

# MACARTHUR MINERALS LIMITED

## Management Discussion and Analysis (Form 51-102F1)

For the Year ended March 31, 2006

Information as of July 26, 2006 unless otherwise stated

### Note to Reader

The following management discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Company's annual audited financial statements for the year ended March 31, 2006, together with the notes thereto, as well as, the Companies previous financial and MD&A reports. The material herein, as of July 26, 2006 updates the information as of March 1, 2006, contained in the MD&A of that report. These annual audited financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Quarterly financial statements are prepared by management on the same basis.

### Forward-Looking Information

This discussion includes certain statements that may be deemed "forward-looking statements." All statements in this discussion, other than statements of historical facts that address future production, reserve potential, exploration drilling, exploration activities and events or developments that the Company expects, are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration successes, continued availability of capital and financing, and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements.

### Overall Performance

Macarthur is a mineral exploration company that has focused its exploration activities in Western Australia with its first seven holes of drilling having been completed in early July 2006.

In January 2006 Macarthur acquired 100% of Internickel Australia Pty Ltd (INA) with the consideration being paid by AUS\$1,000,000 (CAN\$ 950,000) and the issue of 1 (one) million common shares of the Company. INA holds 100% of the Lake Giles project located in Western Australia. However, the agreement provided for InterCOAL Limited to have the right to acquire 20% of this project with the payment of \$10 (ten). In July 2006 Macarthur acquired this interest by the issue of a further 1 (one) million shares which gives the Company complete ownership of INA and the Lake Giles project.

On the 18th of January 2006 Macarthur announced it had retained Longview Strategies Incorporated ("Longview") of Vancouver, British Columbia, Canada to provide Investor Relations ("IR") services to the Company. Longview has many years experience working with senior management in defining corporate identities and articulating their inherent value to strategic partners and the investment community.

Longview will assist the Company in liaising with members of the financial community, various stock exchanges, potential investors and current shareholders to keep them informed and up to date on the Company's mineral properties in Australia. In addition, news releases and public dissemination materials will be reviewed in order to increase market impact. Longview will also assist with the identification of possible mineral projects for the Company.

Longview has agreed to provide services to the Company for an initial term of 12 months and was granted options of the Company to purchase 200,000 shares of the Company at a price of \$0.35 per share for a period of 5 years. The shares will vest in stages over twelve months with one-quarter of the options vesting every three months following the guidelines set out in the Company's stock option plan and as set forth by the TSX Venture Exchange.

On October 2005 the Company appointed two new Directors to the board. Mr. Alan Philips joined the board and has been a Director, exclusive Director and Chairman of ASX listed public Companies covering a period of 30 years, specializing in start-up and turn-around across a broad range of industries , but predominantly in the mining, exploration and technology industries. Mr. David Barwick also joined the board and he is an accountant with over 33 years experience in the management and administration of publicly listed companies both in Australia and North America. In July 2006 Mr. Barwick was appointed as Chairman, President and CEO of the Company replacing Mr. James Canning-Ure who has stepped down from that position but remains a director of the Company. Mr. Barwick, in his role as Chairman and/or President has played a significant role in successfully funding and bringing into production four mining projects.

On the 27th of April 2006 Macarthur appointed Mr. Bill Lyne as the Company's Secretary. Mr. Lyne is the principal of Australian Company Secretary Service, providing company secretarial, compliance and governance services to public and other companies. He is Secretary of a number of Australian stock exchange listed companies, two of which he is also a Director, and brings to MMS a wealth of experience in corporate governance principles and practice. Mr. Lyne holds a Bachelor of Commerce (Economics) degree and is a Chartered Accountant. He is a Fellow of the Institute of Chartered Secretaries & Administrators and a presenter at institute courses in company secretarial practice. Mr. James Canning-Ure has stepped down from the role of Company Secretary but remains as a Director of the Company

In July 2006 Mr. Gary Clark who was Macarthur's Chief Geologist passed away. As Mr. Clark had been ill for a number of months the Company had built a strong geological support team around him and a replacement to his position is expected to be announced soon.

On January 25, 2005, the Company held its Annual and Special General Meeting and approved the continuance of the Company back to the province of British Columbia from Australia. This migration has not occurred as there are no provisions in the Australian Corporations Law to allow for this. Macarthur therefore remains as an Australian Public Company listed on the TSXV and as such is required to comply with both regulatory authorities.

The Company's loss from operations for the year ended March 31, 2006 totaled \$734,594, a loss of \$0.15 per share, as compared to a loss of \$215,950 for the year ended March 31, 2005, a loss of \$0.08 per share. Assets increased from \$113,425 as at March 31, 2005 to \$1,771,251 as at March 31, 2006 as a result of Several Private Placements being successfully concluded and the acquisition of INA for a combination of both cash and the issue of Common Shares as detailed above. On a quarterly basis, the Company's loss from operations for the three months ended March 31, 2006 totaled \$480,646, a loss of \$0.10 per share, as compared to a loss of \$121,968 for the three months ended March 31, 2005, a loss of \$0.05 per share. Assets increased by \$624,982 in the fourth quarter primarily as a result of the Private Placements.

General and administrative expenses increased from \$118,415 in the three months ended March 31, 2005 to \$416,064 in the three months ended March 31, 2006. For the year ended March 31, 2006, general and administrative expenses were \$670,572, an increase of \$458,090 over the previous year. Interest income was \$450 (2005 - \$47) for the fourth quarter ended March 31, 2006. Interest income was \$940 (2005 - \$75) for the year ended March 31, 2006. There were no deferred explorations or property write-offs in the fourth quarter or the year ended March 31, 2006 and March 31, 2005.

Significant changes in General and Administrative costs over the last year were: accounting and legal fees increased by \$34,676 to \$87,738, office costs decreased by \$12,009 to \$9,276, investor

relation and printing costs increased by \$22,775 to \$23,705 reflecting the several private placements during the fiscal year, stock-based compensation of \$389,918 reflecting the options granted during the year, filing fees increased by \$9,715 to \$29,203, management fees decreased by \$41,305 to \$56,267 and travel costs increased by \$56,369 to \$74,465 reflecting the costs associated with acquiring a new exploration property and company administration.

### **Exploration Update**

Having acquired 100% INA the Company has been active in its exploration activities during the year on the Lake Giles project which comprises 6 Exploration Licences - E30/230, E30/240, E30/241, E30/242, E30/260 and E30/269. These tenements cover a total area of about 489 square kilometers. Details of the tenements are as follows.

| <b>EXPLORATION LICENCE</b> | <b>STATUS</b> | <b>DATE GRANTED</b> | <b>TOTAL UNITS</b> | <b>GRATICULE</b> | <b>KM2</b> |
|----------------------------|---------------|---------------------|--------------------|------------------|------------|
| E30/230                    | Granted       | 28-Apr-2000         |                    | 21               | 63         |
| E30/240                    | Granted       | 23-Oct-2000         |                    | 41               | 123        |
| E30/241                    | Granted       | 30-June-2003        |                    | 44               | 132        |
| E30/242                    | Granted       | 06-Feb-2001         |                    | 47               | 141        |
| E30/260                    | Granted       | 16-May-2003         |                    | 4                | 12         |
| E30/269                    | Granted       | 18-April-2005       |                    | 6                | 18         |
| <b>Total</b>               |               |                     |                    | <b>163</b>       | <b>489</b> |

### **IRON ORE (FE) ACTIVITIES**

A 7 (seven) hole drilling program was completed in early July 2006 and this drilling followed the completion of a 229 hole Auger Drilling Program on the Company's Iron Pisolite area and on 11 (eleven) lines which were 500m apart with the holes being at 100m intervals.

A comprehensive geological review of historical and recent geophysical data has resulted in a further 15-20 iron ore targets that will be drilled in the coming months.

The results of the first seven holes drilling program are expected in mid August 2006.

### **NICKEL (NI) ACTIVITIES**

Also during the reporting period a review of the Lake Giles Hoistem Survey was completed with the specific intention of identifying anomalies over the northern, middle and southern ultramafic zones located in E30/240, E30/230 and E30/269.

A total of nine anomalies were identified and modelled across the central tenements. Four of the anomalies have been priorities for immediate follow up. Outer-Rim Exploration Services have been contracted to complete a fixed loop survey to better define the anomalies.

Results from the survey are expected in Aug – Sep 2006.

### **RISKS AND UNCERTAINTIES**

The Company is subject to a number of risk factors due to the nature of its business and the present stage of development. The following risk factors should be considered:

#### **General**

The Company is a junior mineral exploration company listed on the TSX Venture Exchange and engaged in the acquisition, exploration and development of mineral properties. It has not yet

determined whether its properties contain mineral reserves that are economically recoverable. The recoverability of the amounts shown for resource assets is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties, and upon future profitable production or proceeds from the disposition of the properties. The Company's ability to continue its operations is dependent on its ability to secure additional financing, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. In order to continue developing its mineral properties, management is actively pursuing such additional sources of financing; however, in the event this does not occur, there is doubt about the ability of the Company to continue as a going concern. The Financial Statements and discussion and analysis of the financial condition, changes in financial condition and results of operations of the Company for the periods ended March 31, 2006 and 2005 do not include the adjustments that would be necessary should the Company be unable to continue as a going concern.

The amount of the Company's administrative expenditures is related to the level of financing and exploration activities that are being conducted, which in turn may depend on the Company's recent exploration experience and prospects, as well as the general market conditions relating to the availability of funding for exploration-stage resource companies. Consequently, the Company does not acquire properties or conduct exploration work on them on a pre-determined basis and as a result there may not be predictable or observable trends in the Company's business activities and comparisons of financial operating results with prior years may not be meaningful.

### **Trends**

The Company's financial success is dependent upon the discovery of properties which could be economically viable to develop. Such development could take years to complete and the resulting income, if any, is difficult to determine. The sales value of any mineralization discovered by the Company is largely dependent upon factors beyond the Company's control, such as the market value of the products produced. Other than as disclosed herein, the Company is not aware of any trends, uncertainties, demands, commitments or events which are reasonably likely to have a material effect on the Company's sales or revenues, income from continuing operations, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial condition.

### **Competitive Conditions**

The resource industry is intensively competitive in all of its phases. The Company competes with other mining companies for the acquisition of mineral claims and other mining interests as well as for the recruitment and retention of qualified employees and contractors. There is significant and increasing competition for a limited number of diamond and other resource acquisition opportunities and as a result, the Company may be unable to acquire suitable producing properties or prospects for exploration in the future on terms it considers acceptable. The Company competes with many other companies that have substantially greater financial resources than the Company.

### **Environmental Factors and Protection Requirements**

All phases of the Company's operations are subject to environmental regulation in the jurisdictions in which it operates. Environmental legislation is evolving in a manner which requires stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. There is no assurance that regulatory and environmental approvals will be obtained on a timely basis or at all. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations or to preclude entirely the economic development of a property. Environmental hazards may exist on the properties which are unknown to the Company at present which have been caused by previous or existing owners or operators of the properties. The Company is currently engaged in exploration with nil to minimal environmental impact.

## **Mineral Exploration and Development**

The Company's properties are in the exploration stage. Development of the Company's properties will only proceed upon obtaining satisfactory exploration results. Mineral exploration and development involve a high degree of risk and few properties which are explored are ultimately developed into producing mines. There is no assurance that mineral exploration and development activities will result in the discovery of a body of commercial minerals on any of the Company's properties. Several years may pass between the discovery of a deposit and its exploitation. Most exploration projects do not result in the discovery of commercially mineralized deposits.

## **Operating Hazards and Risks**

Mineral exploration involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. The operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of resources, any of which could result in work stoppages and damage to persons or property or the environment and possible legal liability for any and all damage. Fires, power outages, labor disruptions, flooding, explosions, cave-ins, land slides and the inability to obtain suitable or adequate machinery, equipment or labor are some of the risks involved in the operation of mines and the conduct of exploration programs. Although the Company will, when appropriate, secure liability insurance in an amount which it considers adequate, the nature of these risks is such that liabilities might exceed policy limits, the liability and hazards might not be insurable, or the Company might elect not to insure itself against such liabilities due to high premium costs or other reasons, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition.

## **Economics of Developing Mineral Properties**

Substantial expenditures are required to establish reserves through drilling, to develop processes to extract minerals and to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that the funds required for development can be obtained on a timely basis. The marketability of any minerals acquired or discovered may be affected by numerous factors which are beyond the Company's control and which cannot be predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection. Depending on the price of minerals produced, the Company may determine that it is impractical to commence or continue commercial production.

## **Commodity Prices**

The Company's revenues, if any, are expected to be in large part derived from the mining and sale of minerals or interests related thereto. The price of various minerals have fluctuated widely, particularly in recent years, and is affected by numerous factors beyond the Company's control including international economic and political conditions, expectations of inflation, international currency exchange rates, interest rates, global or regional consumptive patterns, speculative activities, levels of supply and demand, increased production due to new mine developments and improved mining and production methods, availability and costs of mineral substitutes, mineral stock levels maintained by producers and others and inventory carrying costs. The effect of these factors on the price of various minerals, and therefore the economic viability of the Company's operations cannot accurately be predicted.

## **Title**

There is no guarantee that title to properties in which the Company has a material interest will not be challenged or impugned. The Company's mineral property interests may be subject to prior unregistered agreements or transfers, and title may be affected by undetected defects.

## **Governmental Regulation**

Operations, development and exploration on the Company's properties are affected to varying degrees by: (i) government regulations relating to such matters as environmental protection, health, safety and labor; (ii) mining law reform; (iii) restrictions on production, price controls, and tax increases; (iv) maintenance of claims; (v) tenure; and (vi) expropriation of property. There is no assurance that future changes in such regulations, if any, will not adversely affect the Company's operations. Changes in such regulations could result in additional expenses and capital expenditures, availability of capital, competition, reserve uncertainty, potential conflicts of interest, title risks, dilution, and restrictions and delays in operations, the extent of which cannot be predicted. If any of the Company's projects are advanced to the development stage, those operations will also be subject to various laws and regulations concerning development, production, taxes, labor standards, environmental protection, mine safety and other matters. In addition, new laws or regulations governing operations and activities of mining companies could have a material adverse impact on any project in the mine development stage that the Company may possess.

## **Management and Directors**

The Company is dependent on a relatively small number of directors and officers:

David Barwick – Chairman, President/CEO Managing Director

James Canning-Ure – Director

Gary Clark - Director

Simon Hickey – Director

Alan Phillips - Director

The loss of any of one of those persons, or of employees could have an adverse affect on the Company. However Mr. Gary Clark who passed away recently is to be replaced by a suitably qualified person shortly. The Company does not maintain key person insurance on any of its management.

## **Conflicts of Interest**

Certain officers and directors of the Company are officers and/or directors of, or are associated with, other natural resource companies that acquire interests in mineral properties. Such associations may give rise to conflicts of interest from time to time. The directors are required by law, however, to act honestly and in good faith with a view to the best interests of the Company and its shareholders and to disclose any personal interest which they may have in any material transaction which is proposed to be entered into with the Company and to abstain from voting as a director for the approval of any such transaction.

## **Limited Operating History: Losses**

The Company has experienced losses in all years of its operations. There can be no assurance that the Company will operate profitably in the future, if at all. As at March 31, 2006 the Company's deficit was \$14,073,968.

## **Price Fluctuations: Share Price Volatility**

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market price of securities of many mineral exploration companies have experienced wide fluctuations in price which have not necessarily been related to

the operating performance, underlying asset values or prospects of such companies. In particular, during the financial year ended March 31, 2006, the per share price of the Company's shares fluctuated from a high of \$0.15 to a low of \$0.71. There can be no assurance that continual fluctuations in price will not occur.

#### **Shares Reserved for Future Issuance: Dilution**

As at March 31, 2006, there were 911,000 stock options and 950,000 warrants outstanding.

#### **RELATED PARTY TRANSACTIONS**

During the years ended March 31, 2006 and 2005, the Company incurred the following transaction with directors of the Company:

|                 |             |             |
|-----------------|-------------|-------------|
|                 | <u>2006</u> | <u>2005</u> |
| Management fees | \$ 31,459   | \$ 42,232   |

This transaction was measured by the exchange amount, which is the amount agreed upon by the transacting parties.

At March 31, 2006, \$31,459 (2005 - \$245,776) is owed to directors and a private Company controlled by a director for accrued management fees and for expenses paid on behalf of the Company.

Issued 439,500 common shares for settlement of \$87,900 of debt to directors and a private company controlled by a director.

Granted 1,275,000 (2005 – Nil) stock options to directors and officers, which are recorded as stock-based compensation of \$378,313 (2005 - \$Nil).

#### **COMMITMENTS**

The Company has no material commitments at this time.

#### **SUBSEQUENT EVENTS**

Subsequent events are listed in Note 11 to the Financial Statements for March 31, 2006.

#### **ACCOUNTING POLICIES**

Accounting policies are listed in Note 2 to the Financial Statements for March 31, 2006.

#### **SELECTED FINANCIAL INFORMATION**

The following table sets forth selected financial information of the Company for, and as at the end of, each of the last three financial years of the Company up to and including March 31, 2006. This financial information is derived from the financial statements of the Company which were audited by Davidson & Company, Chartered Accountants. The Company prepares financial information according to Generally Accepted Accounting Principles ("GAAP") and all information is reported in Canadian \$.

| <b><u>March 31 (Audited)</u></b>      | <b><u>2006</u></b> | <b><u>2005</u></b> | <b><u>2004</u></b> |
|---------------------------------------|--------------------|--------------------|--------------------|
| Total Revenues                        | 1,127              | 132                | 159                |
| Income from continuing operations     | -                  | -                  | -                  |
| Net loss for the year                 | (734,594)          | (215,950)          | (3,887,318)        |
| Net loss per share                    | (0.15)             | (0.08)             | (2.02)             |
| Total Assets                          | 1,771,251          | 113,425            | 84,196             |
| Total Long-term financial liabilities | -                  | 204,318            | 30,000             |

No cash dividends have been declared or paid since the date of incorporation and the Company has no present intention of paying dividends on its common shares. The Company anticipates that all available funds will be invested to finance the growth of its business.

The net loss amount is affected mainly by the administration costs and foreign exchange rate loss due to stronger Canadian \$ during the fiscal year. Revenues from 2004 to 2006 are interest income and other miscellaneous income.

Interest income is dependent upon interest rates and the amount of financing raised each year by the Company. Interest rates will vary due to market conditions and the Company has no control over the fluctuation of rates.

Expenses are mainly composed of administration expenses, which including filing fees, investor relations, professional fees, management fees, travel and accommodation and stock-based compensation.

All of the above factors must be taken into consideration when comparing Total Revenues and Net Loss for each year.

#### **SUMMARY OF QUARTERLY INFORMATION**

The following table sets forth a comparison of revenues and earnings for the previous eight quarters ending with March 31, 2006. Financial information is prepared according to GAAP and is reported in Canadian \$.

|                    | <u>Jun-30</u><br><u>2004</u> | <u>Sep-30</u><br><u>2004</u> | <u>Dec-31</u><br><u>2004</u> | <u>Mar-31</u><br><u>2005</u> | <u>Jun-30</u><br><u>2005</u> | <u>Sep-30</u><br><u>2005</u> | <u>Dec-31</u><br><u>2005</u> | <u>Mar-31</u><br><u>2006</u> |
|--------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Interest Income    | \$66                         | \$5                          | \$14                         | \$47                         | \$-                          | \$240                        | \$250                        | \$450                        |
| Net loss           | \$(41,528)                   | \$(11,061)                   | \$(41,047)                   | \$(121,968)                  | \$(27,305)                   | \$(33,680)                   | \$(192,725)                  | \$(480,646)                  |
| Net loss per share | \$0.02                       | \$0.00                       | \$0.02                       | \$0.05                       | \$0.01                       | \$0.01                       | \$0.04                       | \$0.10                       |

#### **LIQUIDITY AND CAPITAL RESOURCES**

The Company has limited financial resources and there is no assurance that additional funding will be available to allow the Company to acquire and explore mineral properties. Failure to obtain additional financing could result in delay or indefinite postponement of further exploration. The Company may, in the future, be unable to meet its obligations under agreements to which it is a party and the Company may consequently have its interest in the properties subject to such agreements jeopardised. Furthermore, if other parties to such agreements do not meet their share of such costs, the Company may be unable to finance the cost required to complete recommended programs.

The Company is dependent on raising funds by the issuance of shares or disposing of interests in its mineral properties (by options, joint ventures or outright sales) in order to finance further acquisitions, undertake exploration and development of mineral properties and meet general and administrative expenses in the immediate and long term. There can be no assurance that the Company will be successful in raising their required financing.

The Company's financial performance is dependent on many external factors. The Company expects that any revenues it may earn from its operations in the future will be from the sale of minerals. Both prices and markets for metals and minerals are cyclical, difficult to predict, volatile, subject to government price fixing and controls and respond to changes in domestic and international, political, social and economic environments. In addition, the availability and cost of funds for exploration, development and production costs are difficult to predict. These changes in events could materially affect the financial performance of the Company.

The Company has a working capital surplus at March 31, 2006 of \$297,551 compared with a deficit of \$222,941 as at March 31, 2005. The Company has no material income from operations and any improvement in working capital results primarily from the issuance of share capital.

## **FINANCIAL INSTRUMENTS**

Fair value estimates of financial instruments are made at a specific point of time, based on relevant information about financial markets and specific financial instruments. At these estimates are subjective in nature, involving uncertainties and matter of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value of cash and cash equivalents, marketable securities, sundry receivable, and accounts payable and accrued liabilities and mortgage loans approximate their fair market value because of the short-term nature of these instruments.

## **OUTSTANDING SHARE DATA AS OF JULY 26, 2006:**

Authorized and issued share capital:

| <b>Class</b> | <b>Par Value</b> | <b>Authorized</b> | <b>Issued</b> |
|--------------|------------------|-------------------|---------------|
| Common       | No par value     | 250,000,000       | 11,368,052    |

There are currently 736,000 options and 950,000 warrants outstanding.

## **OTHER INFORMATION**

The Company's website address is [www.macarthurminerals.com](http://www.macarthurminerals.com). Other information relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## **BY ORDER OF THE BOARD**

*"David Barwick"*

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David Barwick  
President Chairman and CEO

*"James Canning-Ure"*

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James Canning-Ure  
Director