ -
Income (loss) per share - diluted	\$ 0.02	\$ 0.03	\$ (0.02)	\$ -	\$ (0.01)	\$ (0.02)	\$ 0.01	\$ -

## 1.1 Mining operations at Crocodile River Mine (“CRM”)

The following is a summary of CRM’s operations for the quarters ended June 30, 2008, March 31, 2008, and the four quarters in 2007:

Crocodile River Mine operations	Three months ended					
	June 30, 2008	March 31, 2008	Dec 31, 2007	Sept 30, 2007	June 30, 2007	March 31, 2007
<b>Key financial statistics</b>						
(amounts stated in thousands of U.S. dollars, except per ounce data)						
Revenue	\$ 50,143	\$ 56,408	34,126	\$ 31,452	\$ 22,324	\$ 31,332
Cost of operations						
Production costs	(21,058)	(19,750)	(20,947)	(20,416)	(17,291)	(19,763)
Depletion and depreciation	(4,450)	(4,362)	(5,148)	(3,972)	(237)	(2,718)
Mine operating earnings	24,635	32,296	8,031	7,064	4,796	8,851
EBITDA (1)	\$ 29,085	\$ 36,658	\$ 13,179	\$ 11,036	\$ 5,033	\$ 11,569
Sales - PGM ounces	30,311	27,825	26,632	29,417	25,111	26,807
Average realized price per ounce (2)	\$ 1,657	\$ 1,621	\$ 1,305	\$ 1,088	\$ 1,113	\$ 1,130
Average basket price	\$ 1,969	\$ 1,927	\$ 1,551	\$ 1,293	\$ 1,322	\$ 1,343
Cash costs per ounce of PGM (1)	\$ 696	\$ 698	\$ 774	\$ 637	\$ 702	\$ 704
<b>Key production statistics</b>						
Run of mine tonnes	305,134	279,036	335,263	323,777	244,275	211,830
Total tons processed	337,471	349,497	383,159	399,022	369,453	415,112
Stoping units (square meters)	44,277	38,349	37,374	35,262	35,315	26,441
Development meters	5,575	4,409	4,759	4,868	4,807	3,687
On-reef development meters	3,230	2,343	2,814	2,570	1,767	2,391
<b>Metal in concentrate sold (ounces)</b>						
Platinum (Pt)	15,333	13,684	13,264	14,630	12,829	14,303
Palladium (Pd)	6,777	6,201	6,013	6,727	5,605	5,842
Rhodium (Rh)	2,543	2,335	2,182	2,418	2,002	1,782
Gold (Au)	132	121	154	166	137	715
Iridium (Ir)	994	1,078	955	1,056	885	787
Ruthenium (Ru)	4,532	4,405	4,064	4,420	3,654	3,378
Total PGM ounces	30,311	27,825	26,632	29,417	25,111	26,807

(1) These are non-GAAP measures as described in Section 1.2

(2) Average realized price is the average basket price, net of associated smelter costs, under the Company’s primary off-take agreement.

### Quarter ended June 30, 2008 compared to quarter ended June 30, 2007

For the quarter ended June 30, 2008, PGM sales were 30,311 ounces compared with 25,111 ounces for the quarter ended June 30, 2007. This 21% increase is attributable to improved underground production (305,134 tonnes in Q2 2008 compared to 244,275 tonnes in Q2 2007), improved recovery rates (73% in Q2 2008 compared to 69% in Q2 2007) and an increase in grades (4.03 grams per tonne in Q2 2008 compared to 3.97 grams per tonne in Q2 2007). Offsetting this was a 9% decrease in tonnes processed (337,471 tonnes in Q2 2008 compared to 369,453 in Q2 2007) as a result of the planned reduction of the treatment of low grade tailings.

Operating cash costs decreased to \$696 per ounce for the quarter ended June 30, 2008 compared to \$702 per ounce for the same quarter in 2007. A 9% drop in the value of the Rand against the U.S dollar and a 21% increase in the number of ounces sold contributed to a decrease in cash costs per ounce. However, this was offset by inflationary cost increases for labour, consumables, particularly steel, fuel related expenditures, and mine operating supplies. Labour costs increased by 24% compared to Q2 2007, as a result of a 22% increase in the labour force compared to the same period in 2007 and a general wage increase awarded to mine workers in March 2008. Operating cash cost per ounce is a non-GAAP measure. A reconciliation of production costs, as reported in the income statement, to cash operating costs is shown under Section 1.2 below.

The average mining rate in Q2 2008 increased to 101,711 tonnes per month from 81,425 tonnes per month in Q2 2007, with grades maintaining a consistent average of 4.03 g/t (5PGE+Au) during the quarter. "5PGE+Au" is defined as platinum, palladium, rhodium, iridium, ruthenium and gold.

The Company continues to make significant progress with underground development at CRM in order to generate an 18 to 24 month reserve base necessary to support the production build up towards a target production rate of 200,000 tonnes of ore per month. Underground development increased 16% to 5,575 meters in Q2 2008 compared with 4,807 meters in Q2 2007. The Company has also experienced a continued improvement in mining operations as a result of increasing the level of on-reef development which has allowed an improvement in mining flexibility that is required to maintain the planned production build-up at the mine. On-reef development was 3,230 meters in Q2 2008, a 16% increase over the same quarter in 2007. Stopping units for Q2 2008 were 44,277 square meters, a record quarterly achievement.

In Q2 2008, optimization of the recently commissioned chrome recovery circuit commenced and consequently, the chrome penalty has been reduced to \$2.6 million from \$4.6 million in Q2 2007. Chrome revenues have increased to \$3.4 million from \$0.5 million over the same period.

In Q2 2008, CRM suffered five lost time injuries (compared to six lost time injuries in Q2 2007) resulting in a Lost Time Injury Frequency Rate ("LTIFR") of 1.85 (3.68 in Q2 2007). The Company's twelve month rolling LTIFR of 2.15 to June 30, 2008 compares favorably against most of the other platinum producers in South Africa.

#### Quarter ended June 30, 2008 compared to the quarter ended March 31, 2008 ("Q1 2008")

PGM ounces sold were up by 9% in Q2 2008 compared to the quarter ended March 31, 2008 as a result of increased underground production (305,134 tonnes in Q2 2008 compared to 279,036 tonnes in Q1 2008 at grades similar to those achieved in the previous quarter. Total tonnage treated decreased slightly as a result of a planned reduction in the treatment of low grade tailings as the current tailings area was depleted. Planning is in progress to more effectively treat tailings from the existing dam. Underground development increased to 5,575 meters from 4,409 meters in Q1 2008, and on-reef development increased to 3,230 meters from 2,343 meters in Q1 2008.

Two significant concentrator upgrades were completed as planned during Q2 2008, and following these upgrades, the recovery rates declined from 78% in Q1 2008 to 73% in Q2 2008 as the circuit was brought back on stream and the system was balanced. Recoveries are expected to return to the 78% range as the concentrator achieves steady state operating conditions.

Operating cash costs of \$696 per ounce in Q2 2008 were similar to the \$698 per ounce achieved in Q1 2008 as total cash operating costs and ounces produced both increased by about 9% compared to Q1 2008. Total cash operating costs increased due to a 4.6% increase in wages, continuing inflationary

pressures on bulk commodity consumables, and increases in underground equipping and ore transport as a result of higher production volumes. The increase in wages was due to a general annual increase awarded to mine workers in March 2008 along with a slight increase in the labour complement at the mine.

*Six months ended June 30, 2008 (“H1 2008”) compared to six months ended June 30, 2007 (“H1 2007”)*

In H1 2008, the Company sold 58,136 PGM ounces, an increase of 12% compared to H1 2007, primarily as a result of higher volumes mined in 2008 (584,170 tonnes mined in H1 2008 compared to 456,105 tonnes mined in H1 2007), an increase in on-reef development (5,573 meters in H1 2008 compared to 4,158 meters in H1 2007) and improved recovery (75% in H1 2008 compared to 71% in H1 2007).

The realized price per ounce improved from \$1,121 in H1 2007 to \$1,642 in H1 2008 as a result of a strong increase in PGM prices beginning in late 2007.

Operating cash costs of \$697 per ounce were achieved in H1 2008, compared to \$703 per ounce in H1 2007. The cash cost per ounce of these two periods were similar as higher total cash operating costs in 2008 were offset by an increase in the number of ounces produced in 2008. Total cash operating costs were higher in H1 2008 due to increased wages, and inflationary cost increases for consumables, particularly steel, fuel related expenditures, and mine operating supplies.

**1.2 CRM non-GAAP measures**

In this MD&A, the Company has reported its share of earnings before interest, depletion, depreciation, amortization and tax (“EBITDA”) at CRM. This is a liquidity non-GAAP measure which the Company believes is used by certain investors to determine the Company’s ability to generate cash flows for investing and other activities. The Company also reports cash operating costs per ounce of PGM produced, another non-GAAP measure which is a common performance measure used in the precious metals industry. These non-GAAP measures do not have any standardized meaning prescribed under Canadian GAAP, and therefore they may not be comparable to similar measures employed by other companies.

The following table provides a reconciliation of EBITDA and cash operating costs per ounce of PGM sold to the financial statements:

<b>Crocodile River Mine non-GAAP measures</b>						
(Expressed in thousands of U.S. dollars, except ounce and per ounce data)						
	Three months ended					
	June 30, 2008	March 31, 2008	December 31, 2007	September 30, 2007	June 30, 2007	March 31, 2007
Mine operating earnings	\$ 24,635	\$ 32,296	\$ 8,031	\$ 7,064	\$ 4,796	\$ 8,851
Depletion and depreciation	4,450	4,362	5,148	3,972	(237)	2,718
<b>EBITDA (1)</b>	<b>29,085</b>	<b>36,658</b>	<b>13,179</b>	<b>11,036</b>	<b>4,559</b>	<b>11,569</b>
Production costs as reported	21,058	19,750	20,947	20,416	18,154	19,763
Less overhead costs (2)	38	(323)	(322)	(525)	(525)	(891)
Cash operating costs	21,096	19,427	20,625	19,891	17,629	18,872
Ounces sold	30,311	27,825	26,632	29,417	25,111	26,807
<b>Cash cost per ounce sold</b>	<b>\$ 696</b>	<b>\$ 698</b>	<b>\$ 774</b>	<b>\$ 676</b>	<b>\$ 702</b>	<b>\$ 704</b>

(1) EBITDA does not include non-operating general and administrative expenses at CRM.

(2) Overhead costs include costs such as safety, housing, technical services and planning.

### ***1.3 Development projects – CRM***

During the quarter ended June 30, 2008, the Company spent a total of \$10.9 million on development projects at CRM, which include the Zandfontein, Kareespruit, and Crocette sections.

Commissioning of the existing vertical shaft, which was reequipped and refurbished to allow for more efficient mining operations and development at deeper levels, has been delayed until September primarily as a result of delays in winder commissioning.

At the Crocette section, underground development is expected to intercept the ore body by the fourth quarter of 2008. The Crocette section is anticipated to build up to full production by the second half of 2010 with mining and production reaching 40,000 tonnes per month or an estimated 55,000 PGM ounces per year.

Delineation and evaluation drilling is in progress with the objective of upgrading the current resource base. The resource upgrade drilling programme continues at Kareespruit and the down dip extension areas of Zandfontein and Crocette. As at June 30, 2008, 28 out of 51 planned boreholes were completed.

Drilling is updating the knowledge of the geological structures at Crocette and Kareespruit. Updating of the geological model has commenced with the objective of providing an updated block model and resource statement.

Preparation of the mining rights application for the Kareespruit area has commenced. Preliminary indications are that the Kareespruit section has the potential to become a standalone operation capable of mining up to 200,000 tonnes per month.

### ***1.4 Development projects – Spitzkop and Kennedy's Vale***

During Q1, 2008, the Department of Minerals and Energy (“DME”) granted amended new order prospecting permits for Spitzkop. During the quarter ended June 30, 2008, the Company commenced work on a bulk sampling programme. The box-cuts for both the Merensky Reef and UG2 have been blasted and cleaned and support work is nearing completion on the Merensky box cut. Design of the mine and concentrator continues and tender responses have been received for the remaining long lead items for which orders will shortly be placed. Certain key mining equipment and the grinding mills have already been delivered. No material problems have been identified in sourcing the necessary equipment to comply with the planned trial mining schedule. The company is awaiting feedback from the DME with respect to the environmental scoping report submitted in Q1 2008 as part of the new order mining right application. The Company expects to submit the full Environmental and Impact Assessment (“EIA”) during second half of 2008.

### ***1.5 Development projects - Mareesburg***

At Mareesburg, work is continuing on updating a feasibility study and on obtaining a new order mining right from the DME. The full EIA was submitted to the DME in Q2 2008.

### ***1.6 Corporate and other expenses***

General and administrative expenses (“G&A”) are costs associated with the Company’s corporate head office in Vancouver and the Johannesburg and CRM administrative offices. Such costs include legal and accounting, regulatory, executive management fees, investor relations, travel and consulting fees. G&A



for Q2 2008 is consistent with G&A for Q2 2007 with balances of \$5,309,000 and \$5,049,000 respectively. For the six months ended June 30 2007 and 2008, G&A increased from \$8,787,000 to \$9,642,000. This increase was mainly due to the hiring of senior personnel in Vancouver and in Johannesburg in late 2007 to oversee the Company's expansion projects and operations.

During the six months ended June 30, 2008, the Company's board of directors granted 1,500,000 stock options to employees and a new director. All of these options were granted in March 2008. Stock based compensation for the six months ended June 30, 2008 was \$1,567,000. The Company had a 10% rolling stock option plan which expired on March 31, 2008. At the Company's annual general meeting on June 4, 2008, shareholders approved a new stock option plan which allows for the grant of options to purchase up to a maximum of 75,000,000 common shares of the Company.

Interest income recorded during the quarter ended June 30, 2008 was \$1,855,000 compared with \$1,493,000 in the same period in 2007. Interest income during the six months ended June 30, 2008 was \$4,310,000 compared with \$1,581,000 in the same period in 2007. The increase in interest income was the result of the Company's higher average cash balances during the three and six months ended June 30, 2008 as compared with the same periods in 2007. The Company raised Cdn\$200 million from a financing completed in May 2007.

Interest expense is comprised primarily of interest incurred on equipment financing in South Africa and interest on debt related to Gubevu. Interest expense in the quarter ended June 30, 2008 was \$1,935,000 compared with \$2,917,000 in the same period in 2007. Similarly, interest expense for the six months ended June 30, 2008 was \$2,162,000 compared with \$3,401,000 in the same period in 2007. The higher interest expense balances in 2007 were the result of an accounting adjustment made to the financial statements for the year ended June 30, 2007. The Company changed its year-end to December 31 shortly after the June 30, 2007 fiscal year-end.

During the three and six months ended June 30, 2008, the Company recorded an income tax expense of \$5,532,000 and \$13,780,000 respectively. Both of these expenses are based on net income generated at CRM during the period. Loss carry forwards and other tax assets were utilized such that no cash taxes were payable. The consolidated balance sheet reflects a total future income tax liability of \$145,864,000 which arose primarily as a result of the step-up to fair value of the net assets acquired on business acquisitions during the years ended June 30, 2006 and June 30, 2007.

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## **2. Liquidity and Capital Resources**

At June 30, 2008, the Company had working capital of \$204,378,000 (December 31, 2007 – \$196,681,000) and cash and cash equivalents and short-term investments of \$195,387,000 (December 31, 2007 – \$189,856,000) in highly liquid, fully guaranteed, bank sponsored instruments. The Company is not exposed to financial instruments involving the US residential property markets or mortgages.

The Company had no long-term debt at June 30, 2008, other than asset retirement obligations relating primarily to its Crocodile River Mine, capital lease obligations relating to mining vehicles with lease terms of five years with options to purchase for a nominal amount at the conclusion of the lease, and payments in connection with the Company's acquisition of 42.39% of the shares of Gubevu during the year ended June 30, 2007. See Contractual Obligations under Section 2.3 below.

## **2.1 Outlook**

Despite the current volatility of precious metal prices, the Company anticipates prices of the platinum group metals to remain strong at least through the next two years. Based on this outlook and planned production levels at CRM, the Company expects to receive significant cash flows from CRM for the next several years. Together with the Company's current cash balances and cash from the anticipated exercise of its Cdn\$1.80 warrants, which expire in 2009, a significant part of the cash required for the Company to develop the Crocette deposit at CRM and the Spitzkop and Mareesburg projects maybe funded. However, the Company may require additional funding in order to bring all these projects into commercial production. Additional funding may include external financing, joint venture or other third party participation in one or more of the projects, or the public or private sales of equity or debt securities of the Company.

However, if volatile global and market conditions result in a prolonged and significant decline in PGM prices, then the cash flows from CRM and current cash balances may be insufficient to advance any or all of the Company's projects to the production stage. This, along with deteriorating market conditions, could result in the Company having difficulty in obtaining equity financing, external financing or third party participation. There can be no assurance that additional funding will be available to the Company or, if available, that this funding will be on acceptable terms. If adequate funds are not available, the Company may be required to delay or reduce the scope of any or all of its development projects.

## **2.2 Share Capital**

During the three months ended June 30, 2008, the Company did not grant any stock options. During the same period, 160,000 options were exercised at a weighted average exercise price of Cdn\$1.10 for proceeds of Cdn\$175,000 and 8,706,677 warrants were exercised at an exercise price of Cdn\$2.00 per common share for proceeds of Cdn\$17,413,000.

During the six months ended June 30, 2008, the Company granted 1,500,000 stock options with an exercise price of Cdn\$3.38 and expiry dates of February 20, 2018 to March 27, 2018. Stock based compensation expense during this period was \$1,567,000. During the same period, 320,000 options were exercised at a weighted average exercise price of \$1.53 for proceeds of \$466,000. 10,000 of these options were exercised without cash payment under the "Share Appreciation Rights" clause in the Stock Option Plan. 10,824,077 warrants were exercised at a weighted average exercise price of Cdn\$1.97 per common share for proceeds of \$21,367,000.

On April 25, 2008, the Company's warrants that trade on the Toronto Stock Exchange under the symbol "ELR.WT" expired. A total of 1,937,977 warrants expired unexercised.

As at August 14, 2008, the Company had:

- 680,251,290 common shares outstanding;
- 47,120,000 stock options outstanding, which are exercisable at prices ranging from Cdn\$0.56 to Cdn\$3.38 most of which expire between 2011 and 2018; and
- 58,485,996 share purchase warrants outstanding, which are exercisable at Cdn\$1.80 per share and expire on March 28, 2009. These warrants are traded on the Toronto Stock Exchange under the symbol "ELR.WT.A".

### 2.3 Contractual Obligations and Commitments

The Company's major contractual obligations and commitments at June 30, 2008 were as follows:

(in thousands of U.S. dollars)	Less than			
	Total	1 year	1-5 years	More than 5 years
Asset retirement obligations	\$ 10,699	\$ -	\$ -	\$ 10,699
Capital expenditure contracted at June 30, 2008 but not recognized on the balance sheet	47,358	47,358	-	-
Capital lease obligations	6,343	1,318	5,025	-
Obligations related to Gubevu acquisition	3,545	3,545	-	-
	<u>\$ 67,945</u>	<u>\$52,221</u>	<u>\$ 5,025</u>	<u>\$ 10,699</u>

Pursuant to the Company's acquisition of a 42.39% interest in Gubevu Consortium Holdings (Pty) Ltd. ("Gubevu") during the year ended June 30, 2007, the Company entered into an agreement to pay an unrelated third party an amount of R55.4 million that existed in the underlying Gubevu agreements as an obligation of Gubevu. Half of this was paid in June 2008. The remaining amount, which is due in June 2009, has been recorded at a discounted value of \$3,301,000 (27.7 million Rand) under current portion of long-term liabilities.

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### 3. Related Party Transactions

A number of the Company's executive officers are engaged under contract with those officers' personal services companies. During the three and six months ended June 30, 2008 the Company paid \$336,000 and \$711,000 respectively for management fees, consulting fees and reimbursements of expenses to private companies controlled by officers and directors of the Company, compared to \$204,000 and \$398,000 respectively during the same three and six month periods in 2007. The increase over the prior comparative period is due to the hiring of two executive officers in November 2007.

All related party transactions were recorded at the amounts agreed upon between the parties. Any balances payable are payable on demand without interest.

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### 4. Adoption of New Accounting Standards and Accounting Pronouncements

Effective January 1, 2008, the Company adopted four new accounting standards that were issued by the Canadian Institute of Chartered Accountants. These accounting policy changes were adopted on a prospective basis with no restatement of prior period financial statements.

CICA Handbook Sections 3862 "*Financial Instruments – Disclosures*" and Section 3863 "*Financial Instruments – Presentation*" replace Section 3861 "*Financial Instruments – Disclosure and Presentation*". The new standards carry forward the presentation requirements for financial instruments and enhance the disclosure requirements by placing increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

CICA Handbook Section 1535 requires the company to disclose (a) its objectives, policies and processes for managing capital; (b) quantitative data about what the entity regards as capital; (c) whether the entity has complied with any capital requirements; and (d) if it has not complied, the consequences of such non-compliance.

CICA Handbook Section 3031 replaced the existing inventories standard. The new standard requires inventory to be valued on a first-in, first-out or weighted average basis, which is consistent with the Company's current treatment.

The Company's South African subsidiaries prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board. The subsidiaries' statements are adjusted to Canadian GAAP for the consolidated financial statements. In February 2008, the CICA announced that Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. Accordingly the conversion from Canadian GAAP to IFRS will be applicable to the Company's reporting for the first quarter of 2011 for which the current and comparative information will be prepared under IFRS. The Company expects the transition to IFRS to impact accounting, financial reporting, and IT systems and processes. The Company is currently assessing the impact of the transition to IFRS. Training and additional resources will be engaged to ensure the timely conversion to IFRS.

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## **5. Internal Control over Financial Reporting**

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the Company are responsible for the design of internal control over financial reporting within the Company in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Management has evaluated the design of the Company's internal control and procedures over financial reporting as of the end of the period covered by these annual filings, and believes the design to be sufficient to provide such reasonable assurance.

The CEO and CFO have also evaluated the effectiveness of the Company's disclosure controls and procedures as of the quarter ended June 30, 2008 and have concluded that the Company's disclosure controls and procedures provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, was made known to them and reported as required, particularly during the period in which these annual filings were being prepared.

Management of the Company, including the CEO and CFO, do not expect that the Company's disclosure controls and procedures will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide reasonable but not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to the associated costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

Other than described above, there were no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2008 that have materially affected, or are reasonably likely to affect, the Company's internal control over financial reporting.

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## **6. Cautionary Statement on Forward-Looking Information**

This MD&A, which contains certain forward-looking statements, are intended to provide readers with a reasonable basis for assessing the financial performance of the Company. All statements, other than statements of historical fact, are forward-looking statements. The words “believe”, “expect”, “anticipate”, “contemplate”, “target”, “plan”, “intends”, “continue”, “budget”, “estimate”, “may”, “will”, “schedule” 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 the Company, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Known and unknown factors could cause actual results to differ materially from those projected in the forward-looking statements. Such factors include, but are not limited to, fluctuations in the currency markets such as Canadian dollar, South African Rand and U.S. dollar, fluctuations in the prices of PGM and other commodities, changes in government legislation, taxation, controls, regulations and political or economic developments in Canada, the United States, South Africa, or Barbados or other countries in which the Company carries or may carry on business in the future, risks associated with mining or development activities, the speculative nature of exploration and development, including the risk of obtaining necessary licenses and permits, and quantities or grades of reserves. Many of these uncertainties and contingencies can affect the Company’s actual results and could cause actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, the Company. Readers are cautioned that forward-looking statements are not guarantees of future performance. There can be no assurance that such statements will prove to be accurate and actual results and future events could differ materially from those acknowledged in such statements. Specific reference is made to the Company's most recent Annual Information Form on file with Canadian provincial securities regulatory authorities for a discussion of some of the factors underlying forward-looking statements.

The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except to the extent required by applicable laws.

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August 14, 2008

Ian Rozier