

# **MACARTHUR MINERALS LIMITED**

## **Management Discussion and Analysis (Form 51-102F1) For the First Quarter ended June 30, 2006 Information as of August 24, 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 and for the three months ended June 30, 2006, together with the notes thereto, as well as, the Companies previous financial and MD&A reports. The material herein, as of August 24, 2006 updates the information as of July 26, 2006 contained in the MD&A of that report. These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

### **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 and with the second drilling program currently in progress.

All exploration activities are focused on its 100% owned Lake Giles project owned by its wholly-owned subsidiary Internickel Australia Pty Ltd (INA).

Technical Director Mr. Gary Clark passed away in July 2006 with acting Chief Geologist on the Lake Giles Project Mr. Nick Revell joining the board on August 3, 2006. Mr. Revell has over 15 years experience as a geologist and is a member of the Australian Institute of Mining and Metallurgy and has now become the Qualified Person as defined in NI43-101.

On August 4, 2006, the Company issued CDN\$1,000,000 by way of issuance of convertible notes to MDA Capital Pty Ltd., the Company's substantial shareholder. On August 8, 2006, the Company announced a private placement to raise a further CDN\$252,000 by the issuance of 350,000 common shares of the Company to Lonqview Strategies Incorporated. The funds raised from these two financings will be used to progress the exploration on the Lake Giles Project as well as the general working capital.

### **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 Licenses - 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.

| EXPLORATION LICENCE | STATUS  | DATE GRANTED  | TOTAL UNITS | GRATICULE | KM2        |
|---------------------|---------|---------------|-------------|-----------|------------|
| 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 Drilling Phase 2

The Company has commenced drilling Phase 2 at Lake Giles Project on the AUG-9-2006 to date the drilling program has completed 6 holes for a total of 1,140 meters.

The main focus of Phase 2 is to follow LGRC\_001 & LGRC\_002, which both intersected >50 meters of visible magnetite.

### Summary Drilling Table

| Hole ID  | Northing  | Easting | Depth   | Azimuth  | Dip |
|----------|-----------|---------|---------|----------|-----|
| LGRC_008 | 6,698,430 | 781,732 | 156     | 090      | -60 |
| LGRC_009 | 6,697,977 | 781,706 | 84      | 100      | -60 |
| LGRC_010 | 6,699,058 | 781,866 | 288     | 060      | -60 |
| LGRC_011 | 6,698,487 | 782,376 | 252     | 240      | -60 |
| LGRC_012 | 6,698,177 | 782,525 | 160     | 220      | -60 |
| LGRC_014 | 6,698,840 | 781,930 | 200 *** | VERTICAL | -90 |

\*\*\*\* *hole still in progress*

### Snark Drilling

**LGRC\_008** intersected mineralised BIF (banded iron formation) from 54m to 108m (54 m interval).

## **Snark Drilling (cont'd...)**

**LGRC\_010** intersected visible magnetite from 102m to 235m (133m interval).

**LGRC\_011** intersected visible magnetite from 132m to 236m (104m interval).

**LGRC\_014** is currently still being drilled and geological logs are yet to be recorded.

The completion of the drilling program will continue with the strike extension of the Snark Project, which is currently about 800 meters in length.

Due to the buoyant exploration industry and the extremely large backlog of samples that are currently flooding commercial laboratories in Western Australia, none of the assay results have yet been received from the Stage 1 or Stage 2 drilling program, however stage 1 results are expected to be completed by the end of the month.

## **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 sufficient 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 when required, 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 may be required to pursue additional sources of financing in the future. 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 June 30, 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 gold 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**

The Company currently conducts exploration and development activities in Australia. 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.

## **Risks and Uncertainties**

The risks and uncertainties affecting the Company remain unchanged from those disclosed in its Annual MD&A.

## **RELATED PARTY TRANSACTIONS**

During the periods ended June 30, 2006 and 2005, the Company incurred the following transaction with directors of the Company:

|                 |             |             |
|-----------------|-------------|-------------|
|                 | <u>2006</u> | <u>2005</u> |
| Management fees | \$ 24,750   | \$ -        |

This transaction was measured by the exchange amount, which is the amount agreed upon by the transacting parties. At June 30, 2006, \$55,759 (2005 - \$66,458) 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.

## **COMMITMENTS**

The Company has no material commitments at this time.

## **SUBSEQUENT EVENTS**

There are no material subsequent events that have not been disclosed in this document.

## **ACCOUNTING POLICIES**

Accounting policies are listed in Note 2 to the Financial Statements for June 30, 2006.

## SUMMARY OF QUARTERLY INFORMATION

The following table sets forth a comparison of revenues and earnings for the previous eight quarters ending with June 30, 2006. Financial information is prepared according to GAAP and is reported in Canadian \$.

|                    | Sep-30<br><u>2004</u> | Dec-31<br><u>2004</u> | Mar-31 <u>2005</u> | Jun-30<br><u>2005</u> | Sep-30<br><u>2005</u> | Dec-31<br><u>2005</u> | Mar-31<br><u>2006</u> | June 30<br><u>2006</u> |
|--------------------|-----------------------|-----------------------|--------------------|-----------------------|-----------------------|-----------------------|-----------------------|------------------------|
| Interest Income    | \$5                   | \$14                  | \$47               | \$-                   | \$240                 | \$250                 | \$450                 | \$2,040                |
| Net loss           | \$(11,061)            | \$(41,047)            | \$(121,968)        | \$(27,305)            | \$(33,680)            | \$(192,725)           | \$(480,646)           | \$(85,776)             |
| Net loss per share | \$0.00                | \$0.02                | \$0.05             | \$0.01                | \$0.01                | \$0.04                | \$0.10                | \$0.01                 |

## LIQUIDITY AND CAPITAL RESOURCES

The Company has sufficient financial resources to meet all current exploration activities, however there is no assurance that additional funding will be available to allow the Company to acquire and explore other mineral properties. Failure to obtain additional financing could result in delay or indefinite postponement of further exploration.

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 at June 30, 2006 of \$236,899 compared with a deficit of \$341,681 as at June 30, 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 AUGUST 30, 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       | 11,068,062    |

**OTHER INFORMATION**

Other information relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

**BY ORDER OF THE BOARD**

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David K. Barwick  
President and Director

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James Canning-Ure  
Director