

# MACARTHUR MINERALS LIMITED

ACN 103 011 436

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

For the Quarter ended June 30, 2009

Information as of August 27, 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, 2009, 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 August 27, 2009 updates the information as of June 25, 2009 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 that 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 its Lake Giles project owned by its 70% owned subsidiary Internickel Australia Pty Ltd (IAPL). The Company has now completed six separate drilling programs and has completed 39 holes for 7,729 metres of the Stage 7 program which is planned to complete 9,000 metres.

In April 2008 LPD Holdings (Australia) Pty Ltd ("LPD") acquired a 30% interest in IAPL for \$10 million. In January 2009 LPD sold 20% of IAPL's shares to Minmetals Mining Corporation Limited (MMCL) and the shareholding in IAPL is now MMS 70%, MMCL 20% and LPD 10%.

LPD and MMCL had the option until the 2nd March, 2009 to acquire a further 50% of IAPL for \$100 million upon certain conditions being met. This option lapsed on 2nd March 2009 LPD and MMCL then had a further three months to exercise this option or divest its interests. This option lapsed on 2nd June, 2009.

On August 14, 2009 the Company announced that it had finalised the documentation to reacquire the 30% of IAPL held by LPD and MMCL in exchange for the issuance of 1,572,326 and 3,144,654 common shares in MMS to LPD and MMCL respectively, all at a deemed price of C\$2.12 per common share. Completion of the transaction remains subject to approval of the TSX Venture Exchange.

Upon completion of these transactions with LPD and MMCL, and subject to all necessary regulatory approvals being obtained, including that of the TSX Venture Exchange, MMS will hold a 100% interest in IAPL and the Lakes Giles Project.

### **Overall Performance (Cont'd...)**

The Company will continue to seek out strategic partners for the development of the Lake Giles project and/or parties interested in acquiring the project. The Company is in a sound cash position and is committed to finding a long term partner for the development of its Lake Giles project.

An updated independent estimate completed by CSA Global Pty Ltd in early July 2009 had increased the Inferred Mineral Resource estimate by 76% for its Moonshine prospect located at the south of the Company's Lake Giles magnetite iron ore project. The new Moonshine Inferred Mineral Resource estimate increases the Company's total Inferred Mineral Resource estimate for the Lake Giles project to 450 million tonnes at 26.3% Fe (refer Table 1). The Moonshine deposit is located in the south of the Lake Giles Project (refer Figure 1) and is now recognised as the Company's most significant deposit. No new estimates were completed for the Company's four other deposits.

Macarthur considers that the Moonshine prospect has the potential to deliver further tonnage increases and deliver the Company its short term target tonnage of 500mt. A recently completed exploration targeting exercise has identified a further 49 exploration targets. Geological mapping of the Moonshine North prospect has similar outcropping geometry and strike lengths to that of the Moonshine deposit.

The previous Moonshine Inferred Mineral Resource estimate by Hellman and Schofield (H&S) (refer announcement on April 6, 2009) was 144.1 million tonnes at @ 25.9% Fe. For the new resource update, the Company supplied CSA with a new geological interpretation based on new surface mapping of contacts, re-logging of drill holes and re-interpretation of the dip of the banded iron formation (BIF) contacts together with the drill hole database comprising collar location, downhole survey, assays and geology logs for drilling up to the Stage 6 drilling program (refer Figure 2).

Analytical data for mineralised portions of these holes include Davis Tube concentrate results which measure the proportion of sample extractable by magnetic separation. Material concentrated by the Davis Tube test was assayed by X-ray fluorescence (XRF) for iron and other elements of interest.

A cut-off of 15% Davis Tube Recovery (DTR) was applied. The oxide boundary was revised based on Macarthur's new logging of weathering and magnetism of drill chips, the DTR % recovery and the calculated % Fe recovered.

A block model was constructed using the three dimensional geological wireframes. Density estimates were based on 533 density values from nearby Macarthur deposits at Lake Giles, 296 of which were for BIF. A fixed average density of 3.3 g/cm<sup>3</sup> was applied at Moonshine.

New variograms were produced for head grades, DTR and concentrate grades for each element including Fe, SiO<sub>2</sub>, Al<sub>2</sub>O<sub>3</sub>, P, S, and LOI. The data were split into two domains for the west and east lodes. The variograms demonstrate the mineralisation has high spatial continuity within the stratigraphic boundaries.

The Moonshine resources were estimated by Ordinary Kriging. Interpolating the grades a single search ellipse was used to ensure the same set of samples was used for each cell, but each element was interpolated using its own variogram models. A minimum of 12 samples and a maximum of 30 samples were used, and grades were interpolated into 25 x 25 x 10m parent cells.

The updated Mineral Resource estimate is shown in Table 1. The Lake Giles project is at an early stage of evaluation. Macarthur has not established the economic viability of the Mineral Resources, and no Ore Reserve estimates have been produced for the deposit. The extent to which mining, metallurgical, marketing, infrastructure, permitting, marketing and other financial factors may affect Mineral Resource estimates is not yet determined.

## Overall Performance (Cont'd...)

Drilling has not yet defined the full extents of the Lake Giles magnetite mineralization. There is potential for substantial additional mineralization from further drilling. It is expected the resource will increase when the Stage 7 drilling assays are received and the Mineral Resource estimate is updated.

**Table 1: Lake Giles Inferred Mineral Resource Estimate**

<b>Deposit</b>	<b>Million Tonnes</b>	<b>Fe %</b>
Snark	26.3	27.5
Clark Hill North	37.1	26.0
Sandalwood	84.7	28.3
Clark Hill South	48.5	21.9
Moonshine	253.0	26.4
<b>Total</b>	<b>450</b>	<b>26.3</b>

(rounding errors may occur)

### Results from operations

The Company's loss from operations for the quarter ended June 30, 2009 totalled \$221,445, a loss of \$0.01 per share, as compared to a profit of \$6,311,817 for the quarter ended June 30, 2008, a profit of \$0.34 per share. This is due to there being no dilution gain (2008: \$6,974,084) or finders fee (2008: \$602,574) in 2009. In addition, there were higher administrative expenses of \$260,724 (2008: \$222,674) and lower interest and other income of \$39,279 (2008: \$185,082).

General and administrative expenses increased from \$222,674 in the three months ended June 30, 2009 to \$260,724 in the three months ended June 30, 2009, primarily due to increases in salaries and management fees. This increase relates to the extensive management focus by three of the Company's directors on the partial sale of IAPL and higher exploration and evaluation activities.

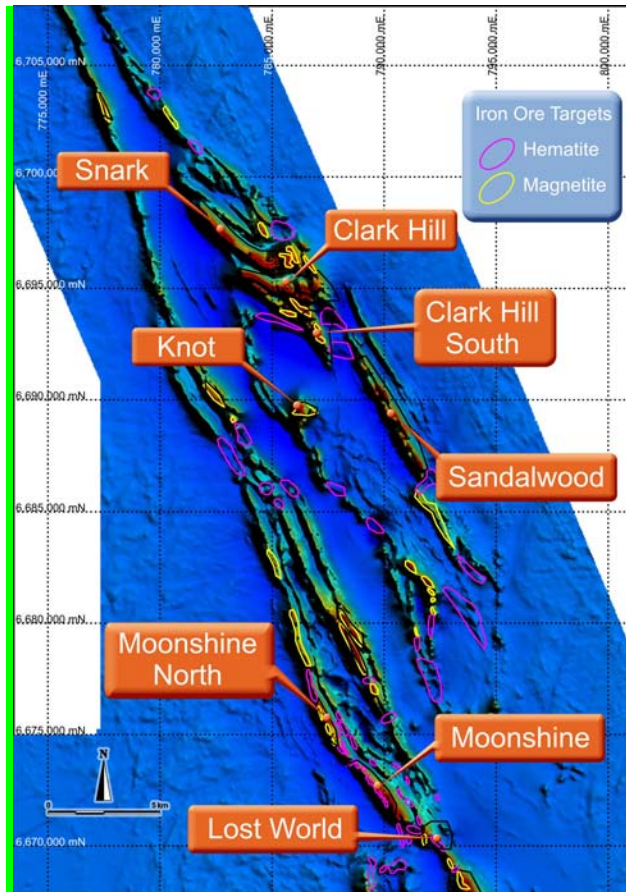
Interest and other income was \$39,279 (2008: \$185,082) for the quarter ended June 30, 2009, due to the decrease in the term deposits and lower interest rates.

Assets increased from \$16,876,527 as at March 31, 2009 to \$18,221,291 as at June 30, 2009 due to higher deferred mineral exploration expenditure of \$11,690,155 (March 31, 2009: \$9,867,204). The main reason for this increase is the increase in value of the Australian dollar (the functional currency against the Canadian dollar (the presentation currency) as set out in Note 4 to the financial statements.

## Exploration Update

The Company carried out further geological mapping and targeting work during the quarter. This work has culminated in the over 49 Targets delineated (25 Magnetite and 24 Haematite) and highlighted the significant potential to increase tonnage by drilling these identified targets. Geological modelling using specialised software has also been carried out to assist prioritising targets.

A flora survey is planned over several new areas to allow access.



## 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 mineral exploration company listed on the TSX Venture Exchange and engaged in the exploration and development of mineral properties located at Lake Giles in Western Australia.

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.

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

### **Trends**

The Company's financial success is dependent upon the discovery of 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 included. 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 have been 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.

### **Mineral Exploration and Development**

The Company's Lake Giles Project is 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.

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

### **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 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, financial 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.

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

### **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 and Managing Director
- James Canning-Ure – Director and CFO
- Simon Hickey – Director
- Alan Phillips – Director
- Nick Revell - Director (Resigned April 20, 2009). Mr Revell was available to the Company as a consultant until June 30, 2009
- Andrew Spinks - Consultant and Qualified Person as defined in National Instrument 43-101.

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:**

There can be no assurance that the Company will operate profitably in the future, if at all. As at June 30, 2009 the Company's deficit was \$9,522,939.

### **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 June 30, 2009, the per share price of the Company's shares fluctuated from a low of \$0.68 to a high of \$0.97. There can be no assurance that continual fluctuations in price will not occur.

As at June 30, 2009, 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/CFO
- Simon Hickey – Director
- Alan Phillips – Director
- Nick Revell – Director
- International Gold Mining Ltd, an entity of which Nick Revell and Alan Phillips are directors or were during all or part of the reporting period.
- 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

The Company entered into the following transactions with related parties during the quarter:

- a) Paid or accrued nil (2008: \$42,700) for geological services provided by International Gold Mining Ltd, an entity associated with directors Alan Phillips and Nick Revell (resigned 20 April 2009).
- b) Paid or accrued \$128,202 (2008: \$41,379) in directors fees and management fees to directors and an officer of the Company.
- c) Paid or accrued \$12,500 for geological services provided by Ruby Rich Pty Ltd, an entity associated with director Nick Revell.
- d) At June 30, 2009, \$3,672 (2008: \$12,000) is owed to directors and a private Company controlled by directors for accrued directors and management fees, geological services and expenses paid on behalf of the Company.
- e) At June 30, 2009, there is \$35,252 (2008: \$36,840) owing to a majority shareholder, Talbot Group Holdings Pty Ltd.
- f) The Company received \$10,863 (2008: \$12,330) in rent from Cadan Resources Corporation, a company of which Alan Phillips is a director, for offices sub-let by the Company in Vancouver.
- g) The Company received nil (2008: \$12,330) in rent from International Gold Mining Ltd, a company of which Alan Phillips and Nick Revell are directors, for offices sub-let by the Company in Vancouver.

## **SUBSEQUENT EVENTS**

- a) On July 31, 2009 the Company issued 520,000 options to certain directors, officers and consultants of the Company, with an exercise price of \$1.00 and expiring on July 31, 2014. The options will vest on November 30, 2009.
- b) On August 14, 2009 the Company has acquired 10% of Internickel Australia Pty Ltd (IAPL) which holds a 100% of the Lake Giles project from LPD Holdings Australia Pty Ltd by the issue of 1,572,326 Macarthur Minerals Limited shares at an issue price of C\$2.12 ps. This now gives the Company 80% of the issued capital of IAPL. The Company is in the final stages of acquiring the remaining 20% of IAPL which is subject to TSX-V and other regulatory approvals being obtained.

## ACCOUNTING POLICIES

Accounting policies are listed in Note 2 to the Financial Statements for June 30, 2009.

## SUMMARY OF QUARTERLY INFORMATION

The following table sets forth a comparison of revenues and earnings for the previous eight quarters ending with June 30, 2008. Financial information is prepared according to GAAP and is reported in Canadian \$.

	Sep 30 <u>2007</u>	Dec 31 <u>2007</u>	Mar 31 <u>2008</u>	Jun 30 <u>2008</u>	Sep 30 2008	Dec 31 2008	Mar 31 2009	Jun 30 2009
Interest and rent Income	\$58,993	\$29,606	\$62,590	\$185,082	\$171,538	\$120,306	\$49,905	\$39,279
Net profit/(loss)	\$(198,648)	\$(199,608)	\$460,471	\$(6,350,057)	\$1,132,824	\$81,681	\$(2,225,973)	\$(147,829)
Net profit/(loss) per share	\$(0.01)	\$(0.01)	\$0.03	\$0.34	\$0.06	\$0.00	\$(0.08)	\$(0.01)

The main factor contributing to the loss for the June 2009 was the Administrative expenses of \$260,724 (March 2009 quarter: \$383,236), of which \$151,348 was salaries and management fees (March 2009 quarter: \$160,922). There was no stock-based compensation during the quarter (March 2009 quarter: \$61,258) as no share based payments were made, and lower professional fees of \$39,684 (March 2009 quarter: \$97,085). See page 3 – Results from operations).

There was a tax gain in the June 2009 quarter of \$73,616 (March 2009 quarter: \$59,904).

## LIQUIDITY

The Company had a net working capital of nearly \$4.7 million at the end of the quarter and will reacquire the 30% of IAPL from LPD and MMCL by the issue of shares. While this is more than sufficient to cover the Company's working capital requirement for the short to medium term, the Company is actively seeking strategic partners for the development of the Lake Giles project and/or parties interested in acquiring the project.

However, the Company's ability to access long-term funding is 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 had no 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. As 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.

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

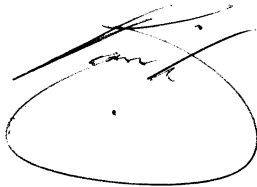
Authorized and issued share capital:

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

## 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