



**WGI Heavy Minerals, Incorporated**

**Management's Discussion & Analysis**

**For the Nine-Month Period Ended September 30, 2008**

**Dated November 10, 2008**

## **Comparison of 2008 with 2007**

This management discussion and analysis ("MD&A") of our operating results and financial position is dated as at November 10, 2008, and should be read in conjunction with the audited consolidated financial statements of WGI Heavy Minerals, Incorporated (the "Company") for the year ended December 31, 2007, as well as the accompanying notes (the "Audited Financial Statements") and unaudited consolidated financial statements of the Company for the three and nine-month periods ended September 30, 2008, which are reported in U.S. dollars and have been prepared in accordance with Canadian generally accepted accounting principles.

### **Forward Looking Statements**

This document contains forward-looking statements concerning the business, operations, and financial performance and condition of WGI. A number of the matters discussed and statements made in the document contain forward-looking statements reflecting current expectations regarding future assets. When used, the words "believe", "anticipate", "intend", "estimate", "expect", "project", and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such words. These forward-looking statements are based on current expectations and are naturally subject to risks, uncertainties, and changes in circumstances beyond management's control that may cause actual results to differ materially from those expressed or implied by such forward-looking statements. Factors that may cause such differences include, but are not limited to: exploration and development risks; risks related to permits and title to property; risks related to foreign countries and regulatory requirements; operating hazards; foreign currency fluctuations; competition; fluctuations in the market price of mineral commodities and transportation costs; uncertainty as to calculations of mineral deposit estimates; uninsured risks; and dependence upon key management personnel and executives. Actual results may differ materially from those expressed here. You should not place undue reliance on such forward-looking statements. The Company is under no obligation to update or alter such forward-looking statements, whether as a result of new information, future events, or otherwise.

### **Evaluation of Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this MD&A, management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as at the end of the period covered by this MD&A, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109—Certification of Disclosure in Issuers' Annual and Interim Filings of the Canadian Securities Administrators) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws, and that

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material information is accumulated and communicated to management of the Company, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

## **Overview**

Revenues for the third quarter continued to grow as a result of increasing prices for garnet and other abrasives and increased sales in ultra high-pressure waterjet parts. Gross margins declined slightly due to production constraints both at Emerald Creek Garnet (“ECG”) and Transworld Garnet India Pvt. Limited (“TGI”). Income from the operating entities, Emerald Creek Garnet, International Waterjet Parts (“IWP”), WGI Idaho and Kominex increased \$0.17 million for the nine-month period ended September 30, 2008 from \$0.87 for 2007 million to \$1.04 million for 2008. For the three-month period net income for the same companies improved \$0.44 million from \$0.17 million for 2007 to \$0.61 million for 2008.

On September 12, 2008 the Company received US \$4.85 million in cash for its 74% equity interest in TGI. In addition, WGI repatriated US \$10.0 million in debt financing by obtaining repayment of certain external commercial borrowings (“ECB loans”) from TGI. A further Rupees 28.7 million (approximately US \$0.61 million) remain in an escrow account in India. These remaining funds will be used to repay additional debt financing owed to WGI. The repayment of the remaining debt is also subject to approval by the Reserve Bank of India. The approval is being sought. As a result of the sale of shares of TGI, consolidated net income for the quarter increased \$11.01 million over third quarter of 2007 and was reported at \$10.69 million. The Company’s consolidated balance sheet and net cash position also improved as a result of the proceeds collected on the sale of TGI and repayment of External Commercial Borrowing loans made to TGI.

The sale marks the beginning of WGI’s three-year distribution agreement with V.V. Mineral covering garnet, ilmenite and other minerals that may be present in the beach sands mined by V.V. Mineral. The agreement provides WGI with an assured minimum supply of 60,000 metric tons of garnet annually, which is a significant increase over current production rates. Garnet grades and quality levels will be consistent with material currently supplied to WGI by TGI, and additional quantities of garnet will be supplied as V.V. Mineral’s capacity expands. In addition, WGI will act as a broker for the sale of V.V. Mineral’s ilmenite products. The regular and predictable supply of garnet through our new distribution agreement with V.V. Mineral gives WGI’s operations the potential for growth in our core business, mineral distribution. This agreement makes the Company stronger strategically, allowing WGI to leverage the strength of its alliance with V.V. Mineral. The proven success V.V. Mineral has had in producing garnet and other heavy minerals in India eliminates the most significant challenge faced by WGI since it began to operate in India in 1996, namely securing a reliable supply source. Current worldwide demand for garnet, coupled with WGI’s stable and established distribution system, could result in WGI and its European subsidiary, Kominex, reaping the rewards from a carefully developed marketing organization.

On October 24, 2008 WGI’s board of directors approved a special cash distribution to shareholders in the amount of US\$0.80 per share. This special distribution represents a return to the shareholders of approximately US\$19.2 million (based on the number of shares currently outstanding) to shareholders of record on January 2, 2009. The special cash distribution will be

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paid to shareholders in January 2009.

The special cash distribution will be made in the form of a return of capital to the extent that the return of capital does not exceed the paid-up capital of the Company's shares and is not a taxable dividend for Canadian income tax purposes. The Company has sought a ruling from the Canada Revenue Agency to confirm the acceptable amount that may be returned to shareholders. It is currently estimated that the return of capital portion of the special cash distribution will be in the range of US \$0.55 per share to US \$0.80 per share. The balance of the special cash distribution, if any, will be distributed as a taxable dividend. The Company has designated any such taxable dividend as well as any other portion of the special distribution that is deemed to be a dividend for tax purposes to be an "eligible dividend" for Canadian tax purposes.

The portion of the special distribution that will be paid as a return of capital is subject to the approval by shareholders of a resolution authorizing the reduction of the stated capital of the Company's common shares, the receipt of a final advance tax ruling from the Canada Revenue Agency and the discretion of the Board of Directors.

The Company has requested a shareholder meeting to approve the proposed reduction of stated capital. A proxy circular will be mailed to WGI's shareholders in mid-November for a meeting to be held on December 11, 2008. The record date for the shareholders meeting is November 11, 2008. At that meeting, shareholders will be asked to approve a reduction of stated capital for the Company's common shares and a return of that amount to the shareholders as a return of capital. To the extent stated capital reduction is less than US\$0.80 per share the balance of the special distribution will be paid in the form of an ordinary taxable dividend.

### **Results of Operations – Comparison of Third Quarter 2008 with Third Quarter of 2007**

Revenues for the three-month period ended September 30, 2008 increased to \$7.46 million, compared with \$6.68 million for the same period in 2007, due to growth across other abrasive lines, waterjet revenues from IWP and 3% growth in garnet sales. Garnet volumes dropped by 13% due to lack of supply due to inclement weather in India, however prices increased by 18%, resulting in an increase in sales of 3%. Volumes for other abrasives jumped by 25%, producing a sales increase of 45%. Worldwide waterjet parts sales grew 22% over the same quarter a year ago. Demand for industrial minerals, including the WGI product lines, remained strong throughout the quarter.

Gross profit margins decreased to 18% in the third quarter of 2008, compared with 21% in the same period a year ago. Contributing to this decrease was a rise in fuel costs and limited production out of India and ECG.

Operating general and administrative expenses increased 5% year-over-year due to increased marketing and sales expenses. Non-operating general and administrative expenses decreased 168% over the same 2007 three-month period due to the reclassification of TGI sales expenses, reduced overhead due to the change in the CEO and reduced travel expenditures. The Company recognized a gain of \$0.51 million on the write-off and subsequent receipt of insurance proceeds with respect to that warehouse that was damaged by heavy snow in early 2008. At this time the Company has not rebuilt the warehouse.

(Expressed in U.S. dollars unless otherwise stated)

Interest income decreased by 62%, from \$0.23 million for the three month period ended September 30, 2007 to \$0.09 million in the same period this year, due to lower interest rates on short-term deposits and smaller bank deposits.

Income tax expense for the three months was \$0.07 million and was the result of profits generated by the Kominex, the Company's European subsidiary.

The Company recognized a loss of \$0.46 million on the sale of its investment in TGI and recorded a gain on the recovery of ECB loans in the amount of \$10.60 million, netting the Company \$10.14 million net of related taxes for the quarter ended September 30, 2008. As a result of the sale of TGI, the Company recognized a \$0.12 million foreign currency loss.

The Company posted a net profit of \$10.69 million, or \$0.45 earnings per share (\$0.43 fully diluted), for the third quarter of 2008, compared with a net loss of \$0.32 million, or \$0.01 loss per share, for the same quarter of 2007.

#### **Results of Operations – Comparison of nine months of 2008 with nine months of 2007**

Revenues for the nine-month period ended September 30, 2008 increased 5% to \$21.06 million, compared with \$20.14 million for the same period in 2007, due to higher prices and growth across most product lines, led by 53% revenue growth in other abrasives and 16% revenue growth in waterjet parts. Garnet revenues declined 7%, but still make up the majority of revenue at 63% of total sales. Garnet sales volumes declined 23% due to lack of supply due to inclement weather in India and Idaho, while garnet prices increased 21% over the same period in 2007. Waterjet replacement parts and other abrasives represent 19% and 18% of total sales, respectively.

Gross profit margins decreased slightly to 19% in the first nine months of 2008, from 21% for the same period in 2007, despite price increases made in garnet and other abrasives businesses during the period. While gross profit margins increased across most product lines during 2008, this was not enough to offset higher garnet costs due to production constraints.

Operating general and administrative expenses increased 12% year-over-year due to increased sales and marketing expenses. WGI incurred non-operating general and administrative expenses of \$0.34 million related directly to the Company's contested 2007 Annual General Meeting of Shareholders held in June in addition to professional fees relating to the special cash disbursement to be paid in December 2008. In addition, the Company recognized a \$0.54 gain of disposal of equipment in the nine-month period ended September 30, 2008.

Interest income decreased by 52%, from \$0.65 million for the nine months of 2007 to \$0.31 million in the nine months of 2008, due to decreasing interest rates on short-term deposits and smaller bank deposits.

Income tax expense for the nine months was \$0.19 million and was the result of profits generated by Kominex, the Company's European subsidiary.

The Company recognized a loss of \$0.46 million on the sale of its investment in TGI, including expenses incurred in the second quarter of 2008 and recorded a gain on the recovery of ECB loans in the amount of \$10.60 million, netting the Company \$10.14 million net of related taxes

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for the nine-month period ended September 30, 2008. WGI also recognized a \$0.12 million foreign currency loss as a result of the sale.

The Company posted a net income of \$9.28 million, or \$0.39 earnings per share (\$.38 fully diluted), for the nine-month period ended September 30, 2008, compared with a net loss of \$0.66 million, or \$0.03 loss per share, for the same period a year ago.

### **Segment Information – Quarter over Quarter Comparison**

For the three-month period ended September 30, 2008 revenue at ECG increased 23% year-over-year from \$1.03 million to \$1.27 million despite the fact that production was 8% below 2007's production levels in the same period due to lower concentrations of garnet in permitted mining areas. Sales volumes increased 11%, improving performance along with a 7% increase in prices. Market demand for ECG products remained firm throughout the period. Operating costs have declined 17% compared to the same period a year ago due to operating efficiencies being realized as a result of improving through put in the field. ECG recorded a net income of \$0.38 million for the three-months ended September 30, 2008, compared to net loss of \$.60 million for the same three-month period of 2007. Contributing \$0.51 million to the operating results in 2008 was the gain recognized on the third quarter insurance settlement related to the collapse of an ECG warehouse last winter.

Sales of Bengal Bay Garnet ("BBG") sold out of WGI Idaho, declined 9% in the third quarter of 2008 from \$2.08 million in the third quarter of 2007 to \$1.89 million in the same period in 2008, driven by a 19% decrease in sales volume that offset an 12% increase in prices. Due to production constraints in the third quarter, the Indian mine produced significantly less garnet than in previous periods. Price increases implemented at the beginning of the year were realized throughout the first 9 months of 2008, boosting revenue. Demand was strong during the quarter. The US marketing arm recorded net income of \$0.03 million for the three months ended September 30, 2008, compared to net income of \$0.67 million for the same three months a year earlier.

Revenues for Kominex increased 23% over third quarter of 2008, from \$2.58 million to \$3.17 million, with increases occurring across most product lines. In general, sales volumes for abrasive products increased, while garnet volume decreased 26% due to lack of supply. Kominex recorded net income of \$0.18 million in the third quarter of 2008, compared to \$0.21 million in the same period of 2007.

IWP third quarter revenues increased by 19% compared to the same period last year. Revenues grew from \$1.03 million to \$1.22 million, led by a 29% increase in North American sales and a 11% increase in international sales over the same period in 2007. Emerging economies, such as China, continue to generate strong growth rates for IWP along with North America. IWP realized a profit of \$0.03 million for the third quarter of 2008 compared to a net loss of \$0.12 million the same period last year. The improvement is the result of new manufacturing techniques introduced in 2008 to eliminate waste and the implementation of a Value Stream Mapping Study with respect to IWP's manufacturing processes.

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### **Segment Information – Nine-Month 2008 Compared to Nine-Month Period 2007**

Revenue at Emerald Creek through three quarters of 2008 fell 4%, compared to the same period in 2007, to \$3.44 million. Severe winter conditions during the first quarter of 2008 and lower operating uptime during the year, as Emerald Creek implemented a new, mobile, field-based mining/mineral concentration process to reduce costs, restricted production and, in turn, sales volume by 10%. Prices were up 7% over last year but could not fully offset the shrinkage in volume. Demand for Emerald Creek garnet continued to be firm during the period in spite of increased lead times for the product. Net income for the first three quarters of the year was \$0.19 million but this includes a one-time gain from an insurance settlement of \$0.51 million. Without this one time gain, Emerald Creek recorded a year to date loss of \$0.32 million, an improvement over 2007 when the same period loss was \$0.52 million.

Sales of BBG revenue sold out of WGI Idaho slipped 14% to \$5.27 million through the first three quarters of 2008 versus 2007. Sales volume during the period was off by 27% due to operating constraints that included longer than normal monsoon conditions in the first quarter, reduced mineral grades in some of the areas being mined, fuel and power shortages in southern India during the third quarter, and congestion at the port of Tuticorin that disrupted shipping schedules. Prices year to date increased 16% compared to the same period last year, as market demand for Indian garnet remained buoyant. WGI's distribution activities for BBG products achieved a net income of \$0.28 million through three quarters of 2008 but this compares to \$0.85 million for the same period in 2007. All of the reduced performance can be attributed to constrained supply.

Through the first three quarters of 2008 Kominex increased sales revenue by 21% to \$8.95 million versus same period revenue of \$7.42 million in 2007. Abrasives sales volumes were generally up, except for garnet, which slid 25% due to supply constraints discussed earlier. Overall, abrasives sales volume was off 14%. Prices, on the other hand, were up across the board versus 2007 from 13% to 35%, depending on the product line. Prices were helped by a 13% strengthening of the Euro versus dollar exchange rate. Net income for the period was flat at \$0.53 million compared to the previous year contribution of \$0.55 million. Markets, especially those in Eastern Europe and Russia, continue to experience strong demand.

IWP grew its revenue 17% through September 30, 2008 as compared to 2007. Sales of \$3.56 million were a new record for the business for three quarters and were led by gains in North America. Net income for the period was \$0.04 million in 2008 versus \$0.00 million in 2007. The improvement is the result of new manufacturing techniques introduced in 2008 to eliminate waste and the implementation of a Value Stream Mapping Study with respect to IWP's manufacturing processes.

## Summary of Quarterly Results - Unaudited

\$(000'S)	2008			2007			2006	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues (restated for discontinued operations)	\$ 7,462	\$ 6,821	\$ 6,777	\$ 6,327	\$ 6,682	\$ 7,242	\$ 6,211	\$ 5,605
Net Income (loss)	\$10,689	\$ (721)	\$ (683)	\$ (805)	\$ (321)	\$ (351)	\$ 17	\$ (737)
Earnings (loss) fully diluted per share	\$0.43	(\$0.03)	\$ (0.03)	\$ (0.03)	\$ (0.01)	\$ (0.02)	\$ -	\$ (0.03)

## Liquidity and Capital Resources

As at September 30, 2008 the Company held USD 26.0 million and CAD 0.28 million with the Bank of Montreal in bank deposits and certificates of deposit maturing in less than 30 days. In addition, the Company holds Rupees 28.66 million in a special purpose account with the Central Bank of India to be repatriated to Canada once it receives Reserve Bank of India ("RBI") approval which is currently being sought. This amount has not been hedged due to the uncertainty as to when the Company will acquire the necessary RBI approval to repatriate the money.

The operating entities also hold deposits in local currencies totalling Euro 0.06 million with Commerzbank in Germany, Euro 0.19 million and USD 2.43 million with Wells Fargo in the United States of America.

Cash outflows from operations after changes in working capital and other assets was \$0.88 million for the nine months of 2008, an increase in cash outflow by \$1.19 million compared to the nine months of 2007, in which the Company reported cash inflow of \$1.10 million. The change is due to production constraints and severe weather conditions in both Idaho and India during the period.

Property, plant, and equipment expenditures were \$1.51 million for the nine months of 2008 for property, plant and equipment (\$0.21 million – ECG; \$0.08 million – WGI Idaho; \$0.03 million - IWP; and \$1.19 million – Kominex) compared with \$0.94 million for 2007.

The Company anticipates no additional significant capital expenditures for the last quarter of 2008. During the year, one of the Company's buildings at Emerald Creek Garnet collapsed as a result of a winter storm. The Company filed an insurance claim and recognized a gain on disposal of \$0.54, of which \$0.51 relates to the collapsed warehouse. As a result of the sale of TGI and the repayment of ECB loans the company realized a cash infusion of \$13.56 million. The Company continues to look at further investment opportunities, however at this time, no specific acquisitions have been identified.

Working capital, including the current portion of long-term debt, was \$33.1 million at September 30, 2008, compared to \$20.9 million at year-end 2007, translating into current ratios of 8.41 and 5.52, respectively.

(Expressed in U.S. dollars unless otherwise stated)

Working capital increased \$12.26 million in the nine months of 2008, largely due to the sale of its discontinued operations.

Asset retirement obligations relating to reclamation expenses for ECG totaled \$0.64 million at September 30, 2008.

At the end of September 2008, the Company's debt-to-equity ratio was 13.08%, compared with 17.22% at year-end 2007.

The authorized capital of the Company consists of 110 million shares, composed of 100 million Common Shares without par value and 10 million preferred shares without par value (the "Preferred Shares"). As of September 30, 2008, there were 23,726,110 Common Shares and no Preferred Shares issued and outstanding.

The Company has established a share purchase option plan whereby the Board of Directors may from time to time grant options to individual eligible directors, officers, employees or consultants. The aggregate number of shares reserved under the plan is 3,197,750 shares. At September 30, 2008, a total of 1,626,875 common shares remain available for issuance under the stock option plan. During the third quarter of 2008 the Company granted no options.

On October 29, 2008 certain directors exercised a total of 300,000 Restricted Stock Units with an exercise price of nil for 300,000 shares in WGI Heavy Minerals, Incorporated.

### **Sale of Discontinued Operation**

The three-month period ending September 30, 2008 was a historic quarter for WGI. During the period WGI and its 26% partner, Heavy Industrial Minerals India Pvt. Ltd (HIMI) completed the sale of their garnet operations in India, TGI to VV Minerals (VVM) of Tamil Nadu, India for Rupees 836 million in a cash transaction. WGI's share of the proceeds totaled \$16.17 million at the exchange rate prevailing at the time of funds transfer to escrow in India and consists of payment for its 74% equity interest in TGI plus the repayment of certain debt financing held by WGI. WGI has been producing garnet in India through TGI since 1996.

As a result of this transaction, WGI no longer owns mineral leases or facilities in India to produce heavy minerals. WGI has signed a renewable three-year agreement with VVM that allows WGI to purchase a minimum of 60,000 metric tons per annum of garnet with a first right to purchase additional quantities as certain capacity expansions are achieved by VVM. The garnet supplied to WGI will be produced to WGI's quality specifications. Other non-titanium bearing minerals found in the beach sands mined by VVM may also be available to WGI but agreements have not yet been negotiated. In addition, WGI will have an opportunity to sell ilmenite and other titanium-bearing minerals for VVM on a commission basis.

The sale of TGI resulted in a near doubling of the Company's cash position and the overall financial health of WGI is excellent with a strong balance sheet. Approximately \$19.2 million will be returned to shareholders in the form of a special cash distribution in January 2009.

(Expressed in U.S. dollars unless otherwise stated)

## Commitments

The Company's contractual and other obligations as at September 30, 2008 are summarized as follows:

\$(000's)	Total	Less than 1				
		Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs
Long-term debt 1	1,005	291	222	270	168	54
Capital leases	52	52			-	-
Operating leases	202	63	71	58	10	-
Minimum Royalty obligations 2	30	6	6	6	6	6
Rental agreements	86	35	17	17	17	
Other obligations	304	76	76	76	76	

<sup>1</sup> As of June 30, 2008, the Company has incurred loans for ECG and IWP. The Company has sufficient funds to meet these obligations. These loans are secured by funds in a Money Market Fund account held by the Company. Kominex has a loan, which is secured by accounts receivable and equipment.

<sup>2</sup> The Company has a minimum royalty obligation for Conservation Easement - Palouse Land Trust of \$6,000. Additionally, the Company has royalty obligations to certain landowners based on tonnage mined, and a state government in India based on tonnage sold.

## Measurement Uncertainty

Since 2005 the Company has experienced declining concentration levels of garnet in the sand, and the size mix of garnet being mined has changed at Emerald Creek. WGI is currently assessing its remaining resources and supplies and is actively exploring for additional garnet deposits and/or additional sources of supply. The Company is actively moving to purchase more, as well as to produce more of its finished products. In calculating the estimated future cash flows to be generated from the Emerald Creek operations, the Company has used an estimate of resources. The mining operations are continuing at sites with garnet bearing gravel, but, given that a survey meeting the standards of National Instrument 43-101 has not been done, WGI is not able to predict with confidence the remaining life of that mine.

## Contingencies

Management is not aware of any contingent liabilities.

## Risk Factors

*The risks and uncertainties described below are not the only risks and uncertainties faced by the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems immaterial also may impair the business operations. If any of the following risks actually occur, the business, results of operations and financial condition, and the amount of cash available for distribution to shareholders, could suffer.*

For a full review of risk factors, refer to Company's MD&A as of December 31, 2007.

## Outlook

WGI is targeting a leveling off of sales for the remainder of 2008 and expects to realize improved garnet availability out of India in the first quarter of 2009 when VV Mineral makes production modifications to meet the agreed upon annual supply tonnage of 60,000 MT. The Company continues to look for additional sources of supply to strengthen its worldwide resources.

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The Company is continuing to make production improvements at its Emerald Creek Garnet facility, through essential reinvestment in the facility and improved operating methods. However, the Company has struggled to meet monthly production forecasts due to aging equipment, lean garnet grades and declining garnet resources. ECG continues to explore for additional resources in the area.

The Company is continuing to make production improvements at IWP to support its expanding waterjet parts sales. Sales from Kominex's product lines are expected to grow since capacity for these products has increased with the installation of new equipment earlier in the year.

WGI's waterjet business has a relatively small market share in an expanding global market. The opportunity is significant. Accordingly, management is currently evaluating several emerging opportunities, including new waterjet technology; lean manufacturing concepts, and potential acquisitions, however the current worldwide financial crisis may have an impact on revenues and profitability if sustained for any length of time.

Management of WGI does not expect to incur further significant administrative costs related to the sale of TGI after the closing of the sale.

As described in detail above (see "Overview"), on October 24, 2008 WGI's board of directors approved a special cash distribution to shareholders in the amount of US\$0.80 per share. The special cash distribution will be paid to shareholders in January 2009.

## **CRITICAL ACCOUNTING ESTIMATES**

The financial statements, which this MD&A addresses, are presented in accordance with Canadian generally accepted accounting principles.

In preparing financial statements, management has to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Based on historical experience, current conditions, and expert advice, management makes assumptions that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for judgments about the carrying value of assets and liabilities and reported amounts for revenues and expenses. Different assumptions would result in different estimates, and actual results may differ from results based on these estimates. These estimates and assumptions are also affected by management's application of accounting policies. Critical accounting estimates are those that affect the consolidated financial statements materially and involve a significant level of judgment by management. Management's critical accounting estimates are applied in the accounting for the impairment of property, plant and equipment and other assets such as investments, reclamation costs, accounting for income and mining taxes, accounting for stock-based compensation, and contingencies.

## **Property, Plant and Equipment**

The Company capitalizes the development costs of mining projects, commencing when economically recoverable reserves as shown by an economic study are believed to exist. Upon commencement of production, these costs are written off over the life of the mine, based on proven and probable reserves. The determination of the extent of reserves is a complex task in which a number of estimates and assumptions are made. The determination of economic reserves depends on assumptions of long-term commodity prices and, in some cases, exchange rates. The Company reviews and evaluates property, plant and equipment for impairment on an ongoing basis. The expected undiscounted future cash flows from an asset are estimated in a ceiling test. These future cash flows are developed using assumptions that reflect the long-term operating plans for an asset given management's best estimate of the most probable set of economic conditions. Commodity prices are used to reflect market conditions at the time the model is developed. These models are updated from time to time, and lower prices are used, should market conditions deteriorate. Inherent in these assumptions are significant risks and uncertainties. In management's view, based on assumptions that management believes to be reasonable, no further reduction in the carrying value of property, plant and equipment is required as at September 30, 2008. Changes in market conditions, reserve estimates, and other assumptions used in these estimates may result in future write-downs and these write-downs may be material. When some of these conditions are present and management cannot determine if impairment has incurred, this is noted under measurement uncertainty in the notes to the financial statements.

## **Income and Resource Taxes**

The determination of the Company's tax expense for the year and its future tax liabilities and assets requires significant management estimation and judgment, involving a number of assumptions. In determining these amounts, management interprets tax legislation in a variety of jurisdictions and makes estimates of the expected timing of the reversal of future tax assets and liabilities. Management also makes estimates of future earnings, which affect the extent to which potential future tax benefits may be used. The Company is subject to assessment by various taxation authorities, which may interpret tax legislation in a manner different from the Company. These differences may affect the final amount or the timing of the payment of taxes. When such differences arise, the Company makes provisions for such items based on management's best estimate of the final outcome of these matters. Currently the Company's Indian subsidiary is engaged in discussions with tax and royalty officials, the results of which could be material if unfavorable outcomes ensue. The Company has made no provision as it considers it unlikely that there will be adverse outcomes.

## **Recognition of Contingencies**

The Company may be subject to lawsuits and threatened lawsuits from time to time. A provision is made for amounts claimed through these lawsuits when management believes it is more likely than not that the plaintiffs will be awarded damages, or a monetary settlement will be made. Management seeks the advice of outside counsel in making such judgments where the amounts involved are material.

## **Stock-based Compensation**

The Company's accounting policy requires fair value accounting for all stock options issued during the year. Compensation expense for options granted is determined based on the estimated fair values of the stock options at the time of grant, the cost of which is recognized over the vesting periods of the respective options. In arriving at the fair value of options granted, the Company utilizes the Black Scholes model.

## **Asset Retirement Obligations**

The Company recognizes liabilities for statutory, contractual, or legal obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development, or normal operation of the assets. The obligations are measured initially at fair value, and resulting costs capitalized into the carrying amount of the related asset. Annually, the liability is reviewed for any impairment in the amount or timing of the related assets value. The related assets value is adjusted only after review of the facts and circumstances relating to the changes in the amount or timing of the assets value. The capitalized assets retirement cost is depreciated on the same basis as the related asset.

## **New Accounting Guidelines & Policies**

Significant accounting policies are disclosed in Note 2 to the Consolidated Financial Statements. The Company has adopted the following new accounting policies, none of which individually or collectively had a material impact on its Consolidated Financial Statements, unless otherwise noted. These changes were the result of changes to the Canadian Institute of Charter Accountants ("CICA") Handbook, Accounting Guidelines ("AcG") and Emerging Issues Committee Abstracts ("EIC").

## **Going Concern**

In June 2007, Section 1400 of the CICA Handbook was amended to require management to assess and disclose an entity's ability to continue as a going concern. This section applies for interim and annual periods beginning on or after January 1, 2008.

The Company adopted this section on January 1, 2008. The Company has forecasted results over the next fiscal year using best estimates of economic conditions. Based on these forecasts, management believes that the Company will continue to operate as a going concern and fund its current operations without additional financial support.

## **Disposal of long-lived assets and discontinued operations**

Long-lived assets and discontinued operations are classified as held for sale when specific criteria are met, in accordance with CICA Handbook Section 3475, "Disposal of long lived assets and Discontinued Operations". Assets held for sale are measured at the lower of their carrying

amount and fair value less costs to dispose and are no longer amortized as of the date of purchase agreement. The fair value is based on the agreed sales price. Asset and liabilities classified as held for sale are reported separately on the balance sheet. A component of the Company that is held for sale is reported as a discontinued operation if the operations and cash flow of the component will be eliminated from the ongoing operations as a result of a disposal transaction, and the Company will not thereafter have a significant continuing involvement in its operation.

### **Financial instruments and capital disclosures**

In December 2006, the CICA issued Section 3862, Financial Instruments – Disclosures; Section 3863, Financial Instruments – Presentation; and Section 1535, Capital Disclosures. All three sections are applicable to financial statements relating to fiscal years beginning on or after October 1, 2007. Accordingly, the Company has adopted the new standards for its fiscal year beginning January 1, 2008. Section 3862 on financial instruments disclosures requires the disclosure of information about: a) the significance of financial instruments for the entity's financial position and performance and b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 on the presentation of financial instruments is unchanged from the presentation requirements included in Section 3861. Section 1535 on capital disclosures requires the disclosure of information about an entity's objectives, policies and processes for managing capital; as well as, to disclose quantitative data about what it regards as capital; and to disclose whether an entity has complied with any externally imposed capital requirements, and, if not, the consequences of such non-compliance.

The Company's objectives when managing capital is to safeguard their ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

### **Inventories**

In June 2007, the CICA issued Section 3031, Inventories, replacing Section 3030, Inventories. The new section is applicable to financial statements relating to fiscal years beginning on or after January 1, 2008. Accordingly, the Company has adopted the new standards for its fiscal year beginning January 1, 2008. It provides more guidance on the measurement and disclosure requirements for inventories. The Company values inventory of finished goods and work-in-process at lower of cost and net realizable value. Work-in-process and finished goods include direct labour, material costs and an allocation of overhead expenses. The adoption of this new section does not have a material impact on its consolidated financial statements.

### **Comprehensive Income – Section 1530**

This section describes reporting and disclosure recommendations with respect to comprehensive income and its components. Comprehensive income is the change in Shareholders' equity, which results from transactions and other events and circumstances from non-shareholder sources.

These transactions and events include unrealized gains and losses resulting from changes in fair value of investments classified as available-for-sale, as well as unrealized gains and losses arising from the translation of the financial statements of self-sustaining foreign operations. Accordingly, gains and losses arising from the translation of the Company's self-sustaining subsidiaries are reorganized through the statement of other comprehensive income.

### **Future Changes in Accounting Policies**

#### **Goodwill and Intangible assets**

In February 2008, the CICA issued Section 3064, Goodwill and intangible assets, replacing Section 3062, Goodwill and other intangible assets. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently evaluating the impact of the adoption of this new section on its consolidated financial statements. The Company does not expect that the adoption of this new section will have a material impact on its consolidated financial statements.

#### **International Financial Reporting Standards**

In 2006, the Canadian Accounting Standards Board (`AcSB`) adopted its Strategic Plan, which includes the decision to move financial reporting for Canadian publicly accountable companies to the International Financial Reporting Standards (`IFRSs`), as issued by the International Accounting Standards Board (`IASB`). Under the AcSB's plan, this new framework will be effective for fiscal years beginning on or after January 1, 2011. The Company is presently considering the effect these standards will have on its financial statements.

#### **Additional Information**

Additional information relating to the Company is available on SEDAR ([www.sedar.com](http://www.sedar.com) <<http://www.sedar.com>>), including its Annual Information Form dated March 31, 2008, its MD&A dated March 31, 2008, and all public filings.