

**MACARTHUR MINERALS LIMITED**

**CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2006**

**(Unaudited – Prepared by Management)**

**NOTICE CONCERNING AUDITOR REVIEW**

The Company did not engage an independent auditor to perform a review of the interim financial statements for the three month and nine month periods ended December 31, 2006. Accordingly, the interim financial statements for the three month and nine month periods ended December 31, 2006 have been prepared by management and have not been reviewed by an independent auditor.

**MACARTHUR MINERALS LIMITED**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited - prepared by Management)  
AS AT DECEMBER 31, 2006 AND MARCH 31, 2006

	December 31, 2006	March 31, 2006
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 1,180,324	\$ 332,791
Receivables	51,180	27,264
Total current assets	1,231,504	360,055
Mineral properties (Note 3)	2,688,563	1,411,196
<b>Total assets</b>	<b>\$ 3,920,067</b>	<b>\$ 1,771,251</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 61,350	\$ 31,045
Due to related parties (Note 5)	116,029	31,459
<b>Total current liabilities</b>	<b>177,379</b>	<b>62,504</b>
<b>Shareholders' equity</b>		
Capital stock (Note 4)	17,598,224	15,518,724
Contributed surplus (Note 4)	1,614,024	263,991
Foreign currency translation account	319,468	-
Deficit	(15,789,028)	(14,073,968)
Total shareholders' equity	3,742,688	1,708,747
<b>Total liabilities and shareholders' equity</b>	<b>\$ 3,920,067</b>	<b>\$ 1,771,251</b>

Nature and continuance of operations (Note 1)

On behalf of the Board:

"James Canning-Ure"  
James Canning-Ure

Director

"David Barwick"  
David Barwick

Director

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

**MACARTHUR MINERALS LIMITED**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
(Unaudited - prepared by Management)  
THIRD QUARTER ENDED DECEMBER 31, 2006

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2006	2005	2006	2005
<b>Administrative Expenses</b>				
Filing and transfer agent fees	\$ 2,720	\$ 12,592	\$ 24,666	\$ 19,700
Investor relations & printing	31,320	651	53,510	2,793
Office and general	22,248	3,553	32,000	10,912
Professional Fees	47,862	30,530	118,338	55,186
Salaries and management fees	35,895	10,500	96,368	30,768
Stock-based compensation	1,261,510	103,369	1,350,033	103,369
Travel and accommodation	20,378	31,780	58,002	31,780
<b>Total Administrative Expenses</b>	<b>1,421,933</b>	<b>192,975</b>	<b>1,732,917</b>	<b>254,508</b>
<b>Loss before other items</b>	<b>(1,421,933)</b>	<b>(192,975)</b>	<b>(1,732,917)</b>	<b>(254,508)</b>
Other items:				
Realised Foreign Currency loss	(2,730)	-	(2,730)	-
Interest & other income	12,800	250	20,587	560
<b>Net loss for the period</b>	<b>(1,411,863)</b>	<b>(192,725)</b>	<b>(1,715,060)</b>	<b>(253,948)</b>
Deficit, beginning of the period	(14,377,165)	( 13,400,597)	(14,073,968)	( 13,339,374)
Deficit, end of the period	\$ (15,789,028)	\$ (13,593,322)	\$ (15,789,028)	\$ (13,593,322)
Basic and diluted loss per common share	(10.5) cents	(3.8) cents	(14.1) cents	(7.5) cents
Weighted average number of common shares outstanding	13,508,572	5,079,683	12,177,760	3,372,019

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

**MACARTHUR MINERALS LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited - prepared by Management)  
THIRD QUARTER ENDED DECEMBER 31, 2006

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>Operating Activities</b>				
Net loss for the period	(1,411,863)	(192,725)	(1,715,060)	(253,948)
Items not involving cash:				
Foreign currency translation gains	58,834	-	50,085	-
Stock-based compensation	1,261,510	103,369	1,350,033	103,369
	<u>(91,519)</u>	<u>(89,356)</u>	<u>(314,942)</u>	<u>(150,579)</u>
<i>Changes in non-cash working capital items related to operations</i>				
Receivables	43,256	(5,676)	(20,944)	(13,674)
Accounts payable and accrued liabilities	(124,441)	(29,906)	26,921	17,018
<b>Cash flows from Operating Activities</b>	<b><u>(172,704)</u></b>	<b><u>(124,938)</u></b>	<b><u>(308,965)</u></b>	<b><u>(147,235)</u></b>
<b>Investing Activities</b>				
Deferred acquisition costs	-	-	-	-
Mineral exploration expenditures	(121,758)	(27,104)	(610,420)	(129,532)
<b>Cash flows from Investing Activities</b>	<b><u>(121,758)</u></b>	<b><u>(27,104)</u></b>	<b><u>(610,420)</u></b>	<b><u>(129,532)</u></b>
<b>Financing Activities</b>				
Issuance of Common Shares	145,125	380,000	649,500	540,640
Shares subscribed	-	723,444	-	871,541
Due to related parties	114,595	(158,754)	1,081,141	(245,776)
<b>Cash flows from Financing Activities</b>	<b><u>259,720</u></b>	<b><u>944,690</u></b>	<b><u>1,730,641</u></b>	<b><u>1,166,405</u></b>
Increase in cash during the period	(34,742)	792,648	811,256	889,638
Foreign currency gain on opening cash balance	35,515	-	36,277	-
Cash and term deposits, beginning of the period	<u>1,179,551</u>	<u>146,235</u>	<u>332,791</u>	<u>49,245</u>
Cash and term deposits, end of the period	<u>1,180,324</u>	<u>\$ 938,883</u>	<u>\$1,180,324</u>	<u>\$ 938,883</u>

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

**MACARTHUR MINERALS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited – Prepared by Management)  
**THIRD QUARTER ENDED DECEMBER 31, 2006**

**1. NATURE AND CONTINUANCE OF OPERATIONS**

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

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.

	December 31, 2006	March 31, 2006
Deficit	\$(15,789,028)	\$(14,073,968)
Working capital (deficiency)	1,054,125	297,551

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Use of estimates**

The preparation of financial statements in conformity with Australian 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 period. 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.

The amounts shown for mineral properties and deferred exploration costs 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 period 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.

**MACARTHUR MINERALS LIMITED**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited – Prepared by Management)  
THIRD QUARTER ENDED DECEMBER 31, 2006

---

---

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

**Loss per share**

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

For diluted per share computations, assumptions are made regarding potential common shares outstanding during the period. 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 period, 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 period, 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.

**Foreign currency translation**

The Australian dollar is the primary currency of the economic environment in which the operations of the Company and its subsidiaries are conducted.

The Company uses the current rate method to translate its financial statements. Under the current rate method, assets and liabilities are translated into Canadian dollars using the rate of exchange prevailing at the balance sheet date, and the statement of operations is translated at average rates during the reporting period. Adjustments resulting from the translation of its financial statements from Australian dollars into Canadian dollars are recorded in shareholders' equity as part of cumulative translation adjustment.

Gains or losses resulting from transactions in currencies other than Australian dollars are reflected in the statement of operations for the reporting period.

**MACARTHUR MINERALS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited – Prepared by Management)  
**THIRD QUARTER ENDED DECEMBER 31, 2006**

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

**Comparative figures**

Certain comparative figures have been reclassified to conform with the current period'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 entire assets are a claim for a 100% interest in the Lake Giles Project located in Western Australia.

International Gold Mining Ltd, formerly InterCOAL Ltd. ("International Gold") held the right to acquire 20% of the outstanding and issued capital stock of Internickel. However, on the 17<sup>th</sup> July 2006, the Company acquired this option from International Gold by issuing 1,000,000 common shares from treasury at a deemed value CDN\$ 430,000.

In October 2006 the Company entered into an agreement with an adjoining landholder to acquire four additional tenements for \$100,000 progressively as they were granted. This will add an additional 261 km<sup>2</sup> of ground to the Project area, bringing the total Lake Giles land holding to 1,155 km<sup>2</sup>.

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

	Acquisition Costs \$ \$	Deferred Exploration Costs \$	Total 2006 \$
<b>Balance, as at March 31, 2006</b>	<b>1,371,724</b>	<b>39,472</b>	<b>1,411,196</b>
Incurred during the first quarter	-	76,642	76,642
<b>Balance, as at June 30, 2006</b>	<b>1,371,724</b>	<b>116,114</b>	<b>1,487,838</b>
Incurred during the second quarter	430,000	412,020	842,020
<b>Balance as at September 30, 2006</b>	<b>1,801,724</b>	<b>528,134</b>	<b>2,329,858</b>
Foreign Currency variance on September 30 balances	185,922	51,025	236,947
Incurred during the third quarter	-	121,758	121,758
<b>Balance as at December 31, 2006</b>	<b>1,987,646</b>	<b>700,917</b>	<b>2,688,563</b>

**MACARTHUR MINERALS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited – Prepared by Management)  
**THIRD QUARTER ENDED DECEMBER 31, 2006**

**4. CAPITAL STOCK**

	Number of Shares	Capital Stock \$	Contributed Surpl \$
Authorized			
Unlimited common voting shares, without par value			
<b>Balance as at March 31, 2006</b>	<b>10,743,062</b>	<b>15,518,724</b>	<b>263,991</b>
Exercise of options (i)	325,000	97,500	-
<b>Balance as at June 30, 2006</b>	<b>11,068,062</b>	<b>15,616,224</b>	<b>263,991</b>
Granting of Options to Nick Revell (v)	-	-	88,523
Share Issue – International Gold (iii)	1,000,000	430,000	-
Exercise of options and warrants (iv)	516,250	154,875	-
Share Issue – Longview (vi)	350,000	252,000	-
<b>Balance as at September 30, 2006</b>	<b>12,934,312</b>	<b>16,453,099</b>	<b>352,514</b>
Granting of Options to directors (vii)	-	-	1,261,510
Exercise of options and warrants (viii)	483,750	145,125	-
Conversion of shareholder loan (ix)	1,470,588	1,000,000	-
<b>Balance as at December 31, 2006</b>	<b>14,888,650</b>	<b>17,598,224</b>	<b>1,614,024</b>

During the period ended December 31, 2006, the Company completed:  
(All monetary amounts are in Canadian dollars).

- i) 25,000 stock options exercised at \$0.30 per share on April 30, 2006, and 300,000 stock options exercised at \$0.30 per share on May 10, 2006.
- ii) 36,000 stock options expired unexercised on April 23, 2006.
- iii) 1,000,000 shares were issued to International Gold at a deemed value of \$0.43 per share on July 28, 2006.
- iv) 116,250 warrants exercised at \$0.30 per share on July 28, 2006, and 250,000 warrants exercised at \$0.30 per share on August 3, 2006, and 125,000 warrants exercised at \$0.30 per share on August 8, 2006, and 25,000 options exercised at \$0.30 per share on August 25, 2006.
- v) 50,000 options granted with an exercise price of \$1.50 on September 22, 2006.
- vi) 350,000 shares issued to Longview Strategies at \$0.72 per share on September 29, 2006.
- vii) 750,000 options granted with an exercise price of \$2.15 on December 22, 2006.
- viii) 125,000 warrants exercised at 30 cents per share on October 4, 2006, and 25,000 options exercised at 30 cents per share on October 11, 2006, and 11,625 warrants exercised at 30 cents per share on October 11, 2006, and 322,125 warrants exercised at 30 cents per share on October 17, 2006.
- ix) 1,470,588 shares issued at 68 cents per share on conversion of a shareholder loan. (See Note 5 (f)).

**MACARTHUR MINERALS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited – Prepared by Management)  
**THIRD QUARTER ENDED DECEMBER 31, 2006**

**4. CAPITAL STOCK (cont'd...)**

**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 four months after the grant date. Options issued to consultants must vest in stages over 12 months with one quarter of the options vesting in any three month period. There were 50,000 stock options granted to a director during the period at an exercise price of \$1.50 and 750,000 granted to directors at an exercise price of \$2.15.

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

	Nine Months Ended December 31, 2006		Year Ended March 31, 2006	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	1,061,000	\$ 0.49	41,000	\$ 3.63
Granted	800,000	2.11	1,475,000	0.36
Exercised	(375,000)	0.30	(450,000)	0.30
Expired/cancelled	(36,000)	3.75	(5,000)	2.75
Outstanding, end of period	1,450,000	1.35	1,061,000	0.49
Options exercisable, end of period	650,000	\$ 0.43	911,000	\$ 0.58

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

Number of Options	Exercise Price	Expiry Date
	\$	
200,000	0.35	January 10, 2011
450,000	0.46	March 29, 2011
50,000	1.50	September 22, 2011
750,000	2.15	December 22, 2011

**MACARTHUR MINERALS LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited – Prepared by Management)  
**THIRD QUARTER ENDED DECEMBER 31, 2006**

**4. CAPITAL STOCK (cont'd...)**

**Warrants**

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

	Nine Months Ended December 31, 2006		Year Ended March 31, 2006	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	950,000	\$ 0.30	399,333	\$ 1.87
Granted	-	-	950,000	0.30
Exercised	(950,000)	\$ 0.30	-	-
Expired	-	-	(399,333)	1.87
Outstanding, end of period	-	-	950,000	0.30
Warrants exercisable, end of period	-	-	950,000	\$ 0.30

There were no warrants outstanding at December 31, 2006.

**5. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties:

- a) Paid or accrued \$45,033 (2005: Nil) for geological services provided by International Gold Mining Ltd, an entity associated with directors, David Barwick, Alan Phillips and Nick Revell..
- b) Paid or accrued \$74,855 (2005 nil) in directors fees during the nine month period.
- c) On July 28, 2006, 1,000,000 shares were issued at 43 cents per share to International Gold Mining Ltd, an entity associated with directors, David Barwick, Alan Phillips and Nick Revell..
- d) At December 31, 2006, \$97,776 (2005: Nil) is owed to directors and a private Company controlled by a director for accrued management fees, geological services and expenses paid on behalf of the Company.
- e) At December 31, 2006, there is \$18,253 owing to a major shareholder.
- f) On August 4, 2006, majority shareholder Talbot Group Holdings Pty Ltd (formerly MDA Capital Pty Ltd) issued a convertible note for \$1,000,000 to the Company. This note was converted to 1,470,588 common shares in the Company immediately after shareholder approval was granted at the Company's Annual General Meeting on December 21, 2006.

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.

**6. SUBSEQUENT EVENTS**

Phase three drilling commenced in the Lake Giles tenements in January 2007, with 3,500 to 4,000 metres of drilling to be undertaken. This drilling will focus on both the iron ore areas and the base metal targets.

In February 2007, the Company provided an update on the Stage 3 drilling program. The Company was particularly excited about what may be a new discovery, 2.5 kilometers from the main zone. One hole in particular has intersected a magnetic rich interval that has been logged from 60 metres to 190 metres down hole. Assay results from other holes drilled will be available in March 2007.

Stage three drilling is expected to finish around 16<sup>th</sup> February, 2007