

SOUTHERN ARC MINERALS INC.
FORM 51-102F1
MANAGEMENT DISCUSSION AND ANALYSIS
THREE MONTH PERIOD ENDED SEPTEMBER 30, 2005

The following discussion, prepared as of November 28, 2005, is management's assessment and analysis of the results and financial condition of Southern Arc Minerals Inc. (the "Company") and should be read in conjunction with the accompanying unaudited financial statements for the three month period ended September 30, 2005 and related notes attached thereto. The preparation of financial data is in accordance with Canadian generally accepted accounting principles and all figures are reported in Canadian dollars unless otherwise indicated.

The reader should also refer to the annual audited financial statements for the period ended June 30, 2005 and the Management Discussions and Analysis for that period.

Additional information relating to the Company is available on SEDAR at www.sedar.com.

Description of Business

The Company was incorporated in British Columbia on August 19, 2004. The Company completed an IPO on June 2, 2005 and its common shares commenced trading on the TSX Venture Exchange on June 30, 2005.

The Company's business activities include the acquisition, exploration and development of resource properties in Indonesia. To date, the company has not generated significant revenues from operations and is considered to be in the development stage.

Forward Looking Statements

Certain information included in this discussion may constitute forward-looking statements. Forward looking statements are based on current expectations and entail various risks and uncertainties. These risks and uncertainties could cause or contribute to actual results that are materially different from those expressed or implied.

Industry

The Company is engaged in the acquisition and exploration of resource properties, an inherently risky business, and there is no assurance that an economic mineral deposit will ever be discovered and subsequently put into production. Most exploration projects do not result in the discovery of commercially mineable deposits. The geological focus of the Company is on areas in which the geological setting is well understood by management.

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Trends

In recent years, the resource exploration industry had been through a very difficult period, with low prices for both precious and base metals. Lack of interest led to low market capitalizations and large companies found it was easier to grow by purchasing companies or mines than to explore for them. This led to downsizing of large company exploration staff and many professionals took early retirement or left the industry to pursue other careers. As a result of these trends, there were limited mining projects in the pipeline and a shortage of experienced explorationists. With improving metal prices and increasing demand, especially from Asia, there is a discernible need for development of exploration projects. Junior companies, like the Company, are a key participant in identifying properties of merit to explore and develop.

Risks and Uncertainties

The Company is subject to a number of risk factors due to the nature of the mining business in which it is engaged, not least adverse movements in commodity prices, which are impossible to forecast. The Company seeks to counter this risk as far as possible by selecting exploration areas on the basis of their recognized geological potential to host economic deposits.

Gold and Metal Prices

The price of gold is affected by numerous factors beyond the control of the Company including central bank sales, producer hedging activities, the relative exchange rate of the U.S. dollar with other major currencies, demand, political and economic conditions and production levels. In addition, the price of gold has been volatile over short periods of time due to speculative activities. The price of other metals and mineral products that the Company may explore for all have the same or similar price risk factors.

Resource Properties

The Company's accounting policy is to record its resource properties at cost. Exploration and development expenditures relating to resource properties are deferred until either the properties are brought into production, at which time they are amortized on a unit of production basis, or until the properties are sold or abandoned, at which time the deferred costs are written off.

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Resource Properties (cont'd...)

Lombok and Sumbawa Properties, Indonesia

Pursuant to an amended and restated Option Agreement, the Company holds an option to acquire all of Indotan Inc.'s 90% interest in each foreign direct investment company formed to enter into a Contract of Work ("COW") with respect to the Sumbawa Property or the Lombok Property. Pursuant to the JV Agreements, the Company will have acquired an additional 5% interest in the Sumbawa joint venture and the Lombok joint venture once each COW is entered into. The Company's objective is to explore and develop the Sumbawa Property and the Lombok Property, along with any other property which the Company acquires, with a view to commencing commercial mining operations.

Flores Property, Indonesia

The Company has been granted four new exploration licenses over part of West Flores Island through its locally controlled Indonesian entity. The areas have been previously explored under fourth and seventh generation COW. The licenses were granted for twelve months and can be extended for a further twelve months.

Other Property, Indonesia

On September 7, 2005, the Company entered into an arms-length letter agreement pursuant to which it can acquire a 75% interest in an Indonesian mineral property (the "Property") by paying US\$25,000 and:

Upon execution of a formal agreement:

- Paying US\$100,000
- Issuing 100,000 common shares; and
- Paying US\$6,000 per month, increasing after one year to US\$10,000 per month.

Upon completion of the first 3,000 metres of drilling on the Property:

- Paying US\$200,000;
- Issuing 200,000 common shares; and

Upon commencement of commercial production:

- Paying US\$3,000,000 less previous advances.

Refer to Note 3 of the September 30, 2005 financial statements for details of resource property expenditures.

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Financing

During the three month period ended September 30, 2005, the Company issued 166,500 common shares at \$0.25 per share for total proceeds of \$41,625 as a condition of exercised agent option warrants previously granted. The Company incurred share issuance costs of \$1,057.

The Company has not paid any dividends on its common shares. The Company has no present intention of paying dividends on its common shares, as it anticipates that all available funds will be invested to finance the growth of its business.

Results of Operations

During the three month period ended September 30, 2005, the Company incurred a loss of \$140,814, compared to a loss of \$14,886 for the period from incorporation on August 19, 2004 to September 30, 2004, as a result of incurring various general and administrative expenses. The general and administrative expenses primarily consisted of consulting fees of \$46,518 (September 30, 2004 - \$8,000) and professional fees of \$34,750 (September 30, 2004 - \$4,143) for corporate oversight, administration and stewardship. Included in consulting fees was \$24,000 (September 30, 2004 - \$8,000) paid or accrued to a company controlled by a director of the Company. Included in professional fees was \$21,300 (September 30, 2004 - \$Nil) paid or accrued to a firm in which an officer is a partner. The remaining consulting and professional fees were incurred for a variety of administrative and accounting services and for general corporate counsel. The Company also recognized stock-based compensation of \$2,944 (September 30, 2004 - \$Nil) in the statement of operations as a result of issuing incentive stock options.

Summary of Results

	September 30, 2005	June 30, 2005	December 31, 2004
Total assets	\$ 3,572,684	\$ 3,726,995	\$ 659,394
Resource properties and deferred costs	3,154,781	2,683,876	429,386
Working capital	249,272	817,479	57,787
Accumulated deficit	(722,132)	(581,318)	(101,527)
Net Loss	(140,814)	(479,791)	(101,527)
Basic and diluted loss per share	(0.00)	(0.01)	(0.01)

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Liquidity

The Company has financed its operations to date primarily through the issuance of common shares.

The audited financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

Net cash used in operating activities for the three month period ended September 30, 2005 was \$185,483 compared to net cash used of \$7,013 during the period ended September 30, 2004. The cash used in operating activities for the periods consists primarily of the operating loss from the general and administrative expenditures and a change in non-cash working capital items.

Net cash used in the investing activity for the three month period ended September 30, 2005 was \$470,905 compared to cash used of \$91,357 during the period ended September 30, 2004. The cash used in the investing activity for the periods consists entirely of the acquisition and exploration of resource properties.

Net cash provided by financing activities for the three month period ended September 30, 2005 was \$40,568 compared to \$296,250 during the period ended September 30, 2004. The cash provided by financing activities consists of the issuance of common shares net of share issuance costs.

Investor Relations

The Company held its annual general meeting on November 25, 2005. The Company has recently engaged two investor relations consultants in order to raise its profile with the investment community.

Related Party Transactions

During the three month period ended September 30, 2005, the Company entered into transactions with related parties as follows:

- a) Paid or accrued \$24,000 (September 30, 2004 - \$8,000) for consulting fees to a company controlled by a director of the Company.
- b) Paid or accrued \$21,300 (September 30, 2004 - \$Nil) for professional fees to a firm in which an officer is a partner.
- c) Paid or accrued \$37,482 (September 30, 2004 - \$Nil) in geological consulting fees included in resource properties to companies controlled by an officer of the Company.

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Related Party Transactions (cont'd...)

These transactions were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

Financial Instruments

The carrying value of cash, receivables and accounts payable and accrued liabilities approximate fair value because of the short maturity of those instruments. It is management's opinion that the Company is not exposed to significant interest or credit risk arising from these financial instruments.

Currency risk

The Company's largest non-monetary assets are its resource interests in Indonesia. The Company could accordingly be at risk for foreign currency fluctuations and developing legal and political environments.

The Company does not maintain significant cash or monetary assets or liabilities in Indonesia.

Commitment

The Company has committed to rent office space for the following annual amounts:

2006	\$ 38,140
2007	20,170

Off-balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Critical Accounting Policies and Estimates

A detailed summary of all the Company's significant accounting policies is included in Note 2 of the financial statements for the period ended September 30, 2005.

Stock-based compensation

The Company uses the Black-Scholes Option Pricing Model in determining the fair value of options granted for stock-based compensation. Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective price assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options granted/vested during the year.

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Current Share Data

As at November 24, 2005, the company has 34,773,276 common shares issued and outstanding and has the following stock options and warrants outstanding:

	Number of Shares	Exercise Price	Expiry Date
Stock options	3,400,000	\$ 0.25	June 30, 2010
Agent option warrants	1,426,725	\$ 0.25	June 30, 2006
Warrants	1,280,000	\$ 0.125	April 15, 2007

Outlook

The Company continues to expand its portfolio of exploration properties across the Lombok, Sumbawa and Flores Islands in Indonesia. These acquisitions form part of the Company's strategy, which is to be an active junior resource exploration company through the entire Sunda Banda Magmatic Arc of south-central Indonesia.