MACARTHUR Minerals Limited

ACN 103 011 436

Management Discussion and Analysis
(Form 51-102F1)
For the Quarter ended September 30, 2012

Information as of November 13, 2012 unless otherwise stated

Note to Reader

The following management discussion and analysis ("MD&A") of the financial condition and results of operations of Macarthur Minerals Limited ("Macarthur" or the "Company") for the six month period ended September 30, 2012 has been prepared by management, in accordance with the requirements of National Instrument 51-102, as of November 13, 2012 (unless otherwise stated) and should be read in conjunction with the Company's annual audited financial statements for the year ended March 31, 2012, together with the notes thereto, as well as the Company's previous quarterly financial and MD&A reports throughout the previous year and the Annual Information Form. The Condensed Interim Consolidated Financial Statements for the six month period ended September 30, 2012 are prepared in accordance with International Financial Reporting Standards ("IFRS").

Forward-Looking Information

This MD&A includes certain statements that may be deemed "forward-looking statements" within the meaning of applicable Canadian securities legislation. All statements in this MD&A, other than statements of historical facts, are forward-looking statements. Forward-looking statements are typically identified by words such as: believe, expect, anticipate, intend, estimate, postulate, plans and similar expressions, or which by their nature refer to future events. These forward-looking statements include, but are not limited to, statements concerning the Company's strategies and objectives, both generally and specifically in respect of the Macarthur Iron Ore Projects and statements which address future production, reserve potential, exploration drilling, exploration activities and events or developments. 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.

Inherent in forward-looking statements are risks and uncertainties beyond the Company's ability to predict or control, including, but not limited to, risks related to the Company's inability to identify one or more economic deposits on its properties, variations in the nature, quality and quantity of any mineral deposits that may be located, variations in the market price of any mineral products the Company may produce or plan to produce, the Company's inability to obtain any necessary permits, consents or authorizations required for its activities, to produce minerals from its properties successfully or profitably, to continue its projected growth, to raise the necessary capital or to be fully able to implement its business strategies, and other risks identified herein under "Risk and Uncertainties".

These forward-looking statements are made as of the date hereof and the Company does not intend and does not assume any obligation, to update these forward-looking statements, except as required by applicable law. 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 and investors should not attribute undue certainty to or place under reliance on forward-looking statements.

OVERALL PERFORMANCE

Background

Macarthur Minerals Limited is an Australian public company listed in Canada on the Toronto Stock Exchange ("TSX") (symbol: MMS) and the OTC Market Place, OTCQX International ("OTCQX") (symbol: MMSDF) that is currently focused on the exploration and development of iron ore projects in Western Australia.

The Macarthur Iron Ore Projects are owned by the Company's wholly owned subsidiary Macarthur Iron Ore Pty Ltd ("Macarthur Iron Ore" or "MIO"), and its subsidiary Hatches Nominees Pty Ltd ("Hatches").

The Macarthur Iron Ore Projects consist of two distinct mineral projects:

1. The Ularring Hematite Project: encompassing hematite iron ore ("hematite"), to be marketed as potential direct shipping and/or beneficiated iron ore; and
2. The Moonshine Magnetite Project: encompassing magnetite iron ore ("magnetite"), to be marketed as a beneficiated magnetite concentrate.

The Macarthur Iron Ore Projects are located on exploration and mining tenements covering 1,160 km^2 located 175 km northwest of Kalgoorlie in Western Australia. Within the tenements at least 85 km strike extent of outcropping banded iron formation ("BIF") occurs as low ridges, surrounded by intensely weathered and mostly unexposed granites, basalts and ultramafic rocks.

Outcropping BIF occurs as both siliceous magnetite rich types and altered hematite iron enriched varieties. Exploration by the Company has identified a number of near-surface hematite prospects as a source of potential direct shipping and/or beneficiated iron ore and larger (and generally deeper) magnetite rich BIF, as a source of beneficiated magnetite concentrate.

Report on Operations

a) Ularring Hematite Project Deposits

i. Ularring Hematite Project Exploration Activities

On June 1, 2012 the Company announced the results of its metallurgical test work programs that were designed to test the amenability of hematite from the Ularring Hematite Project, to beneficiation. These test programs were undertaken as part of the Company's on-going examination of a number of alternative approaches to optimizing the potential of the Ularring Hematite Project resources.

Macarthur commissioned a phase one initial metallurgical test work program in the last quarter of 2011 based on 200 kilograms of sample composited from diamond drill core obtained from the Snark deposit in order to characterize the response of this material to both conventional gravity beneficiation processes and to magnetic separation processes.

The results of this work were encouraging and indicated that it was technically possible to recover materials with a grade of more than 60% Fe and with a recovery of over 63% using conventional gravity beneficiation techniques (press release dated November 21, 2011; NI43-101 Technical Report released January 4, 2012). The outcome of a single test using magnetic fractionation was also encouraging, warranting follow-up of magnetic fractionation as an alternative to, or adjunct to, conventional gravity processing.

A follow-up metallurgical test work program (phase two) was commissioned by Macarthur in February 2012. The primary focus of this program was to confirm that beneficiation could be applied to the full range of hematite material types found at the Ularring Hematite Project over a range of Fe grades and to provide indicative design information for a robust beneficiation process capable of handling all material types.

The results of the second (variability) phase of test work confirmed that all samples could be beneficiated. Products grading over 60% Fe could be produced from 13 of the 15 samples using either gravity separation or magnetic separation or a combination of both. Generally magnetic separation outperforms gravity separation for the medium to high grade starting materials, whereas gravity appeared to perform better for lower grade starting materials.

OVERALL PERFORMANCE (Cont'd)

Based on the positive results of the metallurgical test work conducted during the 2011-2012 drilling campaign the Company announced a substantial increase in the hematite/goethite Mineral Resource inventory at its Ularring Hematite Project (News Release June 14, 2012). Independent mining consultancy group CSA Global Pty Ltd ("CSA") was commissioned by Macarthur to generate a new NI43-101 Mineral Resource estimate for the Ularring Hematite Project, presently comprised of five separate deposits being Snark, Drabble Downs, Central, Banjo (previously called Banjo-Lost World) and Moonshine.

The previous Mineral Resource estimate was based upon a nominal 50% Fe cut-off grade. As a consequence of the positive metallurgical test work (News Release June 1, 2012) which demonstrated that the lower grade mineralization in the Ularring Hematite Project is amenable to beneficiation, the Company and CSA utilized a geological model which encapsulates the Ularring Hematite Project's BIF strata. The new Mineral Resource estimate has been constrained by the BIF envelope and is reported from all blocks above a 40% Fe cut-off grade and incorporates all of the drill results to date. The exception to this is the Moonshine deposit's Mineral Resource, which was not remodeled and was previously estimated using a 50% Fe envelope which is reported for blocks > 50% Fe. This is discussed in the Technical Report filed March 9, 2012.

Table 1 - Ularring Hematite Project Mineral Resource at June 2012

Category	Tonnes Mt	Fe %	P %	SiO_2 %	Al_2O_3 %	LOI %	S %
Indicated	54.46	47.2	0.06	16.9	6.5	7.9	0.16
Inferred	25.99	45.4	0.06	20.6	6.0	7.2	0.09

***Note**: The CSA mineral resource was estimated within constraining wireframe solids encapsulating BIF strata. The resource is quoted from blocks above 40 Fe % cut-off grade, except Moonshine where resource is quoted from blocks above 50 % Fe. Differences may occur due to rounding.*

Table 2 - June 2012 Ularring Hematite Project Mineral Resource by Deposit

Deposit	Reporting cut-off grade (Fe%)	Category	Tonnes Mt	Fe %	P %	SiO_2 %	Al_2O_3 %	LOI %	S %
Snark	40	Indicated	21.83	47.2	0.07	17.5	6.1	7.7	0.15
	40	Inferred	10.96	45.2	0.07	21.8	5.1	6.8	0.09
Drabble Downs	40	Indicated	11.07	47.2	0.06	16.6	6.4	8.3	0.26
	40	Inferred	0.36	43.6	0.05	24.0	4.8	7.8	0.09
Central	40	Indicated	15.09	47.0	0.05	16.2	7.2	8.1	0.12
	40	Inferred	10.19	45.3	0.06	20.3	6.3	7.5	0.08
Banjo	40	Indicated	6.47	47.8	0.06	16.7	6.6	7.4	0.14
	40	Inferred	3.88	45.4	0.06	18.7	7.6	7.9	0.09
Moonshine	50	Inferred	0.60	53.0	0.06	13.4	6.7	6.1	0.15

During the September quarter the Company recommenced exploratory and resource infill reverse circulation ("RC") drilling at and around the Central and Banjo deposits, including several newly mapped areas of hematitic mineralization called Yabu and Bent Snake. The object of this program was to define additional inferred resources and new targets for future resource drilling. For the quarter ended September 30, 2012, 234 RC holes were drilled for a total of 9,738 m. This program brings the total number of holes drilled in this calendar year to date to 524 for a total of 29,149 m. The majority of sample assays have now been returned but no new resource modeling has yet been undertaken.

In support of the drilling program the Company has undertaken detailed geological mapping and ground magnetic surveys covering the same areas.

ii. Ularring Hematite Project Preliminary Feasibility Study

On August 16, 2012 the Company announced the results of a positive Preliminary Feasibility Study ("PFS") managed by MSP Engineering Pty Ltd ("MSP"), an independent consulting firm, for the Ularring Hematite Project that incorporates the Snark, Drabble Downs, Central and Banjo hematite deposits located within the Company's tenements in the Yilgarn region of Western Australia. The PFS has evaluated a wet beneficiation process based on Indicated Mineral Resources above a cut-off grade of 40% Fe and previously reported metallurgical test work results (news release dated June 1, 2012) as well as follow-up test work completed in July 2012.

OVERALL PERFORMANCE (Cont'd)

PFS highlights include:

- The technical and financial evaluation in the PFS has concluded that, based on the information currently available, the project is economically viable and robust and that further project development is justified.
- Project pre-tax real Net Present Value ("NPV") of A$456 million at an 8% discount rate, based on a discounted cash flow model with:
  - a project life of 13 years with saleable product of 60% Fe at 2 million tonnes per annum ("Mtpa");
  - total sales of 25.77 million tonnes; and
  - no terminal value added to the NPV, which assumes no extension to the plant and/or mine life.
- The project is potentially highly profitable with a discounted payback (based on NPV) in 3 years.
- Operating costs estimated at A$78/t (rounded).
- Total revenue estimated at A$3.238 billion (rounded).
- First time release of a Probable Mineral Reserve of 42.95 million tonnes ("Mt") @ 47% Fe.
- Total capital cost estimated at A$262.7 million including rehabilitation and sustaining capital expense over life-of-mine ("LoM") of A$52.4 million and indirect capital costs of A$49.1 million.
- Total direct operating costs (including overheads but excluding royalties) are estimated at A$2.014 billion (rounded).
- Total project costs (direct and indirect operating costs, capital spend including contingency of A$27 million, and sustaining capital) are estimated at A$2.438 billion (rounded)[1].

On October 1, 2012, the Company filed a National Instrument 43-101 technical report entitled "Technical Report, Macarthur Minerals Limited Pre-Feasibility Study Ularring Hematite Project Western Australia".

iii. Ularring Hematite Project Exploration Activities since quarter ended September 30, 2012

The RC drilling program continued from the end of the September 2012 quarter for a further two weeks until its completion in mid-October. In that period an additional 33 holes were completed for 1,349 m, predominantly in the Central and Banjo areas. The last ten holes (401 m) comprised of shallow vertical RC holes in the Snark and Drabble Downs deposits, drilled as RC twins for an upcoming PQ diamond drilling program required to provide additional material for further metallurgical testing.

b) Moonshine Magnetite Project Deposits

i. Moonshine Magnetite Project Exploration Activities

On December 15, 2010 the Company announced that the Moonshine Magnetite Project Inferred Resource estimate had increased from 511 Mt at 27.8% Fe to 710 Mt at 30.6% Fe, resulting in a total Inferred Resource estimate for magnetite for the Moonshine Magnetite Project of 1,316 Mt at 30.1% Fe (NI43-101 Technical Report filed March 25, 2011).

Table 3 - Moonshine Magnetite Project Mineral Inferred Resource Estimate as at December 2010 at a 15% Davis Tube Recovery ("DTR") cut-off.

	INFERRED	
Deposit	**Tonnes (Mt)**	**Fe %**
Snark	75	27.7
Clark Hill North	130	25.8
Sandalwood	335	31.1
Clark Hill South	66	30.3
Moonshine	710	30.6
Total	**1,316**	**30.1**

[1] The PFS results are based on existing resource estimates, current iron ore pricing and market conditions and consequently, market fluctuations, varied logistics or production costs or recovery rates may render the results of past and future project studies uneconomic and may ultimately result in a future study being very different.

OVERALL PERFORMANCE (Cont'd)

During 2011, 28 RC holes were completed for 7,082.9 m. In addition one diamond hole was drilled for 218 m, including 158 m of RC pre-collar. No new drilling has been undertaken during 2012.

Samples from all the RC holes were submitted for DTR analysis. All the results have been received and are being incorporated in a new geological model for the Moonshine Magnetite Project. A new resource estimate based on this model is in preparation. In addition a resource model for the Cody's Ridge magnetite on E30/317 has been completed and a resource estimate is in preparation.

As reported on January 24, 2012 Macarthur will receive a State Government of Western Australia Exploration Incentive Scheme ("EIS") grant for its Moonshine Magnetite Project in 2012. The EIS is a co-funded government-industry drilling program designed to support drilling activities, which will potentially lead to new discoveries. The grant provides A$150,000 funding towards the Company's 2012 magnetite drilling program and the Company will supply the drill results to the Department of Mines and Petroleum for collation and eventual release to the public record.

ii. Moonshine Magnetite Project Exploration Activities since quarter ended September 30, 2012

The Moonshine Magnetite Project exploration activities have focused upon collating and interpreting the drilling data from the 2011 drilling campaign. Planning for the EIS diamond drilling program was completed. Drilling of three holes targeting high grade magnetite at Moonshine will commence in November.

c) Environmental Activities

Maintaining our social license to operate is critical for the Company leading to development of the Macarthur Iron Ore Projects. Some of the risks to the Company's social license include compliance with environmental legislation and licenses, impact on the community, and relations with indigenous groups with a connection to the area. To manage these risks the Company has developed environmental procedures that represent industry best practice and meet our regulatory requirements. To this end, no environmental breaches of license conditions for exploration activities. The environmental team has dedicated considerable effort to the rehabilitation of drill sites as early as possible and prior to the expiry of the permits.

Work completed this quarter involved further refinement of LiDAR detection techniques that will be used to rapidly identify the location of Malleefowl mounds across the Macarthur Iron Ore Projects area and its immediate surrounds. The results of this work are expected in the next quarter.

Following the formal referral of the Ularring Hematite Project to the Western Australian Environmental Protection Agency ("EPA") on June 1, 2012 under the *Environmental Protection Act 1986* ("EP Act"), the Company received the EPA's Assessment Notice on August 22, 2012. The EPA determined the Ularring Hematite Project was required to be assessed under the EP Act at the Assessment on Proponent Information ("API") level. To adequately assess the Ularring Hematite Project, the EPA requires further information from the Company on several key environmental factors in the form of an Environmental Review document. The Company has commenced the preparation of this report and commissioned further environmental studies in order to provide additional supporting information. Studies include habitat assessments of terrestrial fauna, troglofauna and short-range endemic invertebrates, additional vegetation mapping, soil characterisation and landform design and further investigations on water supply for the Macarthur Iron Ore Projects.

Consultation with various decision making authorities is continuing in order to address the key environmental factors identified as part of the EPA assessment.

The preparation of the Mining Proposal is ongoing and will be provided to the Department of Mines and Petroleum in order to gain formal State approval for the Ularring Hematite Project. Further refinement on the proposed mine schedule and design aspects are required prior to completing this report.

OVERALL PERFORMANCE (Cont'd)

d) Iron Ore Export Facilities at the Port of Esperance

As announced on December 16, 2010, Macarthur and Esperance Port Authority ("EPSL") entered into a Multi User Facility Access Deed, under which it secured commitment to a 2 mtpa allocation, as part of the proposed expansion of iron ore export facilities at the Port of Esperance ("Port") in Western Australia.

On January 19, 2012 Western Australian Minister for Transport, Hon Troy Buswell BEc MLA, confirmed that export capacity at the Port will potentially increase by up to 20 mtpa in a staged plan, with the State Government formally committing to expansion of the Port.

As part of the process of moving closer towards expansion of the Port, the Company announced on August 8, 2012 that it entered into a Capacity Reservation Deed with EPSL for 2 mtpa capacity reservation at the Port. EPSL has also entered into capacity reservation deeds with Cazaly Resources Limited (5 mtpa), Golden West Resources Limited (3 mtpa) and Cashmere Iron Pty Ltd (5 mtpa). The Capacity Reservation Deed supersedes the Multi User Facility Access Deed. The capacity reservation is subject to the iron ore facility expansion occurring and commercial terms being entered into between Macarthur and the operator of the proposed facility.

The Company looks forward to working with EPSL and the appointed operator. The terms and conditions yet to be agreed between the EPSL and the Company are anticipated to include access and usage changes and opportunities to increase Macarthur's export capacity allocation over time.

Minister Buswell also said in January that the Western Australian Government would embark on a market sounding exercise to identify private sector interest in expanding the Port's capacity for iron ore exports. As announced by the Company in June 2012, EPSL requested expressions of interest for participation in the Government's market sounding process. This process enables the private sector to identify their interest in the Port expansion process

As announced on August 8, 2012 to facilitate the Company's participation in the market sounding process the Company entered into a Market Sounding Participation Deed with EPSL.

The Company participated in the marketing sounding exercise in two capacities: as a miner, and as one of a number of foundation customers forming part of a larger consortium whose members comprise experienced port developers, operators and project funders.

Macarthur's proposed mining and export of hematite product is planned to coincide with the completion of the infrastructure corridor to the Port, being managed by the Western Australian Government, and availability of capacity at the Port.

e) Expansion and Acquisition of Tenements

At the end of the September quarter the Company held 42 contiguous exploration and mining tenements covering a total area of approximately 1,131 km^2. These consist of 22 Exploration Licenses, 5 Prospecting Licenses and 15 Mining Leases.

In addition the Company entered into an option agreement on June 16, 2011 to acquire Exploration License E30/317, with an area of 29 km^2.

During the September quarter the Company applied for two new Exploration Licenses, E30/447 and E30/448, which cover a small untested area of the greenstone belt hosting the BIF mineralisation to the south of Moonshine. The Company also has a further 2 Exploration Licenses, 2 Prospecting Licenses and 2 Mining Leases under application.

CORPORATE UPDATE

a) Update on LPD Legal Proceedings

On July 20, 2012, the Company advised that it had been served with proceedings in the Supreme Court of Queensland commenced by LPD Holdings (Aust) Pty Ltd ("LPD") and Mayson Associates Limited ("Mayson") (the "Proceedings") in which the Company had been named as a respondent. The other respondents to the Proceedings are certain directors and officers of the Company and Jaldale Pty Ltd. Both LPD and Mayson are controlled by Hong Kong residents.

LPD and Mayson allege a range of breaches of the Australian Corporations Act 2001 and sought relief against the Company and other respondents under provisions of the Corporations Act 2001. The Company considers the proceedings are without merit and is vigorously defending the Proceedings.

On August 23, 2012 an Application by the Company to strike-out parts of the Proceedings ("Strike-out Application") was heard by the Supreme Court of Queensland. The Court ordered that LPD and Mayson deliver an amended Originating Application and an amended Statement of Claim after LPD and Mayson conceded that there were defects in the form of its Court documents. LPD and Mayson were also ordered to pay each of the respondents' costs thrown away by the adjournment of the Strike-Out Application.

A copy of the proposed amended Originating Application and proposed amended Statement of Claim were delivered to the Company and the other respondents (but not filed) on September 24, 2012. Under the proposed amendments Mayson intended to discontinue its proceedings against all the respondents and LPD intended to discontinue its proceedings against Jaldale Pty Ltd.

Following a review of the proposed amendments, the Company remains of the view that the proposed amended Originating Application and Statement of Claim should be struck out. The Company therefore re-listed its Strike-Out Application which has now been set down for a one day hearing on November 21, 2012. The respondent directors and officers have also filed a strike-out application which is to be heard on that day.

LPD subsequently filed and served an amended Statement of Claim on November 6, 2012. The amended pleading is substantially the same as that delivered on September 24, 2012. Pursuant to that amended document, Mayson will discontinue its proceedings against all the respondents and LPD will discontinue its proceedings against Jaldale Pty Ltd.

LPD previously commenced proceedings in the Supreme Court of Queensland on July 16, 2010 for inspection of books and records of the Company and its subsidiary Macarthur Iron Ore Pty Ltd (previously named Internickel Australia Pty Ltd). Those proceedings were settled by mutual agreement on May 18, 2011.

b) Annual General Meeting

On August 29, 2012, the Company held its Annual General Meeting, whereupon all resolutions detailed in the notice of meeting were passed.

c) Appointment of Mr Richard Patricio as director

Mr Patricio was appointed director on September 19, 2012. Mr Patricio is Vice President Legal and Corporate Affairs at Pinetree Capital Ltd, which is Macarthur's largest shareholder.

d) Appointment of Brookfield Financial Australia Securities Limited

On October 22, 2012 the Company announced it has appointed Brookfield Financial Australia Securities Limited ("Brookfield Financial") as Financial Advisor to advance the development of its iron ore projects in Western Australia. Under the arrangement, Brookfield Financial will perform a range of services to assist Macarthur to achieve the following:

(i) Port of Esperance Access
In addition to participating in the market sounding process as announced previously on July 3, 2012 and August 8, 2012, Macarthur will actively pursue with Brookfield Financial alternative strategies for access to port capacity.

(ii) Capital Raising
Equity and debt capital raising activities for its Ularring Hematite Project and Moonshine Magnetite Project. This includes negotiating with offtake parties to support capital raising activities.

(iii) Strategic Partnership
Secure strategic partners for its Ularring Hematite Project and Moonshine Magnetite Project. Brookfield Financial will assist Macarthur to negotiate construction solutions for rail loading facilities, haulage roads, camp-related and mine infrastructure.

RESULTS OF OPERATIONS AND FINANCIAL CONDITION

(All amounts in Australian dollars)

The following financial information should be read in conjunction with the Condensed Interim Consolidated Financial Statements for the six month period ending September 30, 2012 which are prepared in accordance with IFRS.

Exploration and Evaluation Expenses

Expensed and capitalized exploration and evaluation costs for the Macarthur Iron Ore Projects are as follows:

Australian $	Quarter Ended September 30, 2012	Quarter Ended September 30, 2011	6 months to September 30, 2012	6 months to September 30, 2011
Expenses	-	-	-	-
Capitalized expenses	3,149,553	6,670,118	6,288,773	11,351,753

The Company expended $3,149,553 for the quarter ended September 30, 2012 on exploration and evaluation activities compared with $6,670,118 for the corresponding September 2011 quarter. This decrease in expenditure of $3,520,565 reflects the Company's migration from primarily exploration drilling to a focus on development including, feasibility studies and delivering a PFS on the Ularring Hematite Project.

For the six months ended September 30, 2012 the Company expended $6,288,773 on exploration and evaluation expenditure compared with $11,351,753 for the corresponding six months ending September 30, 2011, again reflecting the Company's transition to a development focus.

Administrative Expenses

Administrative expenses for the quarter ended September 30, 2012 were $1,402,952 compared to $927,440 for the corresponding September 2011 quarter. The increase in administrative expenses of $475,512 related mainly to increased legal fees for legal proceedings (refer to Note 16 of the Condensed Interim Consolidated Financial Statements).

The largest elements of administrative expenses for the September 2012 quarter were personnel fees of $530,584 and professional fees of $448,989.

For the six months ended September 30, 2012 the Company expended $2,416,205 on administrative expenses, compared to $2,379,240 for the comparative six months in 2011. The primary differences were an increase in personnel fees of $263,583 due to additional staff employed and a decrease of $235,230 in share-based compensation over the comparative period.

Income

Income normally comprises interest income. For the quarter ended September 30, 2012 the Company earned interest income of $257,035. Compared to the corresponding September 2011 quarter, interest income decreased by $369,255 due to interest earned on a decreased cash balance.

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

Income Taxes

Future tax assets have not been recognized in the financial statements as the directors believe it has not yet become probable that they will be recovered and utilized. The Company has not paid, nor has any liability to pay, Mineral Resource Rent Tax ("MRRT"). The MRRT will be payable when the Company has commenced iron ore production and generates MRRT assessable profits of over $75 million after taking into account inbuilt allowances.

RESULTS OF OPERATIONS AND FINANCIAL CONDITION (Cont'd)

Net Losses

The net loss for the quarter ended September 30, 2012 was $1,145,917 and is mainly due to administrative expenses. The loss for the comparative September 2011 quarter was $304,452. The main difference between the two quarters was decreased interest income of $369,255 and increased administrative expenses of $475,512.

The net loss for the six months ended September 30, 2012 was $1,808,459 compared with the net loss for the corresponding six months ended September 30, 2011 of $1,095,039. The difference was mainly due to decreased interest income of $676,854.

Change in Financial Position

At September 30, 2012 the Company had net assets of $68,673,101 compared to $70,438,848 at March 31, 2012. The decrease is due a decreased cash balance owing to outlays in administrative expenses during the year.

The Company's cash balance is $17,719,212 at September 30, 2012 which was a decrease of $8,870,492 from March 31, 2012 balance. Since March 31, 2012 the value of exploration and evaluation assets has increased by $6,288,773 and trade payables decreased by $960,189.

The Company's net working capital at September 30, 2012 is $16,972,104 compared with net working capital of $25,013,288 at March 31, 2012. The decrease in the net working capital results mainly from a decreased cash balance.

MINERAL PROPERTIES

As at October 28, 2012, the Company's 100% owned Macarthur Iron Ore Projects consists of:

Tenement Number	Area[1]	Grant Date	Expiry Date	Expenditure	Rent Date	Rent
E30/0240[2]	27 SB	23-Oct-00	22-Oct-12	$ 91,000	22-Oct-13	$ 12,587
E30/0318	26 SB	24-Nov-08	23-Nov-13	$ 39,000	23-Nov-12	$ 4,718
E30/0321	12 SB	08-Aug-07	07-Aug-17	$ 50,000	07-Aug-13	$ 2,954
E30/0322	27 SB	30-Mar-07	29-Mar-17	$ 54,000	29-Mar-13	$ 6,647
E30/0323	5 SB	30-Mar-07	29-Mar-17	$ 30,000	29-Mar-13	$ 1,231
E30/0324	9 SB	30-Mar-07	29-Mar-17	$ 50,000	29-Mar-13	$ 2,216
E30/0349	5 SB	21-Dec-11	20-Dec-16	$ 15,000	20-Dec-12	$ 584
E30/0384	1 SB	16-Feb-10	15-Feb-15	$ 10,000	15-Feb-13	$ 281
E30/0385	2 SB	16-Feb-10	15-Feb-15	$ 15,000	15-Feb-13	$ 363
E30/0386	2 SB	16-Feb-10	15-Feb-15	$ 15,000	15-Feb-13	$ 363
E30/0387	7 SB	16-Feb-10	15-Feb-15	$ 20,000	15-Feb-13	$ 1,270
E30/0392	23 SB	16-Feb-10	15-Feb-15	$ 23,000	15-Feb-13	$ 4,173
E30/0398	3 SB	07-May-10	06-May-15	$ 15,000	06-May-13	$ 544
E30/0399	1 SB	07-May-10	06-May-15	$ 10,000	06-May-13	$ 281
E30/0400	2 SB	07-May-10	06-May-15	$ 15,000	06-May-13	$ 363
E30/0404	8 SB	23-Jun-10	22-Jun-15	$ 20,000	22-Jun-13	$ 1,452
E30/0407	17 SB	07-Sep-10	06-Sep-15	$ 20,000	06-Sep-13	$ 3,085
E30/0408	12 SB	07-Sep-10	06-Sep-15	$ 20,000	06-Sep-13	$ 2,177
E30/0410	7 SB	15-Sep-10	14-Sep-15	$ 20,000	14-Sep-13	$ 1,270
E30/0411	3 SB	19-Aug-10	18-Aug-15	$ 15,000	18-Aug-13	$ 544
E77/1299	70 SB	02-May-11	01-May-16	$ 70,000	01-May-13	$ 8,169
E77/1969	62 SB	03-Apr-12	02-Apr-17	$ 62,000	02-Apr-13	$ 7,235
L30/0049	628 ha	24-Aug-11	23-Aug-32	$ -	23-Aug-13	$ 8,572
L30/0050	844 ha	24-Aug-11	23-Aug-32	$ -	23-Aug-13	$ 11,521
L30/0051	2683 ha	28-Dec-11	27-Dec-32	$ -	27-Dec-12	$ 36,623
M30/0206	893 ha	02-Jul-07	01-Jul-28	$ 89,300	01-Jul-13	$ 13,752
M30/0207	892 ha	02-Jul-07	01-Jul-28	$ 89,200	01-Jul-13	$ 13,737
M30/0208	892 ha	02-Jul-07	01-Jul-28	$ 89,200	01-Jul-13	$ 13,737
M30/0213	894 ha	13-Jun-11	12-Jun-32	$ 89,400	12-Jun-13	$ 13,768
M30/0214	894 ha	13-Jun-11	12-Jun-32	$ 89,400	12-Jun-13	$ 13,768
M30/0215	894 ha	13-Jun-11	12-Jun-32	$ 89,400	12-Jun-13	$ 13,768
M30/0216	893 ha	13-Jun-11	12-Jun-32	$ 89,300	12-Jun-13	$ 13,752
M30/0217	893 ha	13-Jun-11	12-Jun-32	$ 89,300	12-Jun-13	$ 13,752
M30/0218	893 ha	13-Jun-11	12-Jun-32	$ 89,300	12-Jun-13	$ 13,752
M30/0219	893 ha	02-Jul-07	01-Jul-28	$ 89,300	01-Jul-13	$ 13,752
M30/0227	595 ha	13-Jun-11	12-Jun-32	$ 59,500	12-Jun-13	$ 9,163
M30/0228	594 ha	02-Jul-07	01-Jul-28	$ 59,400	01-Jul-13	$ 9,148
M30/0229	889 ha	02-Jul-07	01-Jul-28	$ 88,900	01-Jul-13	$ 13,691
M30/0248	2825 ha	22-Feb-12	21-Feb-33	$ 282,500	21-Feb-13	$ 43,505
M30/0249	3821 ha	22-Feb-12	21-Feb-33	$ 382,100	21-Feb-13	$ 58,843
P30/1070	124 ha	21-Dec-11	20-Dec-15	$ 4,960	20-Dec-12	$ 279
P30/1071	124 ha	21-Dec-11	20-Dec-15	$ 4,960	20-Dec-12	$ 279
P30/1083	115 ha	27-Oct-09	26-Oct-13	$ 4,600	26-Oct-13	$ 259
P30/1085	49ha	11-Jul-11	10-Jul-15	$ 2,000	10-Jul-13	$ 110
P30/1089	24 ha	25-Oct-11	24-Oct-15	$ 2,000	24-Oct-13	$ 54

[1] 1 sub-block (SB) = approx. 3km^2, 1 ha = 0.01km^2

[2] An application to renew E30/240 for a period of 1 year has been made to the WA Dept. of Mines and Petroleum.

As at October 28, 2012, the Company held under option:

Tenement Number	Area[1]	Grant Date	Expiry Date	Expenditure	Rent Date	Rent
E30/0317	10 SB	01-Sep-06	31-Aug-13	$ 50,000	31-Aug-13	$ 4,662

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 and development company listed on the TSX and engaged in the exploration and development of mineral properties in Western Australia.

The Ularring Hematite Project has a probable Mineral Reserve of 42.95 Mt @ 47% Fe. The Moonshine Magnetite Project has a total Inferred Resource estimate for magnetite of 1,136 Mt @30.1% Fe. The recoverability of the resources and reserves are dependent upon the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties, and upon future profitable production or proceeds from the disposition of the properties. The Company's ability to continue its operations is dependent on its ability to secure additional financing, and while it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future. In order to continue developing its mineral properties, management is actively pursuing such additional sources of financing that may be required.

Resource exploration and development is a speculative business and involves a high degree of risk, including, among other things, unprofitable efforts resulting both from the failure to discover mineral deposits and from finding mineral deposits which, though present, are insufficient in size and grade at the then prevailing market conditions to return a profit from production. The marketability of natural resources which may be acquired or discovered by the Company will be affected by numerous factors beyond the control of the Company. These factors include market fluctuations, the proximity and capacity of natural resource markets, government regulations, including regulations relating to prices, taxes, royalties, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

The Condensed Interim Consolidated Financial Statements and discussion and analysis of the financial condition, changes in financial condition and results of operations of the Company for the period ended September 30, 2012 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 and development activities that are being conducted, which in turn may depend on the Company's recent exploration and development experience and prospects, as well as the general market conditions relating to the availability of funding for exploration and development stage resource companies. Consequently, the Company does not acquire properties or conduct exploration and development 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 commercial mineral resources on the Macarthur Iron Ore Projects 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. 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 hematite and 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 on 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 limited environmental impact.

Mineral Exploration and Development
The Macarthur Iron Ore Projects are in the exploration and development stage. Development of the Company's properties will only proceed upon obtaining satisfactory exploration results. Mineral exploration and development involves 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 and development 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.

The Company has limited experience in placing resource properties into production, and its ability to do so will be dependent upon using the services of appropriately experienced personnel or entering into agreements with other major resource companies that can provide such expertise. There can be no assurance that the Company will have available to it the necessary expertise when and if it places the Macarthur Iron Ore Projects into production.

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 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.

Estimates of Mineral Reserves and Resources

The mineral resource and mineral reserve estimates included in this MD&A are estimates only and no assurance can be given that any particular level of recovery of minerals will in fact be realized or that an identified reserve or resource will ever qualify as a commercially mineable (or viable) deposit which can be legally and economically exploited. The estimating of mineral resources and mineral reserves is a subjective process and the accuracy of mineral resource and mineral reserve estimates is a function of the quantity and quality of available data, the accuracy of statistical computations, and the assumptions used and judgments made in interpreting available engineering and geological information. There is significant uncertainty in any mineral resource or mineral reserve estimate and the actual deposits encountered and the economic viability of a deposit may differ materially from the Company's estimates. In addition, the grade of mineralization ultimately mined may differ from that indicated by drilling results and such differences could be material.

Project Studies

The Company's reported scoping studies and Pre-feasibility Studies ("Project Studies") are evaluations of potential development of a project at a given time taking many factors into account. No assurance can be given that the process, methodology or plan of development included in a Project Study will be progressed and included in further studies. Project Studies are based on existing resource estimates and market conditions and consequently, market fluctuations, varied logistics or production costs or recovery rates may render the results of existing Project Studies uneconomic and may ultimately result in a future study being very different.

The Company's ability to rely on results from Project Studies would be affected due to the time based nature of the studies which may adversely affect the Company as it may need to repeat certain aspects of the Project Studies with new results and current market conditions.

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 has 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.

Currency Risk

The Company's revenues and expenses will be incurred in Australian dollars, though its equity financings are completed in Canadian dollars. Although the Company has taken certain steps to help mitigate foreign currency fluctuations, there is no assurance that the activities or products are or will continue to be effective. Accordingly, the inability of the Company to obtain or to put in place effective hedges could materially increase exposure to fluctuations in the value of the Canadian dollar relative to the Australian dollar. This could adversely affect the Company's financial position and operating results.

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 on its mineral properties, which has enabled the Company to apply for mining leases.

Infrastructure and Development

There are numerous activities that need to be completed in order to successfully commence production of beneficiated iron ore from the Ularring Hematite Project, including, without limitation, negotiating final terms of export capacity at the Port of Esperance, negotiating rail and road haulage contracts, optimizing the mine plan, locating an adequate supply of fresh and saline water (for road and dust suppression), acquisition of the right to establish a rail siding, negotiating contracts for the supply of power, for the sale of hematite and for shipping, updating, renewing and obtaining, as required, all necessary permits including, without limitation, mining and environmental permits, local government road haulage approvals and handling any other infrastructure issues.

RISKS AND UNCERTAINTIES (Cont'd)

There is no certainty that the Company will be able to successfully negotiate these contracts, put these matters in place and secure these necessary resources. Most of these activities require significant lead times and the Company will be required to manage and advance these activities concurrently in order to commence production. It is not unusual in developing a resources project to experience unexpected problems and delays in infrastructure delivery and project development. A failure or delay in the completion of any one of these activities may delay production, possibly indefinitely, and will have a material adverse effect on the Company's business, prospects, financial performance and future results of operations.

Governmental Regulation

Operations, development and exploration on the Company's properties are affected to varying degrees by government regulations relating to such matters as: (i) 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) access to and use 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.

Government Policy and Taxation

Changes in relevant taxation, interest rates, other legal, legislative and administrative regimes, and government policies in Australia, may have an adverse effect on the operations and financial performance of Macarthur and, ultimately, the market price of its securities.

In addition to the normal level of income tax imposed on all industries, Macarthur may be required to pay government royalties, indirect taxes, GST and other imposts which generally relate to revenue or cash flows. Industry profitability can be affected by changes in government taxation policies.

The Australian Government passed legislation on March 20, 2012 for the Mineral Resource Rent Tax ("MRRT") which applies to coal and iron ore projects and was implemented from July 1, 2012. The MRRT will broadly tax the profits at the run of mine stock pile of over $75 million per annum at an effective rate to 22.5%. Deductible expenditure will include a starting base allowance on the value of the mine assets relating to the extraction of resources at May 2, 2010 plus certain expenditure on such assets between May 2, 2010 and July 1, 2012, depreciated over the life of the mine. Royalties paid to the State will be creditable for MRRT purposes, and MRRT payments will be deductible for company income tax returns.

To date the Company has not paid any MRRT. The MRRT will only apply once the Company has commenced production of iron ore and generates MRRT assessable profits of over $75 million after taking into account inbuilt allowances.

The Australian Government has enacted new legislation which together form the "Clean Energy Legislative Package". This legislation has implemented a carbon pricing mechanism which commenced on July 1, 2012. The carbon pricing mechanism is expected to cover up to 500 entities operating in Australia which generally includes entities operating large facilities, natural gas suppliers and companies that emit more than 25,000 tonnes of CO2-e emissions each year. The Company is not currently a major carbon emitter, similar to the vast majority of Australian businesses, and does not have any present obligations under the carbon pricing mechanism. The new carbon pricing mechanism may however indirectly lead to increased costs.

It is possible that the MRRT and the Clean Energy Legislated Package may adversely impact the financial performance of Macarthur's planned future mining operations, including the Ularring Hematite Project.

Under the regime diesel fuels used in mining activity, transport and electricity generation by generator plants (stationary or portable) are excluded from the above carbon pricing mechanism. However, an equivalent carbon price will be applied to diesel fuel usage through changes in fuel tax credits or fuel excise.

RISKS AND UNCERTAINTIES (Cont'd)

Management and Directors

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

- Alan S Phillips – Chairman, President/CEO
- David Taplin – CFO and Company Secretary
- Alan J ("Joe") Phillips – Chief Operating Officer
- Jon Starink – Executive Director
- Simon Hickey – Independent Director
- John Toigo – Independent Director
- Jeffrey Wall – Independent Director
- Richard Patricio – Independent Director

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

The Company has experienced losses in previous years of its operations. There can be no assurance that the Company will operate profitably in the future, if at all. As at September 30, 2012 the Company's deficit was $21,751,155.

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 and development 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 September 30, 2012, the per share price of the Company's shares fluctuated from a low of CAD$0.28 to a high of CAD$0.55. There can be no assurance that continual fluctuations in price will not occur.

Shares Reserved for Issuance: Dilution

As at September 30, 2012, there were 3,545,000 stock options, 9,039,150 warrants and 834,000 agents' options outstanding.

Market Conditions - Global Economy

As reported by the IMF:

"The recovery has suffered new setbacks, and uncertainty weighs heavily on the outlook. A key reason is that policies in the major advanced economies have not rebuilt confidence in medium-term prospects. Tail risks, such as those relating to the viability of the euro area or major U.S. fiscal policy mistakes, continue to preoccupy investors. The World Economic Outlook ("WEO") forecast thus sees only a gradual strengthening of activity from the relatively disappointing pace of early 2012. Projected global growth is expected at 3.3% and 3.6% in 2012 and 2013, respectively. Output is expected to remain sluggish in advanced economies but still relatively solid in many emerging market and developing economies. Unemployment is likely to stay elevated in many parts of the world. And financial conditions will remain fragile.

More generally, downside risks have increased and are considerable. The IMF staff's fan chart, which uses financial and commodity market data and analyst forecasts to gauge risks—suggests that there is now a 1 in 6 chance of global growth falling below 2 %, which would be consistent with a recession in advanced economies and low growth in emerging market and developing economies. Ultimately, however, the WEO forecast rests on critical policy action in the euro area and the United States, and it is very difficult to estimate the probability that this action will materialize.

RISKS AND UNCERTAINTIES (Cont'd)

Global imbalances, and the associated vulnerabilities, have diminished, but there is still a need for more decisive policy action to address them. Within the euro area, current account imbalances— the large surpluses in Germany and the Netherlands and the deficits in most periphery economies—need to adjust further. At the global level, the current account positions of the United States, the euro area as a whole, and Japan are weaker than they would be with more sustainable fiscal policies—and the real effective exchange rates of the dollar, euro, and yen are stronger. In contrast, the current account positions of many Asian economies are undesirably strong and their exchange rates undesirably weak. In part, this reflects distortions that hold back consumption. But it also reflects the effect of large-scale official accumulation of foreign exchange."

(Source: IMF World Economic Outlook Update, October 2012 www.imf.org)

Market Conditions – Iron Ore

As reported by Macquarie Commodities Compendium Report:

"Iron ore spot price during H2 2012 to date breached the $100/t level CFR China for the first time since 2009. With Chinese steel output flat YoY and seaborne supply up, there is little doubt the price should be trading into the cost curve. However, the knock-on effect from an inefficient Chinese steel sector has driven iron ore to an unsustainably low level, with a whiplash effect from destocking.

Longer-term, the same themes still exist in the iron ore market; execution on supply projects continues to disappoint, more Chinese high-cost ore than expected is required to balance the market, and Chinese domestic material is quick to exit and enter the market when prices dictate. Macquarie Research has pulled down the price outlook to the $100-130/t range CFR China through 2017.

One thing which has not changed in iron ore is relatively weak supply growth, particularly, compared with market expectations. Macquarie currently foresee a 4% YoY growth in 2012, mainly led by Australia, which has outperformed relative to expectations as operational efficiency has brought rewards

Iron ore prices dropped so suddenly in August due to the behaviour of the larger and mid-sized steel mills in China. Larger mills usually keep relatively stable levels of iron ore inventory but, driven by a collapse in profitability, they are currently cutting steel production and inventory levels. Essentially, this can be thought of as a working capital shift – too much cash is being tied up in funding finished goods inventory, leaving less available for raw materials. Destocking reduced China's apparent iron ore demand by ~200mtpa in August. Such rates of destocking are unsustainable, and changes in this behaviour are even more important than any change in steel output.

Yet again, the market is looking to Chinese domestic ore to balance the books. By all accounts, significant volumes are now coming out the market, with overall mine utilisation rates falling to ~50% and consumption at small mills down ~35% since mid-year."

(Source: Macquarie Research, "Commodities Compendium", September 18, 2012)

RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its wholly owned subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. There were no transactions between the Company and related parties in the wholly owned Group during the period ended September 30, 2012 other than remuneration for key management personnel, details are disclosed below. The terms and conditions of those transactions were no more favorable than those that it is reasonable to expect that the entity would have adopted if dealing on an arm's length basis.

Key Management Personnel

The following persons were key management personnel of the Company during the September 30, 2012 quarter.

Chairman, President and Chief Executive Officer ("CEO")
A S Phillips

RELATED PARTY TRANSACTIONS (Cont'd)

Executive Director
J Starink

Independent Directors
S Hickey
J Toigo
J Wall
R Patricio (appointed on September 18, 2012)

Other key management personnel
The following persons also had authority and responsibility for the planning, directing and controlling various activities of the Company during the financial year:

Other company executives

David Taplin	Chief Financial Officer ("CFO") and Company Secretary
Alan J ("Joe") Phillips	Chief Operating Officer ("COO")

Details of Remuneration

For details on the remuneration of each key management personnel of the Company refer to Note 9 of the Condensed Interim Consolidated Financial Statements for the period ended September 30, 2012.

Other transactions with key management personnel

A number of key management persons, or close members of their family, hold positions in other entities that result in them having significant influence over those entities. A number of these entities transacted with the Company in the reporting period. The terms and conditions of those transactions were no more favorable than those that it is reasonable to expect that the entity would have adopted if dealing on arm's length basis.

Details of those transactions during the quarter are set out below:

a) At September 30, 2012 $Nil (September 2011: $4,630) was paid or accrued to ClarkeKann Lawyers a firm of which John Toigo, a director, is a partner, for legal fees.

b) At September 30, 2012 $Nil (September 2011: $25,000) was paid or accrued to Phillips Exploration Pty Ltd, an entity of which A J Phillips, COO, is a director and JPhillips, wife of A S Phillips, Chairman, President and CEO, is a director, that result in them having significant influence over Phillips Exploration Pty Ltd for the purposes of IAS 24, was assigned to the Company for office equipment and furniture.

SUMMARY OF QUARTERLY INFORMATION

The following table sets forth a comparison of revenues and earnings for the previous eight quarters ending with September 30, 2012. This financial information is derived from the Financial Statements of the Company. Financial information is prepared according to IFRS and is reported in Australian $.

	Dec 31 2010 $	Mar 31 2011 $	Jun 30 2011 $	Sept 30 2011 $	Dec 31 2011 $	Mar 31 2012 $	Jun 30 2012 $	Sept 30 2012 $
Interest and rent Income	48,101	265,701	658,309	626,290	492,287	418,787	350,711	257,035
Net profit/(loss)	(677,865)	(883,639)	(790,587)	(304,452)	(774,337)	(696,590)	(662,542)	(1,145,917)
Net profit/(loss) per share	(0.02)	(0.03)	(0.02)	(0.02)	(0.02)	(0.02)	(0.01)	(0.03)

The Company has not recognized any revenue or incurred any loss from discontinued operations or extraordinary items since becoming a reporting issuer.

SUMMARY OF QUARTERLY INFORMATION (Cont'd)

During the last 8 quarters, the Company has consistently reported net losses. The most significant factor affecting quarterly losses during the last 8 quarters is continuing administrative expenses.

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

Apart from the initiatives discussed above, the Company is not aware of any trends, commitments or events that may affect its liquidity in the foreseeable future. The Company has not made any commitments for capital expenditures. Material increases or decreases in the Company's liquidity will be substantially determined by the success or failure of raising additional funds through private placements and its planned exploration programs.

At September 30, 2012, the Company has net working capital of $16,972,104.

The Company did not issue any shares, options or other equity instruments during the six month period to September 30, 2012. The Company's only external borrowings consist of a financial lease arrangement for motor vehicles, which at the reporting date total $119,817.

Over the next 2 quarters (6 months), the Company anticipates that quarterly cash expenditure requirements will decrease due to a reduction in the Company's drilling program and transition towards the development stage.

COMMITMENTS

Lease agreements

At September 30, 2012 the Company had the following commitments:

	Vehicle leases $	Building leases $	Total $
Within one year	91,147	223,884	315,031
Later than one year but no later than five years	28,670	106,685	135,355
	119,817	330,569	450,386

The Company entered into finance lease contracts for the purchase of 4 vehicles with a completion date of November 30, 2013. The vehicles are recorded at cost and classified as a depreciable asset. Title of the vehicles will transfer to the Company upon payment of $87,039.

COMMITMENTS (Cont'd)

Exploration expenditures

Certain future exploration expenditures are required to be undertaken by the Company as a minimum retention for exploration permits. These expenditures are set out in Note 6 to the Condensed Interim Consolidated Financial Statements for the quarter ended September 30, 2012.

Option agreement

The Company entered into an option agreement on June 16, 2011 to acquire exploration tenement E30/317, with an area of 29 km^2. The key terms of the option agreement include a 24 month exercise period to conduct further exploration and due diligence, an immediate payment of $100,000 for acquisition cost, a further $200,000 payment on the first anniversary and an expenditure commitment of $500,000 on exploration. The exercise price of the option for purchase of the tenement is $10,000,000. The Company has paid the initial $100,000 for acquisition cost and $200,000 for the further option fee.

The Company is required to undertake expenditure $500,000 on tenement E30/317 within the 24 month exercise period or pay the shortfall, even if it does not exercise the option.

The Company's decision to exercise the option is dependent on the delineation of commercial quantities of magnetite and hematite iron ore, and ministerial approval, which will add to the Company's existing established mineral resources.

Apart from the above, the Company has no other material commitments at balance sheet date.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has not engaged in any off-balance sheet arrangements such as obligations under guarantee contracts, a retained or contingent interest in assets transferred to an unconsolidated entity, any obligation under derivative instruments or any obligation under a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the Company or engages in leasing, hedging or research and development services with the Company.

ACCOUNTING POLICIES

Accounting policies are listed in Note 3 to the Condensed Interim Consolidated Financial Statements for the period ended September 30, 2012.

DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed in filings is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrators' rules and forms. The Company's CEO and CFO have designed the Company's disclosure controls and procedures, or caused them to be designed under their supervision to provide reasonable assurance that material information relating to the Company was made known to them and reported as required.

The Company's CEO and CFO have overseen the evaluation of the effectiveness of the Company's disclosure controls and procedures as at March 31, 2012 and concluded that they are effective and provide reasonable assurance that material information relating to the Company was made known to them and reported as required.

INTERNAL CONTROLS OVER FINANCIAL REPORTING ("ICFR")

The CEO and CFO are responsible for the design of ICFR, or for causing them to be designed under their supervision for evaluating the effectiveness of such internal controls to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of external financial statements in accordance with IFRS. Regardless of how well an internal control system is designed and operated, it can provide only reasonable, not absolute, assurance that it will prevent or detect all misstatements resulting from error or fraud due to the inherent limitations of any internal control system.

INTERNAL CONTROLS OVER FINANCIAL REPORTING ("ICFR") (Cont'd)

The CEO and CFO have overseen the evaluation of the design and effectiveness of the Company's ICFR based on the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and concluded that the Company's ICFR was effective as of September 30, 2012.

There were no significant changes that occurred during the period ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

The Company has not in any way limited the design of the ICFR and there are no material weaknesses related to its design as at September 30, 2012.

The CEO and the CFO oversee all material transactions and related accounting records. The Audit Committee of the Company, with management, reviews the financial statements of the Company, on a quarterly and annual basis. The external auditor reviews on a quarterly basis and audits annually the Company's financial statements and disclosures.

While management and the board of directors of the Company work to mitigate the risk of a material misstatement in the Company's financing reporting, the Company's control system, no matter how well designed or implemented, can only provide reasonable, but not absolute, assurance of detecting, preventing and deterring errors and fraud.

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. See Note 13 to the Condensed Interim Consolidated Financial Statements for the quarter ended September 30, 2012.

OUTSTANDING SHARE DATA AS OF NOVEMBER 13, 2012:

Authorized and issued share capital:

Class	**Par Value**	**Authorized Common shares (No par value)**	**Issued**
Common	No par value	Unlimited	44,820,630

As at November 13, 2012 there were 3,435,000 stock options 9,039,150 warrants and 834,000 agents' options outstanding.

OTHER INFORMATION

Additional disclosures pertaining to the Company, including its most recent financial statements, management information circular, material change reports, press releases and other information, are available on the SEDAR website at www.sedar.com or on the Company's website at www.macarthurminerals.com. Readers are urged to review these materials, including the technical reports filed with respect to the Company's mineral properties.

COMPETENT PERSON'S STATEMENT

Technical aspects of this MD&A were prepared and verified by Mr David Larsen, B.Sc, who is a member of the Australian Institute of Geoscientists (MAIG). He is the qualified person as required by National Instrument 43-101, and is the technical person responsible for this MD&A. Mr Larsen consents to the public filing of the MD&A.

BY ORDER OF THE BOARD

"*Alan Phillips*"

Alan Phillips
Chairman President and CEO

"*Simon Hickey*"

Simon Hickey
Director