

**SOUTHERN ARC MINERALS INC.**  
**FORM 51-102F1**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**NINE MONTH PERIOD ENDED MARCH 31, 2006**

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The following discussion, prepared as of May 18, 2006, 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 nine month period ended March 31, 2006 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](http://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 ("TSX-V") 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.

## **SOUTHERN ARC MINERALS INC.**

### **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.

#### Lombok and Sumbawa Properties, Indonesia

The Company entered into an agreement with Sunda pursuant to which Sunda assigned its option to acquire certain rights on the Lombok property ("Lombok") and the Sumbawa property ("Sumbawa")(collectively the "Properties") to the Company, which Sunda had obtained from Indotan. In consideration for the assignment, the Company paid \$81,572 and issued 11,500,000 common shares valued at \$862,500 to Sunda. Effective February 25, 2005, the Company and Indotan entered into a settlement agreement with respect to certain outstanding matters related to the Properties. Pursuant to this settlement, the Company and Indotan entered into an amended and restated option agreement (the "Option Agreement") which sets out all of the rights and responsibilities of the Company and Indotan with respect to the Properties.

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### **Resource Properties (cont'd...)**

#### Lombok and Sumbawa Properties, Indonesia (cont'd...)

Pursuant to the Option Agreement, the Company has the option, directly with Indotan, to acquire all of its rights to the Properties in consideration for which the Company issued 1,000,000 common shares, valued at \$125,000, and paid \$180,000. The Company now has an option, until February, 2010 to acquire 50% of Indotan's 1% net smelter returns royalty ("NSR") on the Properties in consideration for the payment of \$500,000. Concurrently with the signing of the Option Agreement, the Company received an option to acquire 50% of the remaining 1% NSR on the Properties in consideration for \$60,000 (paid) and \$500,000, which can be paid prior to the expiry of the option in February, 2010. All of the holders of the NSR agreed that the NSR only applies to the Properties as at July 21, 2004 and not to any additional property interests which the Company acquires after that date. In accordance with the terms of the Option Agreement, the Company filed a listing application with the TSX-V and filed a prospectus for a public offering which has been completed.

In accordance with a limited power of attorney granted by Indotan pursuant to the Option Agreement, the Company caused Indotan to enter into two joint venture agreements (the "JV Agreements") with Indotan's Indonesian partner, PT Puri Permata Mega ("PTPM"), on the Properties. The Company has an initial 90% interest in the Lombok joint venture (the "Lombok JV") and the Sumbawa joint venture (the "Sumbawa JV"). At any time after a joint venture company is formed with respect to the Lombok JV and that company enters into a Contract of Work ("COW"), the Company can acquire a further 5% interest in the Lombok JV by providing funds to the Lombok JV in the amount of US\$700,000. At any time after a joint venture company is formed with respect to the Sumbawa JV and that company enters into a COW, the Company can acquire a further 5% interest in the Sumbawa JV by providing funds to the Sumbawa JV in the amount of US\$300,000. The Company has funded the respective amounts to each of the Lombok JV and Sumbawa JV.

Lombok and Sumbawa are currently comprised of two separate applications to the Indonesian Government for a COW to conduct mining activities and earn mineral rights to certain mineral tenements. Upon the approval in principle of the COW, preliminary general survey licenses ("SIPPs") were granted for the properties. The SIPP permits the Company to conduct preliminary general survey work over the COW application areas. The Sumbawa SIPP was granted on January 2, 2004 for an initial 12 month period. On April 19, 2005, an extension and expansion of the Sumbawa Property SIPP was granted until April 19, 2006. On April 22, 2006, an extension was granted until April 22, 2007. The Lombok SIPP was granted on December 4, 2002. On July 15, 2005, an extension and expansion of the Lombok Property SIPP was granted until February 15, 2006. A 12 month extension on the Lombok SIPP has been filed. The granting of a SIPP is not a guarantee that a COW will be entered into.

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### Resource Properties (cont'd...)

#### Lombok and Sumbawa Properties, Indonesia (cont'd...)

The Company also entered into an agreement with PT Newmont Nusa Tenggara (“NNT”) regarding a 8,860 ha property (“*Block 1*”) which is contiguous with the western boundary of the Company’s current Lombok Island SIPP license. The acquisition was completed through a relinquishment by NNT of *Block 1* area. The terms of the agreement include granting NNT a 2% net smelter return (“NSR”) on any mineral production from the area covered by *Block 1* together with a right of first refusal should the Company wish to introduce a new partner into any development within the area originally covered by *Block 1*.

#### *Lemonga Gold Prospect, Sumbawa Property*

The Lemonga Prospect is focused on a low-sulphidation epithermal quartz vein system over which surface mapping by the Company and previous operators has confirmed hydrothermal argillic alteration within an area approximately 1 km East-West by 1.5 km North-South. Five quartz vein targets, named Amy, Betty, Cici, Dessy and Evi, have been identified within the alteration zone. The best exposed vein, the Amy Vein, has a mapped strike extent of at least 950 meters.

Interpretation of data from the recently completed CSAMT (“resistivity”) ground area indicate initial findings of moderate to strongly resistive linear targets which more or less correspond to the position and strike of the known veins and breccia zones, along with possible significant lateral extensions at depth. Additional blind targets that are masked by talus scree have also been interpreted in the Northwest section of the prospect area.

Drill holes LDG-17 to 25 and LDG-27 were targeted to test northern extensions of gold-silver intercepts from the central portion of the Amy Vein. In some instances holes were drilled to test continuity of grade below previous drill intercepts.

Drill holes LDG-26 and LDG-28 to LDG-29 were drilled to test central and northern portions of the Betty and Cici Veins, along with inferred splays of the vein structures.

Drill hole LDG-30 targeted the extension of the Dessy Vein at a deeper level, approximately 100m below the surface, and 30m south of previous hole LDG-11 (7.9m @ 5.81 g/t Au & 37 g/t Ag).

Drill holes LDG-31 and LDG-33 were targeted to test extensions and continuity of gold-silver intercepts from the southern extremes of the Amy Vein. Drill hole LDG-32 targeted continuity of gold-silver grades from previous hole LDG-11 (7.9 m @ 5.81 g/t Au & 37 g/t Ag) a further 30 metres north along the Dessy Vein.

Drill hole LDG-34 was drilled to test central portions of the Evi Vein, along with inferred splays of the vein structures that were suggested by CSMAT results.

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### Resource Properties (cont'd...)

#### Lombok and Sumbawa Properties, Indonesia (cont'd...)

Drill holes LDG-35 to LDG-39 were drilled to test lateral extensions of high-grade gold-silver shoots intersected.

**TABLE 1: LEMONGA PROSPECT – SIGNIFICANT DRILL INTERSECTIONS**

<b>Drill Hole</b>	<b>Interval (m)</b>	<b>Significant Intersections (g/t)</b>
<i>Target: Amy Vein</i>		
LDG-17	from 107.6 m	20.80 m @ 2.02 g/t Au & 15 g/t Ag
	<i>including</i>	3.10 m @ 5.76 g/t Au & 11 g/t Ag
		3.15 m @ 5.62 g/t Au & 59 g/t Ag
LDG-18	from 63.15 m	13.30 m @ 4.64 g/t Au & 21 g/t Ag
	<i>including</i>	2.15 m @ 19.44 g/t Au & 18 g/t Ag
LDG-19	from 130.65 m	21.90 m @ 1.02 g/t Au & 10 g/t Ag
	<i>including</i>	3.10 m @ 4.70 g/t Au & 19 g/t Ag
LDG-20	from 3.00 m	2.00 m @ 1.44 g/t Au & 4 g/t Ag
	from 11.00 m	3.30 m @ 0.21 g/t Au & 516 g/t Ag
	from 48.40 m	12.60 m @ 3.99 g/t Au & 37 g/t Ag
	<i>including</i>	2.00 m @ 13.65 g/t Au & 73 g/t Ag
		1.30 m @ 6.26 g/t Au & 22 g/t Ag
LDG-21	from 31.15 m (foot wall)	10.35 m @ 1.32 [0.75] g/t Au & 2 [2] g/t Ag
	from 48.60 m (foot wall)	29.70 m @ 4.24 [2.23] g/t Au & 4 [3] g/t Ag
	from 82.10 m	19.55 m @ 1.67 g/t Au & 19 g/t Ag
	<i>including</i>	3.15 m @ 4.66 g/t Au & 28 g/t Ag
		3.85 @ 2.33 g/t Au @ 21 g/t Ag
LDG-22	from 5.60 m	2.00 m @ 1.24 g/t Au & 5 g/t Ag
	from 13.60 m	2.00 m @ 11.75 g/t Au & 694 g/t Ag
	from 46.20 m	0.70 m @ 11.20 g/t Au & 10 g/t Ag
	from 68.30 m	3.00 m @ 7.94 g/t Au & 56 g/t Ag
	from 75.70 m	2.00 m @ 1.20 g/t Au & 3 g/t Ag
LDG-23	49.85 – 51.65m	1.80m @ 6.34 g/t Au & 12 g/t Ag
	61.35 – 65.30m	3.95m @ 1.74 g/t Au & 29 g/t Ag
LDG-24	45.20 – 55.05m	9.85m @ 1.98 g/t Au & 9 g/t Ag
	(incl: 46.00 – 50.00m)	4.00m @ 3.50 g/t Au & 15 g/t Ag
LDG-25	70.80 – 74.20m	3.40m @ 1.55 g/t Au & 6 g/t Ag
	(incl: 70.80 – 71.60m)	0.80m @ 2.80 g/t Au & 17 g/t Ag
LDG-27	66.95 – 68.25m	1.30m @ 0.93 g/t Au & 2 g/t Ag
	98.70 – 99.60m	0.90m @ 5.63 g/t Au & 4 g/t Ag
	129.70 – 131.60m	1.90m @ 2.35 g/t Au & 5 g/t Ag
LDG-35	from 127.55 m	1.70 m @ 10.01 g/t Au & 32 g/t Ag
LDG-36	from 28.80 m	0.60 m @ 2.02 g/t Au & 49 g/t Ag
	from 52.00 m	1.05 m @ 11.87 g/t Au & 185 g/t Ag
	from 117.40 m	0.75 m @ 8.91 g/t Au & 33 g/t Ag
	from 184.25 m	0.40 m @ 3.98 g/t Au & 3 g/t Ag
	from 217.95 m	0.55 m @ 2.50 g/t Au & 3 g/t Ag
LDG-37	from 36.50 m	0.90 m @ 1.34 g/t Au & 39 g/t Ag
LDG-38	from 63.20 m	4.20 m @ 6.20 g/t Au & 12 g/t Ag
	from 82.95 m	1.25 m @ 1.59 g/t Au & 39 g/t Ag
LDG-39	from 81.90 m	4.0 m @ 0.64 g/t Au & 262 g/t Ag
	<i>including</i>	2.0 m @ 1.06 g/t Au & 379 g/t Ag

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**Resource Properties (cont'd...)**

**TABLE 1: LEMONGA PROSPECT – SIGNIFICANT DRILL INTERSECTIONS (Cont'd...)**

<b>Drill Hole</b>	<b>Interval (m)</b>	<b>Significant Intersections (g/t)</b>
<i>Target: Northern Betty Vein</i>		
LDG-26	1.30 – 9.00m	7.70m @ 0.56 g/t Au & 156 g/t Ag
	<b>(incl: 4.50 – 6.60m)</b>	<b>2.10m @ 0.45 g/t Au &amp; 544 g/t Ag</b>
	11.10 – 13.45m	2.35m @ 2.95 g/t Au & 9 g/t Ag
	47.20 – 47.85m	0.65m @ 2.43 g/t Au & 8 g/t Ag
	65.90 – 67.25m	1.35m @ 1.93 g/t Au & 9 g/t Ag
	71.40 – 74.55m	3.15m @ 2.95 g/t Au & 240 g/t Ag
	<b>(incl: 71.75 – 74.05m)</b>	<b>2.30m @ 3.62 g/t Au &amp; 266 g/t Ag</b>
	82.60 – 83.55m	0.95m @ 2.97 g/t Au & 48 g/t Ag
LDG-28	8.20 – 13.20m	5.00m @ 4.68 g/t Au & 32 g/t Ag
	<b>(incl: 10.45 – 11.20m)</b>	<b>0.75m @ 16.77 g/t Au &amp; 72 g/t Ag</b>
	34.00 – 36.70m	2.70m @ 3.23 g/t Au & 178 g/t Ag
	63.05 – 63.40m	0.35m @ 1.99 g/t Au & 83 g/t Ag
	81.00 – 85.10m	4.10m @ 1.32 g/t Au & 58 g/t Ag
	<b>(incl: 81.00 – 82.75m)</b>	<b>1.75m @ 2.08 g/t Au &amp; 123 g/t Ag</b>
LDG-29	26.70 – 27.30m	0.60m @ 17.57 g/t Au & 58 g/t Ag
	35.80 – 36.35m	0.55m @ 1.08 g/t Au & 222 g/t Ag
	77.85 – 83.50m	5.65m @ 1.20 g/t Au & 69 g/t Ag
	<b>(incl: 77.85 – 81.40m)</b>	<b>3.55m @ 1.54 g/t Au &amp; 63 g/t Ag</b>
	86.55 – 87.05m	0.50m @ 2.71 g/t Au & 79 g/t Ag
	92.20 – 93.75m	1.55m @ 0.72 g/t Au & 25 g/t Ag
	109.30 – 109.95m	0.65m @ 1.61 g/t Au & 53 g/t Ag
	121.65 – 122.50m	0.85m @ 1.29 g/t Au & 16 g/t Ag
<i>Target: Dessy Vein</i>		
LDG-30	12.65 – 13.25m	0.60m @ 0.40 g/t Au & 138 g/t Ag
	31.20 – 31.75m	0.55m @ 2.22 g/t Au & 42 g/t Ag
	40.35 – 40.75m	0.40m @ 0.79 g/t Au & 29 g/t Ag
	77.15 – 77.65m	0.50m @ 1.12 g/t Au & 6 g/t Ag
	94.60 – 96.15m	1.55m @ 1.34 g/t Au & 20 g/t Ag
	101.10 – 107.60m	6.50m @ 8.74 g/t Au & 24 g/t Ag
	<b>(incl: 103.50 – 105.60m)</b>	<b>2.10m @ 21.43 g/t Au &amp; 34 g/t Ag</b>
	119.45 – 120.80m	1.35m @ 2.75 g/t Au & 19 g/t Ag
	131.95 – 136.65m	4.70m @ 7.47 g/t Au & 17 g/t Ag
LDG-31	from 84.15 m	4.00 m @ 2.20 g/t Au & 2 g/t Ag
	<i>including</i>	2.00 m @ 3.21 g/t Au & 2 g/t Ag
LDG-32	<i>from 91.55 m</i>	0.95 m @ 2.16 g/t Au & 1 g/t Ag
	<i>from 101.85 m</i>	4.85 m @ 5.49 g/t Au & 25 g/t Ag
	<i>including</i>	2.00 m @ 7.12 g/t Au @ 17 g/t Ag
	<i>from 133.25 m</i>	2.00 m @ 1.94 g/t Au & 3 g/t Ag
	<i>from 136.75 m</i>	0.90 m @ 2.94 g/t Au & 5 g/t Ag
LDG-33	<i>No significant assays.</i>	
<i>Target: Evi Vein</i>		
LDG-34	from 45.20 m	1.30 m @ 2.00 g/t Au & 192 g/t Ag
	<i>including</i>	1.00 m @ 5.86 g/t Au & 57 g/t Ag
	from 92.10 m	9.95 m @ 3.82 g/t Au & 29 g/t Ag
	<i>including</i>	1.00 m @ 23.05 g/t Au & 20 g/t Ag

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### **Resource Properties (cont'd...)**

Results from the Amy Vein drill holes LDG-20 to LDG-22 showed significant widths of quartz veining were intersected and confirm the near vertical dip and pinch and swell nature of the veining. An extensive section of variably mineralized wall rock immediately west of quartz veining intersected in LDG-21 returned surprisingly elevated gold results of 10.35 m @ 1.32 g/t Au and 29.70 m @ 4.24 g/t Au. Further drilling has displayed a marked difference in vein distribution and density, as well as consistency of Au:Ag ratios between upper and lower lithologic units which host the Amy Vein system. Results from the southern extremes of the Amy Vein continue to be somewhat enigmatic, with the main vein dissipating in places to a series of narrow (1.0-2.5 m width) sheet veins with a predominance of amethystic quartz and coarse-grained base metal sulfides which grade at <1.0 g/t Au equivalent. In other places the vein coalesces into widths greater than 8 metres, with a significant component of finely-banded sulfide-quartz, which typically grades in excess of 5 g/t to 6 g/t Au equivalent. Further results from the southern segment of the Amy Vein, particularly from drill holes LDG-35 and LDG-38, confirm the presence of higher grade ore shoot(s) exhibiting an irregular surface confined by the geometry of a second generation auriferous quartz-sulfide vein event. Previous petrological interpretation has suggested the possibility of considerable depth potential for extensions of such shoot(s) over an approximate length of 225 m of the poorly outcropping southern Amy Vein segment. These deeper targets will be tested in forthcoming drill holes.

The area between the central to northern Betty and Cici Veins is cut by a steeply-dipping vein/veinlet swarm over a width of at least 100m. Most of the veins are of moderate widths and grades, but a few high grade intersections will require follow-up trenching and drilling.

The southern extension of the Dessy Vein displays significant width and grade accompanied by several narrower, apparently parallel, Au-Ag bearing veins on both its eastern and western side. One vein, 17m to the east, is of comparable grade and width of the LDG-11 drill intercept, yet does not crop out. Intercepts in the Dessy Vein continue to show promise with a potential 550+ metres of strike length as supported by vein outcrops and linear CSMAT resistively zones. This zone will be tested with forthcoming drill holes.

### 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. Licenses were granted for Bolol on September 8, 2005, Longo on October 4, 2005, Tebedo and Dalong on August 1, 2005. The licenses were granted for twelve months and can be extended for a further twelve months.

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### Resource Properties (cont'd...)

#### 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.

March 31, 2006	Lombok Property	Sumbawa Property	Flores Property	Other Property	Total
<b>Acquisition costs</b>					
Balance, beginning of period	\$ 1,025,852	\$ 439,651	\$ -	\$ -	\$ 1,465,503
Additions	<u>25,402</u>	<u>10,886</u>	<u>17,941</u>	<u>23,797</u>	<u>78,026</u>
Balance, end of period	<u>1,051,254</u>	<u>450,537</u>	<u>17,941</u>	<u>23,797</u>	<u>1,543,529</u>
<b>Deferred exploration costs</b>					
Incurred during the period:					
Assaying, testing, surveying and analysis	68,941	137,527	-	-	206,468
Camp construction, supplies and accommodation	229,929	324,001	-	-	553,930
Geological and other consulting	275,949	345,867	-	-	621,816
Drilling	-	346,825	-	-	346,825
Travel	<u>7,229</u>	<u>10,518</u>	<u>-</u>	<u>-</u>	<u>17,747</u>
Total deferred exploration costs	582,048	1,164,738	-	-	1,746,786
Balance, beginning of period	<u>670,425</u>	<u>547,948</u>	<u>-</u>	<u>-</u>	<u>1,218,373</u>
Balance, end of period	<u>1,252,473</u>	<u>1,712,686</u>	<u>-</u>	<u>-</u>	<u>2,965,159</u>
<b>Total resource property costs</b>	<u>\$ 2,303,727</u>	<u>\$ 2,163,223</u>	<u>\$ 17,941</u>	<u>\$ 23,797</u>	<u>\$ 4,508,688</u>

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### Resource Properties (cont'd...)

June 30, 2005	Lombok Property	Sumbawa Property	Total
<b>Acquisition costs</b>			
Balance, December 31, 2004	\$ 22,798	\$ 9,770	\$ 32,568
Additions	<u>1,003,054</u>	<u>429,881</u>	<u>1,432,935</u>
Balance, end of period	<u>1,025,852</u>	<u>439,651</u>	<u>1,465,503</u>
<b>Deferred exploration costs</b>			
Incurred during the period:			
Assaying, testing and analysis	72,327	27,598	99,925
Camp construction, supplies and accommodation	162,005	142,055	304,060
Geological and other consulting	137,470	133,005	270,475
Drilling	<u>58,216</u>	<u>88,879</u>	<u>147,095</u>
Total deferred exploration costs	430,018	391,537	821,555
Balance, December 31, 2004	<u>240,407</u>	<u>156,411</u>	<u>396,818</u>
Balance, end of period	<u>670,425</u>	<u>547,948</u>	<u>1,218,373</u>
<b>Total resource property costs</b>	<u>\$ 1,696,277</u>	<u>\$ 987,599</u>	<u>\$ 2,683,876</u>

### Financing

During the nine month period ended March 31, 2006, the Company:

- issued 783,037 common shares at \$0.25 per share for total proceeds of \$195,759 pursuant to the exercise of agent option warrants previously granted.
- completed a private placement of 4,000,000 units at \$0.35 per unit. Each unit consists of one common share and a one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at \$0.50 for a period of two years.
- re-priced 228,500 units included in the private placement pursuant to TSX-V terms. These units, originally issued at \$0.35, were adjusted to 142,812 units at \$0.56. Each re-priced unit consists of one common share and one-half of one common share purchase warrant, where one whole warrant entitles the holder to acquire one additional common share at \$0.66 for a period of two years. The total proceeds from the private placement were unchanged by the adjustment. Share issuance costs of \$18,323 were paid in connection with the private placement.

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### Financing (cont'd...)

- d) completed a private placement of 4,328,571 units at \$0.70 per unit. Each unit consists of one common share and a one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at \$1.00 for a period of two years. Share issuance costs of \$233,557 were paid in connection with the private placement.
- e) issued 2,000,000 common shares at \$0.25 pursuant to the exercise of options previously granted, of which 1,750,000 were issued to related parties.

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 nine month period ended March 31, 2006, the Company incurred a loss of \$1,495,842, compared to a loss of \$286,006 for the period from incorporation on August 19, 2004 to March 31, 2005, as a result of incurring various general and administrative expenses. The general and administrative expenses primarily consisted of consulting fees of \$160,285 (March 31, 2005 - \$83,600) and professional fees of \$116,582 (March 31, 2005 - \$63,188) for corporate oversight and stewardship, administration and accounting services, and for general corporate counsel. The Company also recognized stock-based compensation of \$1,041,653 (March 31, 2005 - \$76,585) in the statement of operations as a result of issuing incentive stock options.

### Summary of Quarterly Results

	March 31, 2006	December 31, 2005	September 30, 2005
Total assets	\$ 8,094,658	\$ 4,860,083	\$ 3,572,684
Resource properties and deferred costs	4,508,688	3,651,387	3,154,781
Working capital	3,426,357	1,006,688	249,272
Accumulated deficit	2,077,160	(866,394)	(722,132)
Net Loss	(1,210,766)	(144,262)	(140,814)
Basic and diluted loss per share	(0.03)	(0.00)	(0.00)

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### Summary of Quarterly Results (cont'd...)

	June 30, 2005	March 31, 2005	December 31, 2004
Total assets	\$ 3,726,995	\$ 2,156,114	\$ 659,394
Resource properties and deferred costs	2,683,876	2,081,569	429,386
Working capital	817,479	103,491	57,787
Accumulated deficit	(581,318)	(286,006)	(101,527)
Net Loss	(295,312)	(184,479)	(86,641)
Basic and diluted loss per share	(0.01)	(0.01)	(0.01)

### 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 nine month period ended March 31, 2006 was \$654,245 compared to net cash used of \$51,966 during the period ended March 31, 2005. 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 nine month period ended March 31, 2006 was \$1,691,410 compared to cash used of \$1,955,934 during the period ended March 31, 2005. 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 nine month period ended March 31, 2006 was \$4,887,879 compared to \$2,061,865 during the period ended March 31, 2005. 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 nine month period ended March 31, 2006, the Company entered into transactions with related parties as follows:

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- a) Paid or accrued \$72,000 (March 31, 2005 - \$64,000) for consulting fees to a company controlled by a director of the Company.
- b) Paid or accrued \$48,100 (March 31, 2005 - \$21,500) for professional fees to a firm in which an officer of the Company is a partner.
- c) Paid or accrued \$113,743 (March 31, 2005 - \$26,685) for geological consulting fees included in resource properties to an officer of the Company and a company controlled by an officer of the Company.
- d) Accounts payable includes \$5,500 (March 31, 2005 - \$17,000) for professional fees owing to a firm in which a director is a partner.

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 Company's financial instruments consist of cash, prepaid expense and deposit, receivables, due from related party, and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values unless otherwise noted.

#### 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	\$ 10,440
2007	20,170

### **Off-balance Sheet Arrangements**

The Company has no off-balance sheet arrangements other than those disclosed and under resource properties.

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### 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.

### Current Share Data

As at May 23, 2006, the Company has 45,914,371 common shares issued and outstanding and has the following stock options and warrants outstanding:

	Number of Shares	Exercise Price	Expiry Date
<b>Options</b>			
	1,400,000	\$ 0.25	June 30, 2010
	75,000	0.35	October 12, 2010
	2,275,000	0.56	January 13, 2011
	475,000	0.70	April 13, 2011
<b>Warrants</b>			
	528,513	\$ 0.25	June 30, 2006
	1,280,000	0.125	April 15, 2007
	2,000,000	0.50	December 28, 2007
	2,164,286	1.00	March 24, 2008
	290,000	0.70	March 24, 2008

### 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.

### Subsequent events

Subsequent to March 31, 2006, the Company:

- granted stock options to directors and consultants of the Company to acquire 475,000 common shares, exercisable at \$0.70 per share for a period of five years.

## **SOUTHERN ARC MINERALS INC.**

### **Subsequent events (cont'd...)**

- b) issued 288,450 common shares at \$0.25 per share for total proceeds of \$72,113, pursuant to the exercise of warrants previously granted.