

# management discussion and analysis

## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

for the quarter ended September 30, 2006

Set out below is a review of the activities, results of operations and financial condition of sxr Uranium One Inc. ("Uranium One") and its subsidiaries for the three and nine months ended September 30, 2006, together with certain trends and factors that are expected to have an impact in the remainder of 2006. This information is presented as of November 8, 2006. The discussion below should be read in conjunction with the unaudited consolidated financial statements of Uranium One for the three and nine months ended September 30, 2006 and the notes thereto (referred to herein as the "consolidated financial statements").

Uranium One's consolidated financial statements and the financial data set out below have been prepared in accordance with Canadian generally accepted accounting principles. All amounts in this report are in US dollars, except where otherwise indicated.

Uranium One is a Canadian corporation engaged in the acquisition, exploration and development of properties for production of uranium in South Africa, Australia, Canada and the United States and gold in South Africa.

The common shares of Uranium One are listed on the Toronto and Johannesburg stock exchanges. The shares of Uranium One's subsidiary Aflase Gold Limited are also listed on the Johannesburg stock exchange.

*This Management Discussion and Analysis includes certain forward-looking statements. Please read the cautionary note at the end of this report.*

## GENERAL

Uranium One's principal assets are the Dominion Uranium Project in South Africa, the Honeymoon Uranium Project in Australia and, through its approximately 71.56% owned subsidiary, Aflease Gold Limited, the Modder East Gold Project in South Africa.

On June 7, 2005, the company's Uranium One Africa Limited subsidiary (formerly Aflease Gold and Uranium Resources Limited) and Micawber 397 (Proprietary) Limited ("Micawber 397") entered into a definitive purchase and sale agreement, a management and skills transfer agreement and a joint venture agreement. Pursuant to these Agreements, Uranium One Africa agreed to sell to Micawber 397 an undivided 26% interest in the Dominion Uranium Project and the Bonanza Gold Project. The parties agreed to contribute their interests in the assets to a joint venture, to be managed by Uranium One Africa, and to fund the development and operation of those assets in accordance with their respective joint venture interests. In addition, Uranium One agreed to lend to Micawber 397 the funds that Micawber 397 is required to contribute under the joint venture agreement. The aggregate amount of that loan, plus accrued interest, is repayable from Micawber 397's share of joint venture profits. The purchase price payable by Micawber 397 for its 26% interest is an amount in cash equal to 26% of the net present value of the Dominion and Bonanza assets at the date (not later than three years after receipt by Micawber 397 of its first joint venture distribution) when Micawber 397 elects to pay at least 20% of the purchase price. After payment of the first 20% tranche, Micawber 397 is obliged to pay at least 20% of the purchase price during each subsequent three year period until the purchase price is paid in full. The Micawber 397 transaction will be accounted for when the risks and rewards of the transaction are deemed to have passed to Micawber 397.

The shareholders of the company's Aflease Gold Limited subsidiary approved a transaction with respect to Aflease Gold's Modder East Gold Project similar in nature to the transaction with Micawber 397 on October 11, 2006; completion of this transaction remains subject to certain conditions precedent, including the conversion of Aflease Gold's "old order" rights over the Modder East Gold Project into "new order" mining right.

### Proposed Acquisitions

In July 2006, Uranium One entered into exclusivity agreements to acquire two uranium mills and certain uranium properties located in the United States. Under the terms of an agreement with U.S. Energy Corp., Uranium One obtained the exclusive right to negotiate the purchase of the Shootaring Canyon Mill in Utah and uranium mining claims and leases covering approximately 41,000 acres in Wyoming, Utah, Arizona and Colorado in consideration for the issuance of 6.6 million shares and cash payments of \$20 million on achieving commercial production from the Shootaring Canyon Mill and \$7.5 million upon the first delivery of mineralized material to the Mill from any of the acquired properties. A royalty of 5% of the gross proceeds of the sale of commodities produced from the Mill, to a maximum amount of \$12.5 million, is also payable.

Under the terms of an exclusivity agreement with Rio Tinto Energy America, Inc., Uranium One obtained the exclusive right to negotiate the purchase of the Sweetwater Uranium Mill and associated properties in Wyoming in consideration of a closing payment of \$110 million, of which \$65 million is payable in cash and the balance by way of 6.1 million Uranium One shares. Uranium One will also issue the vendor 2.5 million common share purchase warrants exercisable between September 1, 2007 and September 30, 2010 at a price of approximately Cdn\$9.50 per share and will pay a 1% gross royalty to the vendor on revenue generated from the sale of uranium produced from the acquired assets. Uranium One has also agreed to make certain post-closing payments to the vendor depending on the level of uranium prices in the first five years of commercial production from the acquired assets, to a maximum value of \$40 million.

Uranium One is currently engaged in due diligence on the proposed acquisitions and, except for the payment terms referred to above, has not yet negotiated the terms of definitive acquisition documentation with the respective vendors.

### Dominion Uranium Project

The Dominion Uranium Project is situated in the North West Province of South Africa, approximately 150 kilometres west-southwest of Johannesburg. The Dominion Uranium Project is a brownfields development project consisting of the Dominion and Rietkuil sections which include two former uranium and gold mining operations. Construction of the Dominion uranium mine was approved in 2005 by Aflease Gold and Uranium Resources Limited.

#### Resources

During the quarter, surface exploration drilling continued in the areas of the Dominion project held under prospecting rights. A revised mineral resource statement audited by SRK Consulting was announced by Uranium One on June 14, 2006 during the previous quarter. The revised mineral resource estimate is 25,990,000 tonnes at a grade of 0.83 kg/t containing 47,492,000 pounds U<sub>3</sub>O<sub>8</sub> in the indicated category (a 195% increase from the 16,121,000 pounds U<sub>3</sub>O<sub>8</sub> previously reported) and 178,422,000 tonnes at a grade of 0.51 kg/t containing 199,193,598 pounds U<sub>3</sub>O<sub>8</sub> in the inferred category (a 36% increase from the 146,608,000 pounds U<sub>3</sub>O<sub>8</sub> previously reported). The average grade of the uranium resource has decreased from 0.99 kg/t to 0.83 kg/t in the indicated category and from 0.66 kg/t to 0.51 kg/t in the inferred category. The decrease in the average grade reflects the results

of Uranium One's exploration drilling program conducted in 2005 and 2006 (to April 15, 2006) and a decrease in the cut-off grades applied from 0.49 kg/t to 0.21 kg/t at Dominion and from 0.49 kg/t to 0.32 kg/t at Rietkuil. The decrease in average uranium grades is not considered significant.

In addition, the revised resource estimate shows a gold resource at Dominion of 25,990,000 tonnes at a grade of 1.09 g/t containing 910,000 ounces gold in the indicated category (a 163% increase from the previously reported indicated resource) and 178,422,000 tonnes at a grade of 0.63 g/t containing 3,614,000 ounces in the inferred category (a 63% increase from the previously reported inferred resource).

The information respecting the reported mineral resource at Dominion is derived from a technical report entitled "Dominion Uranium Project, North West Province, Republic of South Africa" dated August 1 2006 and amended on October 26, 2006, prepared by Dr. Michael Harley and Roger Dixon of SRK Consulting (South Africa) (Pty) Limited (the "Dominion Technical Report") and available for review on SEDAR at [www.sedar.com](http://www.sedar.com). The authors are independent qualified persons within the meaning of NI 43-101.

Surface exploration drilling at the project is continuing. A total of 24 drill rigs are committed to this work and are achieving approximately 10,000 metres of diamond core per month. The majority of the drilling is taking place on the Dominion and Rietkuil sections of the project, where drilling is primarily focused on converting resources from the inferred category to the indicated category through further extension and delineation of already identified higher-grade pay shoots to depths greater than 500m. In addition, drilling into the deeper zones of the deposit has commenced, with a view to delineating additional inferred resources and identifying new, higher-grade pay shoots. A total of 60,364 metres (183 boreholes) of diamond core have been drilled on the Dominion Uranium Project to September 8, 2006. Three of the 24 rigs are conducting resource delineation drilling in areas of the project where gold is expected to be the primary product, namely the Inner/Outer Basins, Bonanza Basin and Bonanza South.

Uranium One has been granted additional prospecting rights in the vicinity of the Dominion Uranium Project by the South African Department of Minerals and Energy. These rights, which are in the process of being notarially executed, contain extensions to already identified deposits at Dominion.

#### *Feasibility Study and Probable Reserves*

On July 28, 2006, Uranium One announced the details of the Phase I Feasibility Study for the Dominion Uranium Project, as well as a conceptual study for Phase II of the project, which considered a 30 year mine life. As part of the feasibility study, a probable reserve was declared of 18,454,000 tonnes at a grade of 0.77 kg/t containing 31,327,000 pounds of U<sub>3</sub>O<sub>8</sub>.

Phase I of the feasibility study was based only on probable reserves and did not include any inferred resources. The feasibility study evaluated Phase I as an underground mine utilizing a metallurgical plant with a designed production capacity of 200,000 tonnes per month. The uranium processing plant will be integrated with the existing carbon-in-leach gold plant located at Bonanza. During Phase I, the Dominion Uranium Project is expected to process 18.5 million tonnes through the mill at an average mill head grade of 0.77 kg/t of U<sub>3</sub>O<sub>8</sub> and recover a total of 27.2 million tonnes of U<sub>3</sub>O<sub>8</sub> and 0.5 million ounces of gold. Phase I of the project is designed to treat 2.4 million tonnes per annum, yielding an annual average of 3.8 million pounds of U<sub>3</sub>O<sub>8</sub> during steady state production (expected to occur between 2011 and 2014), with a maximum production of 4.3 million pounds of U<sub>3</sub>O<sub>8</sub> in 2012. The metallurgical recovery determined for Phase I of the Dominion Project averages 87% for U<sub>3</sub>O<sub>8</sub> and 89% for gold. The average cash operating cost over the life of Phase I is expected to be \$14.50 per pound U<sub>3</sub>O<sub>8</sub>, net of gold by-product credits.

The total estimated construction capital to establish the full design capacity of 200,000 tonnes per month for Phase I by the end of 2007 is \$179.8 million. Of this amount, \$152 million (including the \$81.5 million spent to September 30, 2006) is the start up construction capital which will be spent prior to the commencement of production in Q1 2007. Ongoing capital over the life of Phase I which will be incurred from January 1, 2008 onwards amounts to \$63.8 million.

The total royalties payable (starting from May 1, 2009) at rates of 2% and 3% for uranium and gold, respectively, as per draft legislation proposed by the government of South Africa in 2003 are estimated to be \$44.9 million. The South African government has recently issued a proposal to alter the proposed royalty rates to 1.5% for refined gold and uranium oxide. The total taxes payable are estimated to \$341 million, based on the sliding scale of taxes under current South African legislation. The total real cash flow is estimated to be \$375.1 million.

The feasibility study used as a base case a U<sub>3</sub>O<sub>8</sub> price of \$46.50/lb, a gold price of \$629/oz and an exchange rate of South African Rand ("ZAR") 6.585 per US dollar.

The ZAR/US dollar exchange rate on November 8, 2006 was ZAR7.29 and the spot price of uranium oxide was \$60.25 per pound, which is higher than the assumptions used in the feasibility study. The closing spot price of gold was \$623 per ounce on November 8, 2006. The average spot price of gold during the quarter was \$621 per ounce, which is less than the estimated price of \$629/oz used in the feasibility study.

Because the majority of Uranium One's costs are in ZAR and the company's Uranium One Africa subsidiary is required by the South African Reserve Bank to convert the proceeds of gold sales to ZAR, the gold price used in the feasibility study was first determined in ZAR and then converted into US dollars at the currency exchange rate of ZAR6.585 to \$1.00.

The after-taxation, internal rate of return ("IRR") for Phase I is estimated to be 32%, the after-tax net present value ("NPV") is estimated to be \$184 million at an 8% discount rate, and project payback from the commencement of Phase I construction is estimated to be five years.

Phase II of the Dominion Uranium Project has been designed to maintain the throughput of the project at 200,000 tonnes per month. Phase II contemplates mining the remaining indicated resources as well as a portion of the inferred resources at Dominion, resulting in a total mine life of 30 years. Further information respecting the feasibility study and Phases I and II is contained in the Dominion Technical Report.

#### *Development*

During the quarter, at the Rietkuil section, development of the Rietkuil 1 (R1) decline continued with 442 metres developed in the quarter. The Rietkuil incline shaft has been dewatered and re-commissioned to 5 level. Development operations have commenced on 4 level. At the Dominion section, development of the Dominion 1 (D1) and Dominion 2 (D2) declines continued with 265 metres developed in D1 and 87 meters developed in D2 for the quarter. Mining operations are on schedule to commence production in the first quarter of 2007.

Construction of the new uranium plant is in progress. The earthworks are complete and the associated civil works and mechanical erection of the uranium processing plant are in progress. The erection of the first thickeners is nearing completion. The first autoclave has been delivered and erected. Cold commissioning of the plant commenced on August 31, 2006, three months ahead of schedule. The uranium plant program required for commissioning in Q1 2007 is currently 81% complete. The expenditure to date and the anticipated timing and costs are in line with the project plan.

Uranium One was informed on October 11, 2006 that the South African Department of Mineral and Energy Affairs had granted its application to convert its existing prospecting right over the Dominion Project into a mining right. The mining right was notarially executed on October 28, 2006.

The Department of Water Affairs and Forestry has approved a water use license for the project. Discussions are proceeding with the National Nuclear Regulator with regard to the issuing of a certificate of registration. All surface rights necessary for the establishment of Phase I of the Dominion Uranium Project have been purchased or secured.

#### *Bonanza Gold Project*

The Bonanza Gold Project is adjacent to the Dominion Uranium Project. The Bonanza Gold Project is a small, primary gold project with secondary uranium by-product potential and is operated as a component of the Dominion Uranium Project. In line with Uranium One's requirement of expediting the development of the Dominion Uranium Project, equipment and trained production crews have been relocated from the Bonanza Gold Project to development areas at Dominion. The Bonanza section will continue to be used as a training area in order to provide trained staff for the development of the R1, D1 and D2 declines.

The CIL gold plant is undergoing an upgrade to re-establish its capacity to process 200,000 tonnes per month and is in the process of being integrated into the new uranium plant. As a consequence, the plant will only be available for batch treatment of gold ore from the Bonanza Project. For the balance of 2006, ore mined from Bonanza will therefore be stockpiled and processed on a batch basis to the extent processing capacity is available. Production from Bonanza will eventually be displaced by ore from the Dominion Uranium Project. In light of this, all main development operations at Bonanza have been stopped. During the quarter, 15,890 tonnes were milled at a head grade of 2.17 g/t, producing 34,547 kg (1,111 ounces) of gold.

#### **Honeymoon Uranium Project**

The Honeymoon Uranium Project is located in north-east South Australia, approximately 75 kilometres northwest of Broken Hill on mining lease 6109. The mining lease has a term of 21 years from February 27, 2002.

During the quarter, an updated mineral resource estimate and a feasibility study were published on the Honeymoon Uranium Project. Based on the results of the feasibility study, Uranium One's board of directors approved the development of the Honeymoon Uranium Project on August 28, 2006.

#### *Resources and Feasibility Study*

An updated resource estimate for the Honeymoon project was completed in June 2006. The updated estimate shows an indicated resource of 1,200,000 tonnes at an average grade of 0.24% U<sub>3</sub>O<sub>8</sub> containing 2,900 tonnes (6.5 million pounds) of U<sub>3</sub>O<sub>8</sub>.

The resource estimate was included in a cost and engineering feasibility study completed by Aker Kvaerner Australia and Mayfield Engineering in July 2006. An independent technical report summarizing the feasibility study, entitled "Honeymoon Uranium Project – Summary of Feasibility Study 400 tpa U<sub>3</sub>O<sub>8</sub> Equivalent" dated July 31, 2006 prepared by Victor J. Absolon, Colin E. Bazeley, Glenn Jobling and Phillip D. Bush of Mayfield Engineering Pty Ltd., Peter J. Bartsch of Aker Kvaerner Australia and Kenneth F. Bampton of Ore Reserve Evaluation Services, is available for review on SEDAR at www.sedar.com. The authors are independent qualified persons within the meaning of NI 43-101.

The feasibility study evaluated the Honeymoon Uranium Project as an in situ leach mine with an annual production rate of 400 tpa U<sub>3</sub>O<sub>8</sub> equivalent. The project has a life of approximately seven years, including the initial construction period; the actual mine life is between five and six years. The total estimated cost of the Honeymoon Uranium Project is \$35.9 million, comprising \$23.6 million in direct capital costs and \$4.2 million in indirect capital costs and \$8.1 million in owner's capital costs.

The feasibility study used as a base case a U<sub>3</sub>O<sub>8</sub> price of \$46.50/lb and an exchange rate of 0.75 US dollars per Australian dollar. The after-tax IRR for the Honeymoon Project is estimated to be 40%; the base case produces a project NPV of \$38 million at an 8% discount rate, and a payback period of 2.9 years from the commencement of construction.

#### *Project Progress*

Work is proceeding on infrastructure for the Honeymoon Uranium Project. Staff quarters to provide on-site accommodation for 50 employees have been ordered along with transportable buildings to provide additional office space. The water treatment plant has been ordered. Design work on the access road is under way. Specifications on the power supply are being prepared by the electricity authority in Broken Hill, N.S.W. and easements for the power line are being sought from the relevant land holders.

The Australian Nuclear Science and Technology Organisation has been contracted to run an ion exchange pilot plant at the Honeymoon site to determine whether this technology should be incorporated into the Honeymoon plant design. Bateman Advanced Technologies has been contracted to provide cost data on pulsed solvent extraction columns for the project.

In addition to its mining lease, Uranium One holds a uranium export licence and in September 2006 received the licence required under the South Australian Radiation Protection and Control Act (1982) for commercial uranium mining operations at Honeymoon. During the quarter, a number of plans and programs were submitted in draft form to the relevant regulatory authorities. Approval of the final plans will be required prior to mining and it is anticipated that this approval will be granted before the planned commencement of operations.

#### *Exploration Projects*

Uranium One has recently entered into a new native title agreement with the Adnyamathanha People under Part 9B of the *Mining Act 1971* (South Australia) in respect of various exploration and mining retention licences. This agreement has not yet been lodged with the Mining Registrar for registration. As a direct result of this agreement a cultural heritage assessment was undertaken by a team consisting of representatives from the Adnyamathanha People and Uranium One together with a specialist heritage/anthropological consultant at the Billeroo property.

Drilling has commenced and is still ongoing at Billeroo. Approximately 80 of the planned 100 (totalling 13,000 metres) holes designed to scope the potential and validate the previously published inferred resource of 12.0 Mt at a grade of 0.03% containing 3,600 tonnes (7.9 million pounds) U<sub>3</sub>O<sub>8</sub> have been completed. It is anticipated that drilling will be completed and all results processed during the fourth quarter of 2006.

278 gravity stations were collected over the Ethiudna property which is held in joint venture with Equinox Resources. A HOISTEM helicopter-borne electromagnetic survey is planned for November 2006.

Renewals for the majority of the Stuart Shelf licences were submitted to the Department of Primary Industries and Resources of South Australia ("PIRSA") seeking special exemption from mandatory partial relinquishment due to under-expenditure.

A SEARCH IP survey is scheduled to commence in late October 2006 over the Driver River uranium anomalies on the Karkarook property to refine a drill target. Underdale Drillers have also been contracted to drill one nominal 500 metre core hole into the anomaly in November 2006. This drill hole will be undertaken with a 50% government PACE subsidy.

A renewal for the 37,900 hectare exploration licence for the South Eagle property was also lodged with PIRSA during the quarter.

### **Aflease Gold Limited**

Aflease Gold has a primary listing on the Johannesburg stock exchange and a level one ADR listing. Aflease Gold is engaged in the exploration and development of gold resource properties in South Africa and Namibia. The Company's principal property is the Modder East Gold Project in the East Rand gold fields of South Africa's Witwatersrand Basin. As indicated above, Aflease Gold has recently entered into an agreement to sell an undivided 26% interest in the Modder East Gold Project pursuant to a Black Economic Empowerment transaction. Uranium One and Aflease Gold have agreed that Aflease Gold will be solely responsible for funding the development of Aflease Gold's assets, including the Modder East Gold Project.

#### *Modder East Gold Project*

The Modder East Gold Project is located approximately 30 kilometres east of Johannesburg, South Africa.

In May 2006, Aflease Gold decided to develop the Modder East Gold Project into a mine and commenced the initial phase of construction. In August 2006, an updated mineral resource and reserve estimate and a feasibility study prepared by Turgis Consulting Pty Ltd. were published on the project and, in light of the results of that study, the Aflease Gold board approved full implementation of the Modder East Gold Project.

The current resource estimate shows an indicated mineral resource of 22,270,000 tonnes at a grade of 2.79 g/t containing 2.0 million ounces of gold and an inferred resource of 12,670,000 tonnes at a grade of 2.50 g/t containing 1.02 million ounces of gold. Probable mineral reserves for the Modder East Project are estimated to be 6,680,000 tonnes at a grade of 5.00 g/t containing 1.07 million ounces of gold.

The information respecting the reported mineral resources and mineral reserves at Modder East is derived from a technical report entitled "An Independent Technical Report on the Modder East Gold Project Located Near Springs, Gauteng Province, Republic of South Africa" dated August 31, 2006 and amended on October 26, 2006, prepared by H.G. Waldeck and M. Wanless of SRK Consulting (South Africa) (Pty) Limited and Dr. J.F. Couture of Steffen Robertson and Kersten (Canada) Inc. (the "Modder East Technical Report") and available for review on SEDAR at [www.sedar.com](http://www.sedar.com). The authors are independent qualified persons within the meaning of NI 43-101.

The feasibility study evaluated the Modder East Gold Project as an underground mine with a CIL gold plant with a designed production capacity of 840,000 tonnes per year. Aflease Gold plans to exploit the Black Reef at depths of 300m and UK91 Kimberley Reef at depths of between 300 and 530 m. The mining method will be a combination of trackless (off reef) and conventional (on reef), with the mining infrastructure placed in the footwall of the two reefs. Access to the ore body will be by a trackless decline from surface. The Black Reef and the Blanket Facies reefs are expected to be mined simultaneously.

The mine is expected to process 6.7 million tonnes of ore through the plant over a ten year mine life, at an average mill head grade of 5.0 g/t of gold, producing approximately 948,000 ounces of gold. First production of ore (from on-reef development) is expected to occur in October 2008 with steady state production of 70 ktpm (producing an average 110,000 ounces of gold per annum) to be achieved between 2010 and 2015.

Total project capital expenditure is expected to be \$107.8 million. Ongoing capital and closure costs are expected to be \$6.5 million and \$2.1 million, respectively. The feasibility study assumed a royalty rate of 3% for gold as per draft legislation proposed by the government of South Africa in 2003. The South African government has recently issued a proposal to alter the proposed royalty rates to 1.5% for refined gold.

The feasibility study used as a base case a gold price of \$629/oz and an exchange rate of ZAR 6.585 per US dollar. On November 8, 2006, the ZAR/US dollar exchange rate was ZAR7.29 and the spot price of gold \$623/oz. The average spot price of gold during the quarter was \$621 per ounce, which is less than the estimated price of \$629/oz used in the feasibility study. Because of South African Reserve Bank requirements to convert the proceeds of gold sales to ZAR, the gold price used in the feasibility study was first determined in ZAR and then converted into US dollars at the currency exchange rate of ZAR6.585 to \$1.00.

At a real discount rate of 8%, the Modder East Gold Project is estimated to yield a NPV of \$74 million and an internal rate of return of 31%. It is estimated that the Modder East Gold Project should achieve a payback within 4.5 years from the start of decline development and construction. Project payback is expected to be less than two years from the start of on-reef development.

#### *Modder East Progress*

Implementation of the project commenced on May 18, 2006 and has advanced significantly with mine site infrastructure nearing completion.

The portal of the decline was completed during the quarter, ensuring that the 40 metre deep mine entrance was completed before commencement of the rainy season. Trackless decline development was initiated from the base of the portal excavation and has advanced a total of 150 metres to date.

The run-of-mine water dams, access roads, change house, control room, offices and explosives magazines have been completed. The trackless vehicle workshop and lamp room construction are in the final stages of completion. The mine site has been linked to the municipal water and electricity reticulation and is now fully geared in these aspects, with the sewage system in an advanced stage of completion. Site security infrastructure including high mast lights, fencing and guard posts has been completed and the security strategy has been implemented. The initial workforce has been recruited and trained and the trackless vehicles for the start-up development have been secured.

An amended environmental management program is being finalized for submission to the South African regulatory authorities before the end of 2006. The amended environmental management program is required as the scope of the project has increased and changed significantly compared to that initially envisaged and for which the existing environmental management program was approved. The amended environment management program is also necessary for the conversion of the existing "old order" mining right to a "new order" mining right.

The project is expected to be completed on schedule, with the first gold pour in the third quarter of 2009.

#### *Aflease Gold Exploration*

Aflease Gold is continuing to carry out exploration programs and resource estimations (where the project is sufficiently advanced) for its projects, namely Modder East, Sub Nigel, New Kleinfontein and Turnbridge, Ventersburg in South Africa and Etendeka in Namibia.

## SELECTED FINANCIAL INFORMATION

The table below sets out selected financial data relating to Uranium One's quarter and nine months ended September 30, 2006. This financial data is derived from the unaudited consolidated financial statements, which are prepared in accordance with Canadian GAAP. All figures are in thousands of US dollars, except per share amounts; earnings per share data is presented in cents.

	Quarter ended September 30, 2006	Nine months ended September 30, 2006
Total gold sales	680	2,622
Net profit / (loss)	2,361	(19,512)
Net profit / (loss) per share – basic	2.11	(18.07)
Net profit / (loss) per share – diluted	1.94	(18.07)
Total assets	355,638	355,638
Long term financial liabilities	34,296	34,296
Short term financial liabilities	65,020	65,020

## RESULTS OF OPERATIONS

### Revenue and operation results of gold production

Uranium One produced and sold 34.5kg (1,111 oz) of gold from the Bonanza Gold Project during the quarter ended September 30, 2006, and 119.9kg (3,871 oz) during the nine months ended September 30, 2006, of which 7kg (225 oz) was declared as gold sold from 2005 gold-in-process.

Revenue from gold production was \$0.7 million for the quarter ended September 30, 2006 and \$2.6 million for the nine months ended September 30, 2006. The decline in the gold price during the quarter had a negative effect on revenue from gold production as evidenced in the average price at which the gold sales took place, which was \$612 for the quarter and \$677 for the nine months ended September 30, 2006.

For the quarter ended September 30, 2006, the cost of gold production was \$1,433/oz. The cost of gold production for the nine months ended September 30, 2006 was \$1,596/oz. The high cost of production for the nine months was due to high unit cost as the gold plant was inoperative for extended periods during 2006. The gold plant was inoperative in January and February as a result of a breakdown of the primary jaw crusher and the plant was taken out of production intermittently during its integration into the Dominion uranium plant. During the second and third quarters, grades have improved as a result of mining operations being focused on high grade deposits. For the quarter ended September 30, 2006, the loss from gold production was \$0.9 million, with a loss of \$3.6 million for the nine months ended September 30, 2006.

### **General and administrative expenditure**

Expenditure for the quarter ended September 30, 2006 was \$3.7 million and \$9.8 million for the nine months ended September 30, 2006, which is in line with expectations. The major components of general & administrative expenditure consisted of salaries, consulting fees and legal fees.

### **Projects and exploration expenditure**

Exploration expenditure is included in the operating loss, and was \$1.3 million for the quarter ended September 30, 2006 and \$5.3 million for the nine months ended September 30, 2006. The expenditure for the quarter consists of the expenditure of \$0.3 million on the Honeymoon Uranium Project and other Australian projects and \$1.0 million on various exploration projects in South Africa. Uranium One has a strong commitment to continue to grow its exploration portfolio, focusing on highly prospective uranium targets in Australia, Canada, South Africa and the United States of America which have the potential to directly add value to the company.

### **Operating loss**

Operating losses for the quarter ended September 30, 2006 of \$7.2 million included the loss from gold production of \$0.9 million, general and administrative expenditure of \$3.7 million and exploration expenditure of \$1.3 million as discussed above. Share option and restricted share right expenses of \$1.6 million are also included in the operating loss. Sundry income of \$0.3 million was received for the quarter.

Operating losses for the nine months ended September 30, 2006 of \$26.7 million included the loss from gold production of \$3.6 million, general and administrative expenditure of \$9.8 million and exploration expenditure of \$5.3 million as discussed above. Share option and restricted share right expenses of \$8.6 million are also included in the operating loss. Sundry income received during the nine months totalled \$0.6 million.

### **Finance cost**

Net finance income (calculated as interest received less interest paid) amounted to \$0.3 million for the quarter ended September 30, 2006 and \$1.8 million for the nine months ended September 30, 2006. Interest received increased in the current quarter to \$1.1 million, due to the investment of the proceeds from a \$147.7 million private placement completed in February 2006 and interest earned on the proceeds of a Nedcor Securities loan advanced in August 2006. The proceeds are primarily being used to fund the development of the Dominion Uranium Project and the cash balances will therefore reduce in future quarters as the capital is spent. Finance costs related predominantly to servicing of debt, the cost of equipment used in Uranium One's operations and the short-term loans from Nedcor Securities.

Indebtedness under a February 2005 Nedcor Securities facility decreased from \$1.0 million on December 31, 2005 to \$0.2 million at the end of the quarter. The amount outstanding under the August 2006 Nedcor facility was \$45.5 million as at September 30, 2006.

### **Taxes**

There have been no material changes to Uranium One's disclosure regarding taxes since March 31, 2006.

## **DISCUSSION OF CASH FLOWS**

Cash outflow from operating activities was \$8.6 million for the quarter ended September 30, 2006, and \$36.0 million for the nine months ended September 30, 2006. For the quarter ended September 30, 2006, the cash inflow from gold sales of \$0.7 million, sundry income of \$0.3 million, interest received of \$1.1 million and a realized foreign exchange gain of \$4.1 million (\$2.1 million plus an unrealized loss of \$2.0 million), is offset by the cash cost of sales of \$1.5 million, general and administrative expenditure of \$3.7 million, exploration expenditure of \$1.3 million, interest paid of \$0.8 million and a movement in working capital of \$7.6 million. The movement in working capital consists of a positive movement in trade and other payables of \$1.9 million, less movements on trade receivables and prepayments of \$7.7 million, an increase in inventory of \$1.4 million and an increase in rehabilitation on closure cost obligations of \$0.4 million.

For the nine months ended September 30, 2006, the cash inflow from gold sales of \$2.6 million, sundry income of \$0.6 million and interest received of \$3.4 million, is offset by the cash cost of sales of \$5.8 million, general and administrative expenditure of \$9.8 million, exploration expenditure of \$5.3 million, interest paid of \$1.6 million, a realized foreign exchange loss of \$10.1 million (\$12.1 million less an unrealized loss of \$2.0 million) and a movement in working capital of \$10.0 million. The movement in working capital consists of a positive movement in trade and other payables of \$3.2 million, less movements on trade receivables and prepayments of \$11.4 million, a movement of \$1.3 million on inventory and movements on rehabilitation and closure cost obligations of \$0.5 million.

On February 17, 2006, Uranium One completed a private placement of 22,300,000 common shares at a price of \$6.64 (Cdn \$7.65) per share, for gross proceeds of \$147.7 million (Cdn \$170.6 million). The net proceeds of \$139.6 million (Cdn \$161.2 million), after 5.5% agents' commission of

\$8.1 million (Cdn \$9.4 million), were utilized primarily for the development of the Dominion Uranium Project, corporate expenditure and further corporate development. The private placement was denominated in Canadian dollars.

On August 29, 2006, Uranium One completed a financing transaction for ZAR350 million (approximately \$45.1 million) on the security of its investment in Alease Gold by means of a futures-related term facility entered into with Nedcor Securities of South Africa. The August 2006 Nedcor Securities facility has a 12-month term and may be terminated at any time. The facility currently bears interest at the ZAR rate of 9% per annum, adjusted in terms of a formula which is influenced by the movement in the Alease Gold share price. During the term of the facility, Uranium One Africa remains entitled to vote its shares in Alease Gold and to receive the benefit of any dividends or distributions paid on such shares. The facility has been drawn down in full.

During the nine months ended September 30, 2006, Alease Gold issued 49.6 million shares in several private placements for net proceeds of \$16.6 million. Uranium One's equity interest in Alease Gold decreased from 79.92% to 71.56% during this period, as the shares were placed with non-controlling shareholders of Alease Gold to finance the development of the Modder East Gold Project. In June 2006, Alease Gold entered into a share exchange agreement with a South African institution under which it will acquire at its election, subject to certain conditions, between 7.5 million and 13 million shares of Randgold and Exploration Ltd. ("Randgold") in consideration for the issuance of Alease Gold treasury shares. If completed, this transaction would result in the interest of Uranium One being decreased to between 60.0% and 64.4%.

A decrease in the February 2005 Nedcor Securities loan during the nine months ended September 30, 2006 by the amount of \$0.8 million and the repayments on finance leases of \$1.4 million reduced the cash inflow from financing activities to \$199.9 million.

Uranium One wrote down the value of shares of Randgold owned by it to zero as at December 31, 2005. The Randgold shares are traded on the OTC market in the United States where the closing price was \$2.38 per share on November 3, 2006. The finance raised against the investment as at September 30, 2006 was \$0.2 million (December 31, 2005: \$1.0 million).

Other cash flow items during the three months ended September 30, 2006 consisted of a cash investment of \$24.9 million, mostly in the development of the Dominion Uranium Project and to a lesser extent the Honeymoon Uranium Mine.

Other cash flow items during the nine months ended September 30, 2006 included the cash acquired through the reverse take-over of Sub Nigel Limited amounting to \$1.9 million and a cash investment of \$56.3 million, primarily in the development of the Dominion Uranium Project.

The weakening of the South African Rand had a significant effect on Uranium One's cash flow statement during the nine months ended September 30, 2006, as reflected in the \$20.9 million effect of exchange rates on cash balances held in foreign currencies. At September 30, 2006 67% of Uranium One's cash balances were in South African Rand, in line with expected capital expenditure on the Dominion Uranium Project. Uranium One is also subject to foreign exchange rate risk in respect of Australian dollars. Uranium One does not currently utilize any hedging programs to limit any adverse effects of foreign exchange rate fluctuations.

## **DISCUSSION OF FINANCIAL POSITION AND LIQUIDITY**

### **Cash and non-cash assets**

Cash balances available at September 30, 2006 increased to \$98.2 million (December 31, 2005 - \$10.9 million), primarily due to increased financing and capital raising activities.

Accounts receivable increased to \$20.2 million at September 30, 2006 (December 31, 2005 - \$8.8 million). The increase was largely due to the issue of guarantees in respect of the acquisition of properties for the development of the Dominion Uranium Project and the increase in value-added tax owed to Uranium One, attributed to the increased spending on the construction of the Dominion Uranium Project.

Non-current assets increased to \$235.1 million at September 30, 2006 (December 31, 2005 - \$158.5 million). The increase is related to capital expenditure on the development of the Dominion Uranium Project and the Honeymoon Uranium Project of \$56.3 million, the fair value of the assets acquired during the reverse acquisition of Sub Nigel Limited in January 2006 of \$18.5 million (consisting of the carrying value of property, plant and equipment of \$0.8 million and the fair value of undeveloped properties of \$17.7 million), and additions to motor vehicles and office equipment of \$0.3 million.

### **Investing activities**

Uranium One wrote down its investment in Randgold to zero as at December 31, 2005.

### **Financing activities**

Interest-bearing long and short-term borrowings (consisting of the long and short-term portions of finance leases and the short-term loans from Nedcor Securities) totalled \$47.3 million at September 30, 2006 (December 31, 2005 - \$4.0 million). The increase was mainly due to the short term finance raised through the August 2006 Nedcor Securities facility of \$45.5 million, offset by a decrease in the February 2005 Nedcor Securities short-term loan of \$0.8 million and repayments on finance leases of \$0.8 million. The balance of the long and short-term liabilities, namely accounts payable and accrued liabilities, the asset retirement obligation and the future taxation liability, are not interest bearing.

### **Total liabilities**

Total liabilities increased to \$99.3 million at September 30, 2006 (December 31, 2005 - \$44.3 million), due to the short term finance raised against the Alease Gold investment of \$45.5 million, an increase in future tax liability of \$8.8 million (in respect of the capital gain on the disposal on New Kleinfontein Mining Company and the future tax liability on the revaluation of undeveloped properties in the Alease Gold transaction) and the increase in accounts payable of \$3.2 million during the nine month period. The increases were offset by a decrease of \$1.4 million in finance lease obligations and a decrease in the February 2005 Nedcor Securities loan of \$0.8 million.

### **Shareholders' equity**

Shareholders' equity increased to \$248.2 million at September 30, 2006 (December 31, 2005 - \$134.6 million) as the share issuances and the increase in contributed surplus (due to share option expenses) during the period offset the loss of \$19.5 million and the decrease in the foreign currency translation reserve of \$17.3 million. The decrease in the foreign currency translation reserve can primarily be attributed to the significant weakening of the South African Rand during the period.

### **Liquidity and capital resources**

Uranium One maintains a strong balance sheet and has sufficient liquidity and capital resources to fund its current commitments.

As at September 30, 2006, the capital commitments in respect of the Dominion Uranium Project were \$23.7 million to further the development of the mine and processing plant. The capital commitments in respect of the Honeymoon Uranium Mine were \$0.6 million. No other significant commitments existed on September 30, 2006.

The cash resources of Uranium One which amounted as at September 30, 2006 to \$86.9 million (\$98.2 million as disclosed in the financial statements, less \$11.3 million held by Alease Gold) and interest earned on these cash balances will be utilized to cover existing commitments in respect of the Dominion Uranium Project and the Honeymoon Uranium Project.

Further capital expenditure, for which no current commitments exist, of \$24.9 million will be required to advance development of the Dominion Uranium Project up to hot commissioning in the first quarter of 2007. An additional \$40.9 million (including \$5.6 million for working capital related cost), for which no current commitments exist, will be required to advance development of the Honeymoon Uranium Project up to hot commissioning in 2008.

As a result of the financing completed in October 2006 as described under "Subsequent Event" below, Uranium One will not require additional funding to progress the Dominion Uranium Project and the Honeymoon Uranium Project up to hot commissioning.

Cash requirements to fund the development of projects, provide working capital to operations, including corporate expenditure, settle the purchase price of acquisitions, including the cash component payable on the closing of the purchase of the Sweetwater Uranium Mill and related assets referred to above, and fund exploration projects are taken into account when considering Uranium One's funding strategy.

Consideration will be given to the mix and relative cost of capital resources when evaluating further sources of funding. Prospective sources of additional funding include equity financing, debt financing and exercise of stock options and warrants. Uranium One's ability to raise capital is highly dependent upon the commercial viability of its projects and the underlying prices of uranium and gold. Uranium One will not begin earning income from the sale of uranium until the Dominion Uranium Project is brought into production.

During the quarter, Uranium One Africa retained ABSA Group Limited, a member of the Barclays Group, to arrange a project finance facility for the company of approximately \$75 million. The availability of such funding will be dependent on further evaluation of the project by ABSA and the extent to

which commercial banks are prepared to provide the company with finance under the proposed facility on terms attractive to the company or at all. Uranium One's liquidity position could be influenced if margin calls in excess of ZAR175 million are made in respect of Uranium One Africa's futures position under the August 2006 Nedcor facility. A margin call may be made if Alease Gold's share price declined to approximately ZAR1.65 per share. In the period since the facility was drawn down, Alease Gold's share price has strengthened, closing at ZAR3.00 per share on November 8, 2006.

Declines in the prices for uranium and gold may negatively impact Uranium One's ability to raise additional funding and Uranium One currently does not employ any mechanisms to manage its exposure to price fluctuations. Other risk factors, for instance Uranium One's ability to develop its projects into commercially viable mines, international uranium industry competition, public acceptance of nuclear power and governmental regulation can also adversely affect Uranium One's ability to raise additional funding. There is no assurance that additional sources of funding, if required, will be forthcoming.

Alease Gold is not funded by Uranium One and it currently discharges its responsibility to fund itself by issuing shares through its listing on the Johannesburg stock exchange. Alease Gold committed \$4.0 million towards the development of the Modder East Gold Project as at September 30, 2006. Cash of \$11.3 million and ongoing share placements to shareholders other than Uranium One will fund the further development of the Modder East Gold Project.

Alease Gold has retained N M Rothschild Et Sons to arrange a project finance facility for the company. It expects to be able to raise approximately ZAR300 million in project finance on the project dependent on further project evaluation and pricing available to the company by commercial banks.

## SUMMARY OF INTERIM INFORMATION

The table below sets out selected financial data for the periods indicated. During the year ended December 31, 2005, in accordance with the rules of the Johannesburg stock exchange applicable to developmental companies, Uranium One Africa Limited (formerly Alease Gold and Uranium Resources Limited) prepared half-yearly, and not quarterly, interim financial statements. Information for that period is accordingly presented for the six month periods ended September 30, 2005 and 2004 and for the six month periods ended December 31, 2005 and 2004 as it is impracticable to present quarterly interim financial information. The financial data presented is derived from Uranium One's unaudited financial statements, which are prepared in accordance with Canadian GAAP. All figures are in thousands of US dollars, except per share amounts; earnings per share data is presented in cents.

	Three months ended			Six months ended		Six months ended	
	Sep 30,	June 30,	March 31,	Dec 31,	June 30,	Dec 31,	June 30,
	2006	2006	2006	2005	2005	2004	2004
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Total gold sales	680	921	1,021	2,730	-	250	1,642
Net profit / (loss)	2,361	(19,963)	(1,910)	(34,719)	(7,021)	(10,673)	(4,090)
Net profit / (loss) per share - basic	2.11	(17.84)	(1.91)	(27.34)	(31.33)	(24.64)	(10.45)
Net profit / (loss) per share - diluted	1.94	(17.84)	(1.91)	(27.34)	(31.33)	(24.64)	(10.45)

Discrepancies between budgeted gold production levels and actual production achieved at Bonanza is primarily due to delayed development resulting from encountering difficult ground conditions, water intersections and complex geology. While efforts to develop through these ground conditions have met with some success, the CIL plant at Bonanza is in the process of being integrated into the new uranium plant. As a consequence, for the balance of 2006 ore mined from Bonanza will be stockpiled and processed on a batch basis to the extent processing capacity is available.

## OUTLOOK

During the fourth quarter of 2006 and into 2007, the Company will remain focused on progressing its principal uranium projects to commercial production, in the case of Dominion, in the first quarter of 2007, and in the case of Honeymoon, in 2008. The Company will not require additional funding to bring these projects to the hot commissioning stage. The Company intends to take full advantage of what it expects will be a continuing favourable commodity price environment by selling most of its uranium into the spot market and remaining unhedged.

Subject to the satisfactory completion of its due diligence inquiries with respect to the Sweetwater and Shootaring Canyon uranium mills and related assets, the Company will continue to work towards settling definitive documentation and, subject to the receipt of all required regulatory and other approvals, completing these acquisitions. In addition, the Company will continue to seek to increase its mineral resources, both through additional exploration and drilling programs on its current properties and tenures and through acquisitions, and to move its projects from exploration and development to production, in order to generate cash flow to sustain further exploration and acquisitions.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Uranium One's interim consolidated financial statements have been prepared by the Corporation in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The consolidated financial statements do not include all the information and disclosure required by Canadian GAAP for annual financial statements. In the opinion of management, all adjustments considered necessary for fair and consistent presentation of the interim financial statements have been included. The accounting policies and their methods of application are consistent with those used in the December 31, 2005 consolidated financial statements. For further information, see the Corporation's consolidated financial statements and the accompanying notes included in the 2005 Annual Report.

## RISKS AND UNCERTAINTIES

Uranium One's business risks remain substantially unchanged since December 31, 2005. For a more detailed discussion of risk factors, reference should be made to Uranium One's 2005 Annual Information Form and the company's (final) short form prospectus dated October 26, 2006.

## RELATED PARTY TRANSACTIONS

During the quarter ended September 30, 2006, Uranium One paid \$0.3 million (\$0.8 million for the nine months ended September 30, 2006) to Davis & Company LLP on account of fees for legal services rendered. The company's executive vice president and general counsel, John Sibley, was a partner of Davis & Company LLP prior to joining Uranium One in September 2006 and also served as one of Uranium One's directors from December 27, 2005 to June 7, 2006.

## SUBSEQUENT EVENT

On October 31, 2006 Uranium One completed a public offering of 20,815,000 common shares at a price of \$8.30 per common share for gross proceeds of Cdn\$172,764,500. The entire offering was sold to a syndicate of underwriters led by BMO Capital Markets on a bought deal basis for net proceeds, after deducting underwriters' commission, of \$164,126,275. After paying the expenses of the offering (currently estimated at \$750,000), Uranium One intends to use the net proceeds to finance the construction of the Dominion Uranium Project (\$45 million) and the Honeymoon Uranium Project (\$45 million), exploration (\$10 million) and general corporate purposes, including the refinancing of some or all of the August 2006 Nedcor Securities term facility.

## OUTSTANDING SHARE DATA

As at November 8, 2006, including the shares issued pursuant to the October 2006 public offering, Uranium One had issued and outstanding 133,107,665 common shares and the following common share purchase warrants, each exercisable for one common share of Uranium One:

- 300,000 Series D warrants exercisable at Cdn \$6.95 per warrant
- 1,800,000 broker warrants exercisable at U.S. \$5.39 per warrant
- 3,876,319 warrants exercisable at Cdn \$3.55 per warrant

Uranium One had an aggregate of 6,130,223 options outstanding under its Stock Option Plan, at exercise prices ranging from \$1.15 to \$8.94 per share. In addition, there were 372,922 outstanding restricted share rights that can be exercised for common shares without the payment of any consideration.

## ADDITIONAL INFORMATION

Additional information relating to Uranium One, including Uranium One's most recent annual information form and (final) short form prospectus dated October 26, 2006, is available on SEDAR at [www.sedar.com](http://www.sedar.com)

*This Management's Discussion and Analysis of Financial Condition and Results of Operations contains certain forward-looking statements. Forward-looking statements include but are not limited to those with respect to the price of uranium and gold, the estimation of mineral resources and reserves, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, costs and timing of the development of new deposits, success of exploration activities, permitting time lines, currency fluctuations, requirements for additional capital, government regulation of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage and the timing and possible outcome of pending litigation. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes" or variations of such words and phrases, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Uranium One to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such risks and uncertainties include, among others, the actual results of current exploration activities, conclusions of economic evaluations, changes in project parameters as plans continue to be refined, possible variations in grade and ore densities or recovery rates, failure of plant, equipment or processes to operate as anticipated, accidents, labour disputes or other risks of the mining industry, delays in obtaining government approvals or financing or in completion of development or construction activities, risks relating to the integration of acquisitions, to international operations, to prices of uranium and gold as well as those factors referred to in the section entitled "Risk factors" in Uranium One's Annual Information Form for the year ended December 31, 2005 and its (final) short form prospectus dated October 26, 2006, both of which are available on SEDAR at [www.sedar.com](http://www.sedar.com), and which should be reviewed in conjunction with this document. Although Uranium One has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. Uranium One expressly disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*