

**MACARTHUR MINERALS LIMITED**  
**ACN 103 011 436**

**Management Discussion and Analysis**  
**(Form 51-102F1)**  
**For the Quarter ended December 31, 2008**

**Information as of February 26, 2009 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, 2008, together with the notes thereto, as well as the Company's previous quarterly financial and MD & A reports throughout the year. The material herein, as of February 26, 2009 updates the information as of November 28, 2008 contained in the MD&A of that report. The annual audited financial statements have been prepared 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, which 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. The material factors or assumptions used to develop forward-looking information include prevailing and projected market prices, exploitation and exploration estimates and results, 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. All exploration activities are focused on the Lake Giles project owned by its 70% owned subsidiary Internickel Australia Pty Ltd (Internickel Australia). The Company has now completed six separate drilling programs in December 2008. The Stage 6 drilling program was focusing on the Deep South area of the project with fifty seven holes for 12,231 meters completed. Intercepts from Stage 6 drilling program will be announced as soon as the data is compiled.

In November 2007 Macarthur Minerals entered into a Heads of Agreement with Chinese investment group LPD Holdings (Aust) Pty Ltd (LPD) to develop Lake Giles. LPD initially invested C\$10 million for 30% of Internickel Australia Pty Ltd (IAPL), the beneficial owner of the Lake Giles Project, with the majority of these funds focused on exploration. In January 2009 Minmetals Mining Corporation Limited (MMCL) completed a share sale agreement with LPD to acquire 20% of IAPL's shares. Following completion the shareholding in IAPL is now MMS 70 %, MMCL 20% and LPD 10%. In January 2009 Mr Edward Kwok resigned as a Director of IAPL and was replaced by Mr Fang Gang representing MMCL.

MMCL now holds the right to acquire a further 50% of IAPL shares from MMS for \$CDN100 Million and the right to acquire MMS' final 20% holding in IAPL for market value up to a maximum of \$CDN 40 Million. MMCL's right to acquire the 50% interest was subject to Macarthur shareholder approval, with the meeting held on 16 February 2009 and Shareholders voting unanimously for the sale. MMCL now have 10 business days to exercise the right to acquire the further 50% interest for \$CDN100 Million. The due date for completion of the transaction is 2<sup>nd</sup> March 2009.

## Results from operations

The Company's loss from operations for the quarter ended December 31, 2008 totalled \$619,327, a loss of \$0.03 per share, as compared to a loss of \$199,608 for the quarter ended December 31, 2007, a loss of \$0.01 per share. The main factors for the higher loss from operations is the decrease of \$266,831 (2007: nil) during the quarter in the dilution gain arising from the acquisition of 30% of IAPL by LPD and an increase in general and administrative expenses to \$492,199 (2007: \$229,248). These factors were partially offset by higher interest income of \$93,700 (2007: \$7,933) due to the higher cash levels during the period.

The main factors contributing to the higher general and administrative expenses for the quarter were higher professional fees of \$197,447 (2007: \$70,819), due to extensive legal, accounting and taxation advice with respect to the proposed sale of 50% of IAPL to MMCL; higher salaries and management fees of \$190,984 (2007: \$23,662) due to a marked increase in input by directors and management in managing the company's exploration program and corporate activities, particularly with respect to the the MMCL transactions. The increased management input brought about a corresponding increase in travel costs to \$47,016 (2007: \$3,961). These higher expenses were partially offset by there being no stock-based compensation expense (2007: \$64,553) as no options were issued during the quarter.

There were no deferred exploration or property write-offs in the quarters ended December 31, 2008 and December 31, 2007.

The Company's net loss after tax for the quarter ended December 31, 2008 was \$185,150, a profit of \$0.01 (basic and diluted) per share. The net loss after tax for the quarter ended December 31, 2007 was the same as the loss from operations for that quarter. There was a tax gain of \$434,177 for the quarter (2007: nil), being the tax benefit of tax losses from the quarter that would be recouped in the event that that MMCL acquires an additional 50% of IAPL's capital from the Company.

Assets increased from \$17,751,261 as at September 30, 2008 to \$18,484,295 as at December 31, 2008, primarily due the injection of \$1,000,000 of cash for the issue of 500,000 shares upon the exercise of 500,000 warrants in December 2008. There was not a material change to the value of the Australian dollar against the Canadian dollar during the quarter and assets also increased in Australian dollar terms.

The Company's profit from operations for the nine months ended December 31, 2008 totalled \$5,469,758, a profit of \$0.29 (basic and diluted) per share, as compared to a loss of \$550,938 for the nine months ended December 31, 2007, a loss of \$0.04 per share. The Company's net profit after tax for the nine months ended December 31, 2008 was \$7,093,906, a profit of \$0.38 (basic and diluted) per share. The net loss after tax for the nine months ended December 31, 2007 was the same as the loss from operations for that quarter. There was a tax gain of \$1,623,338 for the nine months (2007: nil), due to the recognition of a deferred tax asset, being the tax benefit of tax losses from the current and prior years that would be recouped in the event that LPD acquires an additional 50% of IAPL's capital from the Company.

The major factor contributing to the profit from operations for the nine months was the dilution gain of \$6,502,618 arising from the acquisition of 30% of IAPL by LPD. This acquisition of 30% of IAPL by LPD was by way of an issue of new shares by IAPL, rather than a transfer of shares in IAPL from Macarthur to LPD.

## **Results from operations (Cont'd...)**

General and administrative expenses increased from \$642,689 in the nine months ended December 31, 2007 to \$1,005,341 in the nine months ended December 31, 2008, primarily due to higher salaries and management fees of \$398,386 (2007: \$85,263) and higher professional fees of \$305,681 (2007: \$190,044). The higher salaries and management fees is due to the extensive steady increase during the period in input by directors and management in managing the Company's exploration program and negotiating the partial sale of IAPL. The higher professional fees include substantial costs incurred on legal, accounting and taxation advice with respect to the partial sale of IAPL, particularly during the December quarter.

Interest income for the nine months was \$392,548 (2007: \$27,724) as a result of the receipt and investment of the \$9 million received in April 2008 for sale of 30% of IAPL. In addition, the Company incurred a foreign exchange gain of \$98,127 (2007: \$3,264 loss) during the nine month period. There were no deferred exploration or property write-offs in the nine months ended December 31, 2008 and December 31, 2007.

## **Exploration Update**

### **Geological Activities**

For the quarter exploration has been concentrated on the Moonshine Project a total of 4,569 meters of drilling had been completed, represented in drill holes LCRC 151 – 173. All drilling has been logged and iron ore samples have been sent to the Amdell Laboratory in Perth have been analysed and subject to Davis Tube Testing procedures and these results are expected out in late March 2009.

The mineralisation interpretation for Moonshine comprises two main north-northwest trending, sub-vertical banded iron formation (BIF) units. The BIF units are intruded by gently dipping porphyritic dykes, and appear to be surrounded by mostly peridotites and other ultramafic units.

Active exploration closed in mid December 2008 and exploration activity will be reviewed by the IAPL directors once the MMCL transaction has been resolved.

## **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 an Australian junior mineral exploration company listed on the TSX Venture Exchange and engaged in the exploration and development of mineral properties held by IAPL and located at Lake Giles in Western Australia.

The Company recognises the current economic world economies and financial markets uncertainties and has ensured that all funds held by it and its subsidiaries are held in tier 1 banks where funds are guaranteed by the Australian Government. The Company only keeps minimal funds in overseas bank accounts to minimise foreign exchange fluctuations. In early 2008 the Company secured \$10 million (\$1 million in January and the balance in April) from a share placement with LPD, of which \$1.5 million has been allocated to the ongoing management of the Company. The balance has been used to fund current and future exploration activities.

## **RISKS AND UNCERTAINTIES (Cont'd...)**

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 increasing the commercial mineral resources on the Lake Giles prospect which could be economically viable to develop. Such development could take several years to complete and the resulting income, if any, is difficult to determine at this time, until the resource estimate on its magnetite prospect and scoping study is concluded. 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, and a number of other magnetite deposits are being developed in Western Australia. 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. The Company competes with many other companies that have substantially greater financial resources than the Company and our ability to compete is dependent of being able to raise additional funds as and when required.

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

The Company currently conducts exploration and development activities in Western 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 (Cont'd...)**

### **Mineral Exploration and Development**

The Company has successfully achieved its drilling program to satisfy the LPD and MMCL agreement and as such has scaled down the drilling program to 1 drill rig. Drilling ceased on the 16<sup>th</sup> of December 2008 and next year's drilling will be reviewed once ownership of IAPL has been crystallized.

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, landslides 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 has secured appropriate, 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.

## **RISKS AND UNCERTAINTIES (Cont'd...)**

### **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. No native title claims were lodged by the due date, which has enabled the Company to apply for mining leases. Some of these are now pending.

### **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 – CFO & Director

Simon Hickey – Director

Alan Phillips - Director

Nick Revell – Director

The Company does not maintain key person insurance on any of its management.

It does maintain Directors and Officers insurance.

## **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 December 31, 2008 the Company's deficit was \$8,075,355.

## **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 quarter ended December 31, 2008, the per share price of the Company's shares fluctuated from a low of \$ 1.10 to a high of \$2.49. There can be no assurance that continual fluctuations in price will not occur.

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

As at December 31, 2008, there were 1,375,000 stock options and 2,000,000 warrants outstanding.

## **RELATED PARTY TRANSACTIONS**

The following persons and entities are related parties during the year.

- David Barwick – Chairman, President/CEO Managing Director
- James Canning-Ure – Director
- Simon Hickey – Director
- Alan Phillips – Director
- Nick Revell – Director
- International Gold Mining Ltd, an entity of which Nick Alan Phillips is a director.
- Strategic Capital Pty Ltd an entity associated with Alan Phillips and of which he is a director.
- Phillips Exploration Pty Ltd an entity associated with Alan Phillips and of which he is a director.
- Chivas Group Pty Ltd, an entity associated with David Barwick and of which he is a director.
- Cadan Resources Corporation, an entity of which Alan Phillips is a director
- Ruby Rich Pty Ltd, an entity associated with Nick Revell and of which he is a director
- Talbot Group Holdings Pty Ltd, a substantial shareholder

## RELATED PARTY TRANSACTIONS (Cont'd...)

The Company entered into the following transactions with related parties:

- a) Paid or accrued \$125,725 (2007: \$34,318) for geological, office rental and other services provided by International Gold Mining Limited.
- b) Paid or accrued \$196,935 (2007: \$85,305) in directors and management fees during the year.
- c) Paid or accrued \$11,216 (2007: nil) for geological services provided by Ruby Rich Pty Ltd.
- d) Paid or accrued \$538 (2007: nil) for office rental provided by Strategic Capital Pty Ltd.
- e) At December 31, 2008 \$11,673 (2007: \$11,653) is owed to directors and International Gold Pty Ltd and Ruby Rich Pty Ltd for accrued directors and management fees, geological services and expenses paid on behalf of the Company.
- f) At December 31, 2008 there is \$32,004 (2007: \$32,626) owing to Talbot Group Holdings Pty Ltd.
- g) The Company received \$31,427 (2007: \$24,591) in rent from Cadan Resources Corporation, for offices sub-let by the Company in Vancouver.
- h) The Company received \$45,903 (2007: \$42,700) in rent from International Gold Mining Limited, for offices sub-let by the Company in Vancouver.

These transactions were in the normal course of operations and, in management's opinion, were undertaken with the same terms and conditions as transactions with unrelated parties.

## SUBSEQUENT EVENTS

In January 2009 the Company was advised that two of the exploration licences held by IAPL E30/241 and E30/260 (**Tenements**) have expired as a natural result of the operation of the *Mining Act 1978 (WA)* (**Act**).

Under the Act, an exploration licence expires after five years unless an extension of term is granted by the Minister or a mining lease or retention licence has been applied for. The Western Australian ("WA") consultant tenement manager for the Company applied for an extension of the Tenements, but the WA Department of Mines and Petroleum recommended that the application be refused on the grounds that there has been no iron ore resource identified by MMS within these Tenements, as the Tenements are a low priority to the Company, and no meaningful exploration conducted to-date.

## ACCOUNTING POLICIES

Accounting policies are listed in Note 2 to the Financial Statements for December 31, 2008.

## SUMMARY OF QUARTERLY INFORMATION

The following table sets forth a comparison of revenues and earnings for the previous eight quarters ending with December 31, 2008. Financial information is prepared according to GAAP and is reported in Canadian \$.

	<u>Mar-31</u> <u>2007</u>	<u>June 30</u> <u>2007</u>	<u>Sep 30</u> <u>2007</u>	<u>Dec 31</u> <u>2007</u>	<u>Mar 31</u> <u>2008</u>	<u>June 30</u> <u>2008</u>	<u>Sep 30</u> <u>2008</u>	<u>Dec 31</u> <u>2008</u>
Interest and rent Income	\$10,409	\$6,416	\$13,375	\$7,933	\$62,590	\$185,082	\$171,538	\$120,306
Net income / (loss) after tax	\$(141,360)	\$(152,682)	\$(198,648)	\$(199,608)	\$460,471	\$6,319,247	\$958,999	\$(185,150)
Net profit / (loss) per share	\$(0.01)	\$(0.01)	\$(0.01)	\$(0.01)	\$(0.03)	\$0.34	\$0.05	\$(0.01)

The Company incurred a net loss before tax of \$619,327 and the recognition of a future income tax recovery of \$434,177 (September 2008 quarter \$1,150,921) resulted in a net loss after tax of \$185,150.

A major factor for the higher loss from operations is the decrease of \$266,831 (September 2008 quarter: \$173,825) during the quarter in the dilution gain arising from the acquisition of 30% of IAPL by LPD.

Administrative expenses totaled \$492,199 (September 2008 quarter: \$290,468). The increase in administrative expenses was due to higher salaries and management fees of \$197,447 (September 2008 quarter: \$123,327) and professional fees of \$197,447 (September 2008 quarter: \$55,119), and higher travel costs of \$47,016 (September 2008 quarter: \$9,249). The higher salaries and management fees were due to greater management input and professional advice with respect to the LPD and MMCL transactions and higher exploration and evaluation activity on the Lake Giles project. This also resulted in higher travel costs.

## LIQUIDITY

The Company's cash assets as at December 31, 2008 total \$6.1 million. Working capital as at December 31, 2008 totals \$6.2 million. Directors envisage this will enable the Company to fund its ongoing operations and exploration activities for the current financial year. In addition, MMCL has the option to acquire a further 50% of Internickel on or before March 2, 2009.

However, there can be no assurance that the sale of 50% of IAPL will proceed. The Company's ability to access long-term funding would therefore be uncertain and subject to factors such as market prices, exploitation and exploration successes, prevailing conditions in financial markets, and general economic and business conditions, and there can be no assurance that the Company will be successful in raising its required financing in the long term.

## CAPITAL RESOURCES

The Company is committed to expend 85% of the net proceeds of approximately \$9.4 million received from LPD for 30% of IAPL on exploration and evaluation activities in the Lake Giles project.

The Company had no other commitments for capital expenditure at balance date.

## 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, sundry receivables, and accounts payable and accrued liabilities and amounts due to related parties approximate their fair market value because of the short-term nature of these instruments.

### Off Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

### OUTSTANDING SHARE DATA AS OF FEBRUARY 26, 2009:

Authorized and issued share capital:

Class	Par Value	Authorized Common shares (No par value)	Issued
Common	No par value	Unlimited	19,038,650

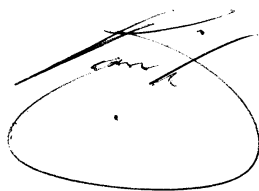
## OUTLOOK

The Company will spend the first quarter of 2009 analyzing the results of the Deep South drilling and obtaining an updated resource statement from H&S. The drilling program for 2009 will be decided in conjunction with MMCL after the transaction relating to the acquisition of MMS 50% has been finalized.

## 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  
Chairman President and CEO



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James Canning-Ure  
Director and CFO