

**MACARTHUR MINERALS LIMITED**

**CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2006**

## AUDITORS' REPORT

To the Shareholders of  
Macarthur Minerals Limited

We have audited the consolidated balance sheets of Macarthur Minerals Limited as at March 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Accountants

July 18, 2006

A Member of *SC INTERNATIONAL*

**MACARTHUR MINERALS LIMITED**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT MARCH 31**

	2006	2005
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 332,791	\$ 49,245
Receivables	<u>27,264</u>	<u>9,956</u>
<b>Total current assets</b>	360,055	59,201
<b>Mineral properties</b> (Note 3)	<u>1,411,196</u>	<u>54,224</u>
<b>Total assets</b>	<u>\$ 1,771,251</u>	<u>\$ 113,425</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)**

<b>Current</b>		
Accounts payable and accrued liabilities	\$ 31,045	\$ 36,366
Due to related parties (Note 6)	<u>31,459</u>	<u>245,776</u>
<b>Total current liabilities</b>	<u>62,504</u>	<u>282,142</u>
<b>Shareholders' equity (deficiency)</b>		
Capital stock (Note 4)	15,518,724	13,170,657
Contributed surplus (Note 4)	263,991	-
Deficit	<u>(14,073,968)</u>	<u>(13,339,374)</u>
<b>Total shareholders' equity (deficiency)</b>	<u>1,708,747</u>	<u>(168,717)</u>
<b>Total liabilities and shareholders' equity (deficiency)</b>	<u>\$ 1,771,251</u>	<u>\$ 113,425</u>

**Nature and continuance of operations** (Note 1)

**Subsequent events** (Note 11)

**On behalf of the Board:**

<u>"David Barwick" (signed)</u>	Director	<u>"James Canning-Ure" (signed)</u>	Director
David Barwick		James Canning-Ure	

The accompanying notes are an integral part of these consolidated financial statements.

**MACARTHUR MINERALS LIMITED**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
**YEAR ENDED MARCH 31**

	2006	2005
<b>EXPENSES</b>		
Amortization	\$ -	\$ 482
Exploration costs	-	1,567
Filing and transfer agent fees	29,203	19,488
Investor relations	23,705	930
Office and general	9,276	21,285
Professional fees	87,738	53,062
Salaries and management fees	56,267	97,572
Stock-based compensation (Note 5)	389,918	-
Travel and accommodation	<u>74,465</u>	<u>18,096</u>
<b>Loss before other items</b>	<u>(670,572)</u>	<u>(212,482)</u>
<b>OTHER ITEMS</b>		
Interest income	1,127	132
Write-off of advances	-	(1,283)
Foreign exchange loss	<u>(65,149)</u>	<u>(2,317)</u>
	<u>(64,022)</u>	<u>(3,468)</u>
<b>Loss for the year</b>	(734,594)	(215,950)
<b>Deficit, beginning of year</b>	<u>(13,339,374)</u>	<u>(13,123,424)</u>
<b>Deficit, end of year</b>	<u>\$ (14,073,968)</u>	<u>\$ (13,339,374)</u>
<b>Basic and diluted loss per common share</b>	<u>\$ (0.15)</u>	<u>\$ (0.08)</u>
<b>Weighted average number of common shares outstanding</b>	<u>5,024,939</u>	<u>2,589,862</u>

The accompanying notes are an integral part of these consolidated financial statements.

**MACARTHUR MINERALS LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEAR ENDED MARCH 31**

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (734,594)	\$ (215,950)
Items not affecting cash:		
Amortization	-	482
Stock-based compensation	389,918	-
Write-off of advances	-	1,283
Write-off of equipment	-	2,317
Changes in non-cash working capital items:		
(Increase) decrease in receivables	(17,308)	869
Increase (decrease) in accounts payable and accrued liabilities	<u>(5,321)</u>	<u>29,403</u>
Net cash used in operating activities	<u>(367,305)</u>	<u>(181,596)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Mineral property acquisition costs	<u>(989,472)</u>	<u>(54,224)</u>
Net cash used in investing activities	<u>(989,472)</u>	<u>(54,224)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of capital stock	1,715,000	-
Share issue costs	(21,000)	-
Due to related parties	<u>(53,677)</u>	<u>215,776</u>
Net cash provided by financing activities	<u>1,640,323</u>	<u>215,776</u>
<b>Change in cash during the year</b>	<b>283,546</b>	<b>(20,044)</b>
<b>Cash, beginning of year</b>	<u><b>49,245</b></u>	<u><b>69,289</b></u>
<b>Cash, end of year</b>	<u><b>\$ 332,791</b></u>	<u><b>\$ 49,245</b></u>

**Supplemental disclosures with respect to cash flows** (Note 8)

The accompanying notes are an integral part of these consolidated financial statements.

**MACARTHUR MINERALS LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2006

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Macarthur Minerals Limited (the "Company") is in the business of exploration and development of resource properties.

During the current year, the Company consolidated its share capital on a 10:1 basis. All references to share and per share amounts have been restated to reflect the share consolidation.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

There can be no assurance that the Company will be able to continue to raise funds in which case the Company may be unable to meet its obligations. Should the Company be unable to realize its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the balance sheet.

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	2006	2005
Deficit	\$(14,073,968)	\$ (13,339,374)
Working capital (deficiency)	297,551	(222,941)

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**2. SIGNIFICANT ACCOUNTING POLICIES**

**Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates.

**Principles of consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company balances and transactions have been eliminated upon consolidation.

**Mineral properties**

Costs related to the acquisition, exploration and development of mineral properties are capitalized by property until the commencement of commercial production. If commercially profitable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. If, after management review, it is determined that capitalized acquisition, exploration and development costs are not recoverable over the estimated economic life of the property, or the property is abandoned, or management deems there to be an impairment in value, the property is written down to its net realizable value.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Mineral properties (cont'd...)**

The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

**Asset retirement obligations**

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

As at March 31, 2006 and 2005, there are no material asset obligations.

**Loss per share**

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year.

For diluted per share computations, assumptions are made regarding potential common shares outstanding during the year. The weighted average number of common shares is increased to include the number of additional common shares that would be outstanding if, at the beginning of the year, or at time of issuance, if later, all options and warrants are exercised. Proceeds from exercise are used to purchase the Company's common shares at their average market price during the year, thereby reducing the weighted average number of common shares outstanding. If these computations prove to be anti-dilutive, diluted loss per share is the same as basic loss per share.

**Income taxes**

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets are recognized to the extent that realization of those assets is more likely than not. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. Withholding taxes, where applicable, on earnings of foreign operations are provided in the accounts only to the extent earnings are expected to be repatriated.

**Stock-based compensation**

The Company recognizes compensation expense for all stock options granted using the fair value based method of accounting.

**MACARTHUR MINERALS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2006**

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Foreign currency translation**

The Company's subsidiary is an integrated foreign operation and is translated into Canadian dollar equivalents using the temporal method. Under this method, monetary items are translated at the exchange rate in effect at the balance sheet date and non-monetary items are translated at historical exchange rates. Income and expense items are translated at the average exchange rate for the period. Translation gains and losses are reflected in the statement of operations.

**Comparative figures**

Certain comparative figures have been reclassified to conform with the current year's presentation.

**3. MINERAL PROPERTIES**

In January, 2006, The Company acquired 100% of the outstanding and issued capital stock of Internickel Australia Pty Ltd. ("Internickel"). Internickel's only asset is a claim for a 100% interest in the Lake Giles Project located in Western Australia. The consideration paid was \$950,000 (\$AUD 1,000,000) in cash and the issuance of 1,000,000 common shares of the Company to the former shareholder of Internickel. In addition, the Company also paid \$46,745 for the option to acquire the property, \$7,479 for a report on the Lake Giles Project, and incurred consulting expenses of \$39,472. The cost of this acquisition was based on the fair value of the consideration paid.

The agreement also allows InterCOAL Ltd. ("InterCOAL") the right to acquire 20% of the outstanding and issued capital stock of Internickel. Subsequent to year end (Note 11), the Company acquired this option from InterCOAL by agreeing to issue 1,000,000 common shares from treasury.

The following is a summary of the acquisition and deferred costs incurred:

	Acquisition Costs	Deferred Exploration Costs	Total 2006
Balance, beginning of year	\$ 54,224	\$ -	\$ 54,224
Incurring during the year:			
Consulting	-	39,472	39,472
1,000,000 shares issued for mineral properties	367,500	-	367,500
Cash paid	950,000	-	950,000
	<u>1,317,500</u>	<u>39,472</u>	<u>1,356,972</u>
Balance, end of year	\$ 1,371,724	\$ 39,472	\$ 1,411,196

**MACARTHUR MINERALS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2006**

**4. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

	Number of Shares	Capital Stock	Contributed Surplus
Authorized			
Unlimited common voting shares, without par value			
Issued			
Balance, at March 31, 2004 and 2005 (Adjusted for 10:1 share consolidation)	2,589,862	\$ 13,170,657	\$ -
Issued for debt settlement	803,200	160,640	-
Issued for cash			
Private placement	1,900,000	380,000	-
Private placement	4,000,000	1,200,000	-
Exercise of options	450,000	135,000	-
Exercise of options	-	125,927	(125,927)
Acquisition of mineral property	1,000,000	367,500	-
Share issuance costs	-	(21,000)	-
Stock-based compensation	-	-	389,918
Balance, at March 31, 2006	10,743,062	\$ 15,518,724	\$ 263,991

During the year-ended March 31, 2006:

The Company completed the following private placements:

- i). On October 27, 2005, the Company completed a private placement of 1,900,000 units at the price of CDN \$0.20 per unit for gross proceeds of CDN \$380,000. Each unit consists of one common share and one-half of one share purchase warrant, each whole warrant entitling the holder to purchase an additional common share of the Company at a price of CDN \$0.30 for a period of one year.
- ii). On January 4, 2006, the Company completed a private placement of 4,000,000 common shares at a price of CDN \$0.30 per share for gross proceeds of CDN \$1,200,000. The Company also paid a finder fee of CDN \$21,000 in connection with the private placement.

All securities are subject to a four month hold period in accordance with applicable Canadian securities law and the policies of the TSX-V.

On September 8, 2005, the Company issued 803,200 common shares at a price of CDN \$0.20 per share for a total of CDN \$160,640 for debt settlement.

On January 4, 2006, the Company issued 1,000,000 common shares with a value of CDN \$367,500 in acquiring the Lake Giles project located in Western Australia.

**MACARTHUR MINERALS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**4. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

The Company issued 450,000 common shares at a price of CDN \$0.30 per share for gross proceeds of CDN \$135,000 pursuant to the exercise of stock options.:

The Company has no common shares issued in fiscal 2005.

**Stock options**

The Company, in accordance with the policies of the TSX Venture Exchange, is authorized to grant options to directors, employees and consultants, to acquire up to 10% of issued and outstanding common stock. The exercise price of each option equals the market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of 5 years. Options granted to employees, directors and officers vest fully on grant. Options issued to consultants must vest in stages over 12 months with one quarter of the options vesting in any three month period.

On October 24, 2005, the Company granted stock options to directors and officers to acquire 525,000 common shares of the Company at a price of CDN \$0.30 per share expiring on October 25, 2010.

On January 9, 2006, the Company granted stock options to directors and officers to acquire 300,000 common shares of the Company at a price of CDN \$0.30 per share expiring on January 10, 2011.

On January 9, 2006, the Company granted stock options to consultants to acquire 200,000 common shares of the Company at a price of CDN \$0.35 per share expiring on January 10, 2011.

On March 30, 2006, the Company granted stock options to directors and officers to acquire 450,000 common shares of the Company at a price of CDN \$0.46 per share expiring on March 29, 2011.

Stock option transactions and the number of stock options outstanding are summarized as follows:

	2006		(Adjusted for 10:1 Share Consolidation) 2005	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	41,000	\$ 3.63	41,000	\$ 3.63
Granted	1,475,000	0.36	-	-
Exercised	(450,000)	0.30	-	-
Expired/cancelled	<u>(5,000)</u>	2.75	<u>-</u>	-
Outstanding, end of year	1,061,000	0.49	41,000	3.63
Options exercisable, end of year	911,000	\$ 0.58	41,000	\$ 3.63

**MACARTHUR MINERALS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**4. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

**Stock options (cont'd...)**

Stock options outstanding at March 31, 2006 are as follows:

Number of Options	Exercise Price	Expiry Date
36,000	\$ 3.75	April 23, 2006 (subsequently expired)
75,000	0.30	October 25, 2010
300,000	0.30	January 10, 2011
200,000	0.35	January 10, 2011
450,000	0.46	March 29, 2011

Warrant transactions and the number of warrants outstanding are summarized as follows:

	2006		(Adjusted for 10:1 Share Consolidation) 2005	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	399,333	\$ 1.87	399,333	\$ 1.87
Granted	950,000	0.30	-	-
Exercised	-	-	-	-
Expired	(399,333)	1.87	-	-
Outstanding, end of year	950,000	0.30	399,333	1.87
Warrants exercisable, end of year	950,000	\$ 0.30	399,333	\$ 1.87

Warrants outstanding at March 31, 2006 are as follows:

Number of Shares	Exercise Price	Expiry Date
950,000	\$ 0.30	October 27, 2006

**MACARTHUR MINERALS LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**5. STOCK-BASED COMPENSATION**

During the year ended March 31, 2006, the Company granted 1,475,000 (2005 – Nil) stock options to directors, officers and consultants. The estimated fair value of these options was \$0.37 (2005 - \$Nil) per option for an estimated total value of \$389,918 (2005 - \$Nil). This amount is expensed as stock-based compensation as the options vest in the statement of operations with a corresponding amount recorded as contributed surplus in shareholders' equity and reduced by the options exercised during the year.

The following assumptions were used for the Black-Scholes valuation of stock options and warrants granted during the year:

	2006	2005
Risk-free interest rate	3.00% – 3.88%	Nil
Expected life of options	5.0 years	Nil
Annualized volatility	80.00% – 159.77%	Nil
Dividend rate	0.00%	Nil

**6. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties:

- a) Paid or accrued management fees of \$31,459 (2005 - \$42,232) to directors of the Company.
- b) At March 31, 2006, \$31,459 (2005 - \$245,776) is owed to directors and a private company controlled by a director for advances, accrued management fees and expenses paid on behalf of the Company.
- c) Issued 439,500 common shares for settlement of \$87,900 of debt to directors and a private company controlled by a director.
- d) The Company granted 1,275,000 (2005 – Nil) stock options to directors and officers, which are recorded as stock-based compensation of \$378,313 (2005 – \$Nil).

These transactions were in the normal course of operations and were measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

**MACARTHUR MINERALS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2006**

**7. INCOME TAXES**

Income tax recovery varies from the amount that would be computed by applying the combined federal and provincial income tax rate to loss before taxes as follows:

	2006	2005
Loss before income tax recovery	\$ (734,594)	\$ (215,950)
Expected income tax recovery	\$ (279,109)	\$ (76,878)
Differences in foreign tax rates	13,760	8,227
Non-deductible expenses	148,149	13,546
Tax loss benefit not recognized for book purposes	<u>117,200</u>	<u>55,105</u>
Actual income tax recovery	\$ -	\$ -

The significant components of the Company's future tax assets are as follows:

	2006	2005
Net operating loss carry forwards	\$ 3,323,552	\$ 3,346,547
Cumulative exploration and development expenses	<u>1,737,870</u>	<u>1,145,242</u>
	5,061,422	4,491,789
Less: valuation allowances	<u>(5,061,422)</u>	<u>(4,491,789)</u>
Net future tax assets	\$ -	\$ -

The Company has non-capital losses of approximately \$10,700,000 which may be carried forward and applied against taxable income in future years. These losses will begin to expire in 2006. Subject to certain restrictions, the Company has further resource exploration and development expenditures totalling approximately \$4,600,000 available to reduce taxable income of future years. Future tax benefits which may arise as a result of these non-capital losses and resource deductions have not been recognized in these financial statements and have been offset by a valuation allowance.

**8. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS**

	2006	2005
Cash paid during the year for interest	\$ -	\$ -
Cash paid during the year for income taxes	\$ -	\$ -

**8. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS (cont'd...)**

During the year ended March 31, 2006, the Company entered into the following non-cash transactions:

- a) Issued 803,200 common shares at CDN \$0.20 per common share to settle \$160,640 of a loan due to shareholders.
- b) Issued 1,000,000 common shares with a value of \$367,500 for acquisition of mineral property.

There were no material non-cash financing or investing activities during the year ended March 31, 2005

**9. SEGMENTED INFORMATION**

The Company's one reportable operating segment is the exploration and development of mineral properties in Australia.

**10. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, receivables, accounts payable, accrued liabilities and due to related party. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

**Currency risk**

The Company is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

**11. SUBSEQUENT EVENTS**

The following events occurred subsequent to March 31, 2006:

- a) 25,000 stock options exercised at \$0.30 per share on April 3, 2006 and 36,000 stock options expired unexercised on April 23, 2006.
- b) 300,000 stock options exercised at CDN \$0.30 per share on May 10, 2006.
- c) Entered into a agreement with InterCOAL to acquire InterCOAL's 20% option for the acquisition of InterCOAL. The Company is required to issue 1,000,000 of its common shares to a cause this option.
- d) 300,000 common shares were issued to the Company's directors at a price of CDN \$0.30 per share for cash consideration of \$90,000.