

SOUTHERN ARC MINERALS INC.
FORM 51-102F1
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2006

The following discussion, prepared as of October 24, 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 audited financial statements for the year ended June 30, 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 Discussion 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 ("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 revenues from operations and is considered to be in the exploration 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, including 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.

SOUTHERN ARC MINERALS INC.

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 and on April 22, 2006, an extension was granted until April 22, 2007. The Company expects the preliminary round of negotiations on the new 7+ generation COW agreement for the Taliwang property to commence late this month. Accordingly, the joint central government-provincial government COW negotiating team has been appointed. It is hoped that the COW can be finalized before the end of the year.

SOUTHERN ARC MINERALS INC.

Resource Properties (cont'd...)

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

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 and granted. The COW is currently in its third one-year extension period of the SIPP (Preliminary General Survey) license. The Company anticipates the preliminary round of negotiations on the new 7+ generation COW agreement will commence late this month. Accordingly, the joint central government-provincial government COW negotiating team has been appointed. It is hoped that the COW can be finalized before the end of the year.

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).

SOUTHERN ARC MINERALS INC.

Resource Properties (cont'd...)

Lemonga Gold Prospect, Sumbawa Property (cont'd...)

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.

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

Drill holes LDG-40, LDG-41, and LDG-42 were designed as shallow infill holes to test certain portions of the central segment of the Amy Vein for grade continuity between previously drilled holes. Drill holes LDG-43 and LDG-44 targeted a discrete 100-m continuous length of wide quartz vein outcropping in the central portion of the north Amy Vein segment. The latter two holes were drilled 40m and 80m north of drill hole LDG-24, which intersected 4.0 m @ 3.5 g/t Au and 15 g/t Ag. All holes were drilled at right angles to the strike of the veins at -45° inclinations and intersected significant widths and grades of gold-silver bearing quartz vein zones. Drill holes LDG-40 and LDG-41 both demonstrated the presence of higher grade shoots within a broad structurally complex zone of multi-phase quartz veining. Hole LDG-42, although establishing that this zone narrows towards the NNE beneath subcrop, extends the central segment of the Amy Vein a further 40m in this direction, resulting in a strike length of about 400m. Intercepts from drill holes LDG-43 and LDG-44 suggest the existence of at least two higher grade shoots which appear to diverge to the north and the north-northeast. Both central and northern segments of the Amy Vein will be tested for depth extensions in upcoming drill holes.

SOUTHERN ARC MINERALS INC.

Resource Properties (cont'd...)

Lemonga Gold Prospect, Sumbawa Property (cont'd...)

TABLE 1: LEMONGA PROSPECT – SIGNIFICANT DRILL INTERSECTIONS

Drill Hole	Interval (m)	Significant Intersections (g/t)
<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

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SOUTHERN ARC MINERALS INC.

Resource Properties (cont'd...)

Lemonga Gold Prospect, Sumbawa Property (cont'd...)

TABLE 1: LEMONGA PROSPECT – SIGNIFICANT DRILL INTERSECTIONS

Drill Hole	Interval (m)	Significant Intersections (g/t)
<i>Target: Amy Vein</i>		
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
LDG-40	from 65.50 m	2.60 m @ 2.73 g/t Au & 99 g/t Ag
	from 71.15 m	1.0 m @ 2.11 g/t Au & 20 g/t Ag
	from 74.15 m	2.00 m @ 3.42 g/t Au & 87 g/t Ag
	<i>including</i>	1.00 m @ 5.29 g/t Au & 69 g/t Ag
	from 78.15 m	3.25 m @ 1.91 g/t Au & 34 g/t Ag
LDG-41	from 15.50 m	1.20 m @ 2.11 g/t Au & 2 g/t Ag
	from 62.55 m	0.55 m @ 11.40 g/t Au & 19 g/t Ag
	from 78.35 m	7.30 m @ 2.53 g/t Au & 13 g/t Ag
	<i>including</i>	1.35 m @ 6.89 g/t Au & 17 g/t Ag
LDG-42	from 78.25 m	2.00 m @ 3.60 g/t Au & 90 g/t Ag
LDG-43	from 56.25 m	1.15 m @ 0.92 g/t Au & 74 g/t Ag
	from 63.80 m	2.20 m @ 9.12 g/t Au & 32 g/t Ag
LDG-44	from 25.65 m	5.70 m @ 3.26 g/t Au & 6 g/t Ag
	<i>including</i>	1.00 m @ 5.28 g/t Au & 8 g/t Ag
	<i>including</i>	0.70 m @ 6.38 g/t Au & 5 g/t Ag
	from 75.50 m	3.50 m @ 6.01 g/t Au & 12 g/t Ag
	<i>including</i>	1.00 m @ 8.94 g/t Au & 18 g/t Ag

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SOUTHERN ARC MINERALS INC.

Resource Properties (cont'd...)

Lemonga Gold Prospect, Sumbawa Property (cont'd...)

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

Drill Hole	Interval (m)	Significant Intersections (g/t)
<i>Target: Northern Betty Vein</i>		
LDG-26	1.30 – 9.00m	7.70m @ 0.56 g/t Au & 156 g/t Ag
	<i>(incl: 4.50 – 6.60m)</i>	2.10m @ 0.45 g/t Au & 544 g/t Ag
	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
	<i>(incl: 71.75 – 74.05m)</i>	2.30m @ 3.62 g/t Au & 266 g/t Ag
	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
	<i>(incl: 10.45 – 11.20m)</i>	0.75m @ 16.77 g/t Au & 72 g/t Ag
	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
	<i>(incl: 81.00 – 82.75m)</i>	1.75m @ 2.08 g/t Au & 123 g/t Ag
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
	<i>(incl: 77.85 – 81.40m)</i>	3.55m @ 1.54 g/t Au & 63 g/t Ag
	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
	<i>(incl: 103.50 – 105.60m)</i>	2.10m @ 21.43 g/t Au & 34 g/t Ag
	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

SOUTHERN ARC MINERALS INC.

Resource Properties (cont'd...)

Lemonga Gold Prospect, Sumbawa Property (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.

Ramit Prospect (West Sumbawa)

Following the identification of two structurally-controlled, high sulfidation epithermal vein prospects (Semoan & Raboya) and their apparent genetic association with a large helimag anomaly (interpreted as an intrusive or sub-volcanic body) coincident with an extensive chargeability high (based on IP/resistivity results), a porphyry high-sulfidation model was conceived and drill tested. A total of four holes totaling 1,218.75 m were drilled to explore the conceptual porphyry and porphyry shoulder target beneath a 750-m east-west IP chargeability zone. Although extensive porphyry-style alteration and mineralization was intersected, reported gold and copper grades were of low tenor. Further petrological work, a ground magnetic survey, and subsequent data interpretation are required to be able to vector further drill holes.

SOUTHERN ARC MINERALS INC.

Resource Properties (cont'd...)

Air Panas KP (Southwest Sumbawa)

The Company, through its local division on March 13, 2006 was issued an exploration license (Kuasa Pertambangan "KP") for an area of 9, 670 Ha adjoining Newmont's Elang porphyry discovery. The license is valid for 12 months and can be extended for a further 12 months as part of the General Survey conditions of the license. Because of local governmental delays in processing of the required Forestry permit, the Company has been restricted in its exploration activities to a lithostructural study of the property using remote sensing imagery (Landsat 7EM imagery & aerial photographs), along with routine socialization programs with local communities within, or peripheral to the property. Initial interpretation of the imagery by consultant Peter Pieters confirms structural elements of the Elang mineralized trend extend on to SA's property. Field truthing of the structural interpretation, along with a regional stream sediment sampling program at a density of one sample km² are anticipated to commence early 2007, upon the issuing of the mandatory Forestry permit. Historical airborne geophysical data flown over the property in the early 1990's is currently being sourced.

West Lombok Project

This area was previously held by PT Newmont Nusa Tenggara, a subsidiary of the Newmont Mining Corporation. Through an agreement with Newmont, announced on January 11, 2006, Newmont relinquished the area and SA incorporated it into its COW application area. Newmont has provided the results of its previous exploration of the area, and this has been incorporated into SA's database.

Pelangan Prospect (Kayu Putih, Tanjung, Radja, Ratu and Lala Veins) - West Lombok

In the West Lombok Project, SA's field crews have since mid-February, focused on high sulfidation epithermal vein targets at the Pelangan Prospect. Evaluation programs thus far have involved initial prospect-scale flocculant BLEG sampling, followed by survey grid establishment, detailed geological mapping (at 1:500 and 1:2,000 scales), selective hand costeaning, rock saw outcrop sampling, petrological studies, ground CSAMT geophysical surveys and shallow diamond drilling programs.

The Kayu Putih and Tanjung Veins were both known to be in the order of 400 to 800 m long, however surface prospecting by Southern Arc has extended known zones of vein mineralization in some cases by an additional 300 m to 400 m in strike length, and /or identified entirely new sub-parallel zones (Radja, Ratu and Lala Veins). Particularly encouraging are the possible high grade ore shoots in the east-west segment of Kayu Putih and parts of the Radja and Ratu Veins. In the case of Kayu Putih recent outcrop channel samples have returned:

6.8 m @ 22.43 g/t Au

0.9 m @ 34.60 g/t Au

2.7 m @ 7.1 g/t Au & 21 g/t Ag

SOUTHERN ARC MINERALS INC.

Resource Properties (cont'd...)

Pelangan Prospect (Kayu Putih, Tanjung, Radja, Ratu and Lala Veins) – West Lombok

Radja and Ratu Vein surface intercepts have returned values to a maximum of 1.0 m @ 6.51 g/t Au & 31 g/t Ag, whilst 3 m semi-continuous chip samples have reported values to a peak of 34.1 g/t Au & 170 g/t Ag.

Although controlling structures are easily visible as linear, or sigmoidal topographical highs, what is actual in situ versus subcrop vein material can be difficult to ascertain. Often the mixed zone of outcrop, subcrop and rubble material is 40 to 50 metres wide. For practical reasons SA mobilized a small man-portable drill rig in late July to drill a series of shallow, scissored drill holes (40 to 80 m depth, termed “geo-drilling”) to provide subsurface information on vein geometry and grade. This is complimented by ground CSAMT surveys, a proven geophysical technique in identifying quartz veins and peripheral silicification. Based on these results a subsequent scout drilling program of 2,000 m to 2,500 m is envisaged using a deeper man-portable drilling rig.

Simba Prospect and Mencanggih Prospect (includes Bising and Waterfall Veins) – West Lombok

Surface evaluation programs consisting of geochemical sampling, geophysical and geo-drilling are planned for each of these prospects. Each program is anticipated to take 3-4 months to complete. The Simba prospect is currently being evaluated. This series of programs is expected to be completed by early 2007.

Selodong Prospect – West Lombok

Newmont is providing its previous exploration data on the Selodong Cu-Au porphyry including the drill core (see Table 1 for highlights). Consultant Gerald Clark, FAusIMM, CPGeo has reviewed all geological data and has recommended a program of deeper drill holes to test extensions of known mineralization. At this stage only limited surface exploration activities (survey grid establishment and logistical requirements) will be required before drilling can commence. Two man-portable rigs capable of coring 200 m PQ, 400 m HQ and 600+ m NQ will be employed in the initial planned 7,500 m drilling program, scheduled to commence in early December.

SOUTHERN ARC MINERALS INC.

Resource Properties (cont'd...)

Table 1: Historical Selodong Drilling Intersections.

Drill Hole	Location	From	To	Interval		Au	Cu	Mo
		(m)	(m)	(m)	(m)	(g/t)	(%)	(g/t)
PSG-02A	Selodong	6	55.3	49.3		0.42	0.31	27
PSG-04	Selodong		0	82.1	82.1		0.74	0.49
	Selodong	105.5	119.6	14.1		0.79	0.48	31
PSG-08A	Selodong	34.6	55.3	20.7		0.49	0.07	153
PSG-13	Selodong		0	95.2	95.2		0.22	0.39
PSG-15	Selodong		96.4	150.8	54.4		0.44	0.45
PSG-18	Selodong		103.2	155.5	52.3		1.07	0.57
PSG-18B	Selodong	28	151.2	123.2		0.56	0.35	10
PSG-32	Selodong		50	102.1	52.1		0.74	0.37
SGD-01	Selodong		2	200	198		0.41	0.3
SGD-02	Selodong		9.1	345.5	336.4		0.55	0.25
SGD-03	Selodong		204.5	334.5	130.0		0.56	0.26

East Lombok Project

Awang Prospect (East Lombok)

Surface mapping and sampling, accompanied by ground CSAMT surveying at the Awang Prospect, has identified a number of low sulfidation quartz vein swarms, some of which can be traced for up to 2.5 km in strike length, with widths of 3 to 8 metres. Highest Au-Ag grades (4.63 g/t Au & 110 g/t Ag) coincide with low temperature (<200° C) quartz forms which are subordinate to higher temperature (250-260° C) forms and higher Au:Ag ratios. At least 4 to 5 drill holes totaling 750 to 900 metres will test targets either late in the fourth quarter, or early in 2007, depending on water availability and target priority.

The Company is pleased to announce the satisfactory completion of its phase two drilling program, with a total of 5,655.50 metres drilled in 40 diamond core holes, at the Lemonga Prospect located on Sumbawa Island, Indonesia. The final holes LDG-45 to LDG-56 were drilled mainly to test lateral extensions of high-grade gold-silver shoots intersected in previous drill holes of both this and an earlier scout drilling program. Final assay results for ten drill holes, LDG-45 to LDG-54, have been received.

A variety of targets were tested in these final holes. Drill hole LDG-45 targeted a relatively shallow CSAMT anomaly adjacent to silicified hydrothermal breccia sub-crop north of the Amy Vein, while drill holes LDG-46 and LDG-47 continued testing the northerly extensions of the Betty and Cici sheeted vein complex, recognized in previous drill holes. Extensions of both the Dessy and Evi Veins were explored in drill holes LDG-48, LDG-49, LDG-51, LDG-52, and LDG-54, while drill holes LDG-50 and LDG-53 targeted depth extensions of the south and central Amy Vein segments, respectively.

SOUTHERN ARC MINERALS INC.

Resource Properties (cont'd...)

East Lombok Project (cont'd...)

Awang Prospect (East Lombok)(cont'd...)

All holes were drilled at right angles to the strike of the veins at -45° and -60° inclinations and, except for

LDG-48, intersected significant widths and grades of gold-silver bearing quartz vein zones.

Highlights of drill hole intercepts:

Drill hole LDG-45	0.90 m @ 0.61 g/t Au & 234 g/t Ag from 78.10 m
Drill hole LDG-46	12.35 m @ 1.58 g/t Au & 40 g/t Ag from 1.60 m (including 2.35 m @ 4.98 g/t Au & 121 g/t Ag from 11.60 m) 2.15 m @ 1.78 g/t Au & 166 g/t Ag from 20.80 m (including 1.00 m @ 2.72 g/t Au & 292 g/t Ag from 20.80 m) 2.00 m @ 24.70 g/t Au & 6 g/t Ag from 52.70 m
Drill hole LDG-47	6.20 m @ 1.93 g/t Au & 119 g/t Ag from 68.05 m (including 1.75 m @ 2.08 g/t Au & 240 g/t Ag from 68.05 m 1.35 m @ 5.22 g/t Au & 45 g/t Ag from 72.90 m) 0.60 m @ 1.04 g/t Au & 65 g/t Ag from 100.00 m 0.55 m @ 1.10 g/t Au & 61 g/t Ag from 109.60 m 2.60 m @ 2.24 g/t Au & 39 g/t Ag from 127.25 m
Drill hole LDG-49	0.65 m @ 1.52 g/t Au & 114 g/t Ag from 88.20 m 1.80 m @ 5.32 g/t Au & 25 g/t Ag from 132.80 m
Drill hole LDG-50	0.90 m @ 1.38 g/t Au & 53 g/t Ag from 18.20 m 1.65 m @ 28.90 g/t Au & 124 g/t Ag from 58.75 m 1.35 m @ 1.78 g/t Au & 19 g/t Ag from 97.45 m
Drill hole LDG-51	0.65 m @ 1.70 g/t Au & 123 g/t Ag from 10.85 m 2.40 m @ 2.88 g/t Au & 5 g/t Ag from 16.60 m (including 0.40 m @ 13.20 g/t Au & 10 g/t Ag from 16.60 m) 2.00 m @ 0.77 g/t Au & 114 g/t Ag from 23.00 m 4.55 m @ 4.22 g/t Au & 16 g/t Ag from 94.90 m (including 0.80 m @ 17.20 g/t Au & 34 g/t Ag from 96.70 m)
Drill hole LDG-52	3.05 m @ 6.41 g/t Au & 24 g/t Ag from 76.70 m (including 0.50 m @ 37.50 g/t Au & 17 g/t Ag from 76.70 m) 2.90 m @ 3.81 g/t Au & 35 g/t Ag from 92.20 m (including 2.00 m @ 4.66 g/t Au & 22 g/t Ag from 92.20 m) 0.90 m @ 2.78 g/t Au & 8 g/t Ag from 107.35 m

SOUTHERN ARC MINERALS INC.

Resource Properties (cont'd...)

East Lombok Project (cont'd...)

Awang Prospect (East Lombok)(cont'd...)

Drill hole LDG-53	0.55 m @ 2.34 g/t Au & 65 g/t Ag from 94.80 m 1.75 m @ 1.99 g/t Au & 4 g/t Ag from 181.30 m (including 0.40 m @ 7.37 g/t Au & 7 g/t Ag from 181.30 m)
Drill hole LDG-54	2.40 m @ 5.09 g/t Au & 19 g/t Ag from 29.30 m (including 0.90 m @ 9.61 g/t Au & 11 g/t Ag from 29.80 m) 0.55 m @ 3.78 g/t Au & 15 g/t Ag from 57.80 m

Drill holes LDG-46 and LDG-47 both confirm the northern strike extension and depth continuity of grade of the Betty/Cici sheeted vein complex. Whilst only a nominal five drill holes have been completed in the area to date, a possible low-grade bulk tonnage scenario exists based on vein zones intersected of 45m to 110m width and along strike (northwards of LDG-46 and southwards to LDG-15) and down-dip continuation of mineralization.

Drill hole LDG-48 appears to close off the Dessy Vein to the north, although further trenching is warranted to confirm this. Drill holes LDG-49 and LDG-54 effectively double the known strike length of this vein, which still remains open to the south and at depth. Similarly drill holes LDG-51 and LDG-52 into the Evi Vein confirm the lateral extent of previous gold-silver intercepts from drill hole LDG-34 (9.95m @ 3.82 g/t Au & 29 g/t Ag). This vein also remains open at depth and long strike, with further trenching required north of drill hole LDG-12.

Drill hole LDG-50 was drilled beneath the previous wide quartz vein intercept in hole LDG-16, but proved inconclusive in extending the vein to depth. However, a significant width of gold-silver mineralization (1.65 m @ 28.90 g/t Au & 124 g/t Ag) hosted in coarsely crystalline massive sulfides was intersected in the upper portions of the hole, indicating the structural and mineralogical complexity of the Amy/Betty Vein convergence area. Although drill hole LDG-53 intersected an 8.3m wide zone of quartz and peripheral stockworks at the projected target depth, gold and silver grades fell below those expected. Similar to the previous drill hole LDG-02, immediately up dip, the vein zone is partly oxidized and extremely broken, with strong artesian water flows encountered, implying a major structural feature, with possible flushing of gold and silver particles from the zone.

All data is currently being finalized into a format whereby the resource potential may be indicated.

SOUTHERN ARC MINERALS INC.

Resource Properties (cont'd...)

East Lombok Project (cont'd...)

Awang Prospect (East Lombok)(cont'd...)

The Lemonga Prospect is a low-sulfidation epithermal quartz vein system over which surface mapping by

Southern Arc has confirmed argillic alteration dominant within an hydrothermal upflow area approximately 1 km East-West by 1.5 km North-South. Five auriferous 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.

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, Longgo 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.

Tebedo KP (Flores)

The Tebedo KP covers an area of 1,291 ha and is easily accessed by road from the regional port of Labuanbajo on west Flores. Possible structurally-controlled exhalative and replacement Au-Ag base metal mineralization has been mapped over an area of 450 m by 400 m, within brecciated flow-banded dacites, which are covered to the west and north by post-mineral epiclastics and limestones. Two parallel north-northeast trending zones of silica-barite-base metal veining of widths up to 36 m and 200+ m strike length host the majority of mineralization. These appear to lens out to the south and are inferred to be down-faulted to the north and masked by epiclastic cover. Channel sampling of historical costeans and newly-discovered exposures has returned significant intersections of:

TR-01: 11 m (at) 4.72 g/t Au & 445 g/t Ag

TR-02: 25 m (at) 2.01 g/t Au & 234 g/t Ag

TR-03: 5 m (at) 2.76 g/t Au & 348 g/t Ag

TR-04: 28 m (at) 3.39 g/t Au & 126 g/t Ag

TR-06: 36 m (at) 3.20 g/t Au & 183 g/t Ag (including 10 m (at) 5.02 g/t Au & 339 g/t Ag)

Scattered rock chip highs to a maximum of 5.43 g/t Au and 704 g/t Ag suggest the potential for sub-parallel mineralized zones. Interpretation of results to date suggests that the mineralized zones may form the limbs of a shallow plunging, NNE trending syncline. This concept, along with potentially hidden mineralized zones below the cover rock, will be tested in an upcoming ground IP-resistivity survey scheduled for mid-July. If results warrant, targets will be drill-tested late in the third quarter using a small man-portable rig.

SOUTHERN ARC MINERALS INC.

Resource Properties (cont'd...)

Bolol KP (Flores)

The Bolol KP covers an area of 1,015 ha and is viewed as a conceptual high-level epithermal vein target. The majority of the paleo-geothermal system is intact and displays low-level Au-Ag rock and soil anomalism, along with suggestions of fluid outflow zones consistent with hot spring silica Au-Ag models. Exploration by SA field crews has confirmed the presence of an extensive (500 m by 800 m) zone of strong silicification with highly anomalous As-Sb-Mo rock geochemistry lying immediately to the NNW of the down-faulted Au-Ag stockwork veined zone. Peak values from outcrop channel sampling were

1.03 g/t Au & 106 g/t Ag and 0.88 g/t Au & 173 g/t Ag. Recent geologic mapping shows that an extensive veneer of colluvium and talus scree (1 to 5 m thickness) covers a large portion of the prospect area, thereby casting some doubt on the extensive linear Au-Ag soil anomaly reported by previous operators. A small motorized spiral auger drill will be mobilized by mid-July to undertake a grid-based bedrock sampling program on selected areas of the prospect. In addition, a number of rock samples will be selected for petrological studies with particular emphasis on refining the model for up-flow fluid zones (potential higher grade Au>>Ag grades) through fluid inclusion studies. Again, if warranted, the prospect is planned to be drill-tested in the third quarter with a program of shallow 80 to 125 m or deeper diamond drill holes.

Longgo KP (Flores)

Previous exploration at the Longgo KP (1,207 ha) reported highly anomalous Cu-Zn-+/-Pb soil and rock geochemistry over an area of 2,500 m by 500 m. Early workers suggested that base metal anomalism was related to structurally and stratigraphically controlled epithermal mineralization. Following initial evaluation work, a decision was made to undertake a ground EM geophysical survey (scheduled for August 2006) and, if warranted, targets will subsequently be drill tested.

Dalong KP (Flores)

Previously described silica-pyrite-Au-Ag-As-Sb mineralization at the Dalong KP (613 ha) appears to be hosted by limited erosional remnants of a jasperoidal host. Small, apparently rootless pods of silicified limestone were mapped in dacitic volcanics at levels below the remnant hill and ridge-forming jasperoids. A number of historical trenches and soil anomalies appear to have been generated through sampling of talus scree slopes. Limited tonnage potential downgrades the prospect and no further work is warranted.

Miscellaneous

The Company is also aggressively pursuing other mineral opportunities within Indonesia. Along with research of the potential of historical reported mineral occurrences, negotiations are continually being conducted with various governmental and private entities with the aim of acquiring stakeholds, whether in the form of JVs, farm-in, or contract exploration agreements, in greenfields through to more advanced projects.

SOUTHERN ARC MINERALS INC.

Resource Properties (cont'd...)

Other Property, Indonesia

On September 7, 2005, the Company entered into an arms-length letter agreement pursuant to which it could acquire a 75% interest in an Indonesian mineral property (the "Property").

During the year ended June 30, 2006, the Company abandoned the agreement and has written-off \$23,797 of mineral property assets to operations.

June 30, 2006	Lombok Property Indonesia	Sumbawa Property Indonesia	Flores Property Indonesia	Other Property Indonesia	Total
Acquisition costs					
Balance, beginning of year	\$1,025,852	\$ 439,651	\$ -	\$ -	\$1,465,503
Additions	25,402	10,886	17,941	23,797	78,026
Written-off	-	-	-	(23,797)	(23,797)
Balance, end of year	<u>1,051,254</u>	<u>450,537</u>	<u>17,941</u>	<u>-</u>	<u>1,519,732</u>
Deferred exploration costs					
Incurred during the year:					
Assaying, testing, surveying and analysis	101,597	185,769	2,551	-	289,917
Camp construction, supplies and accommodation	348,939	486,394	10,014	-	845,347
Geological and other consulting	389,455	443,412	11,564	-	844,431
Drilling	17,699	624,329	-	-	642,028
Travel	<u>9,756</u>	<u>12,357</u>	<u>738</u>	<u>-</u>	<u>22,851</u>
Total deferred exploration costs	867,446	1,752,261	24,867	-	2,644,574
Balance, beginning of year	<u>670,425</u>	<u>547,948</u>	<u>-</u>	<u>-</u>	<u>1,218,373</u>
Balance, end of year	<u>1,537,871</u>	<u>2,300,209</u>	<u>24,867</u>	<u>-</u>	<u>3,862,947</u>
Total resource property costs	<u>\$2,589,125</u>	<u>\$2,750,746</u>	<u>\$ 42,808</u>	<u>\$ -</u>	<u>\$5,382,679</u>

SOUTHERN ARC MINERALS INC.

Resource Properties (cont'd...)

June 30, 2005	Lombok Property, Indonesia	Sumbawa Property, Indonesia	Total
Acquisition costs			
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 year	<u>1,025,852</u>	<u>439,651</u>	<u>1,465,503</u>
Deferred exploration costs			
Incurred during the year:			
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 year	<u>670,425</u>	<u>547,948</u>	<u>1,218,373</u>
Total resource property costs	<u>\$ 1,696,277</u>	<u>\$ 987,599</u>	<u>\$ 2,683,876</u>

Financing

During the year ended June 30, 2006, the Company:

- issued 1,600,000 common shares at \$0.25 per share for total proceeds of \$400,000 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 issue costs of \$18,323 were paid in connection with the private placement.

SOUTHERN ARC MINERALS INC.

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 had 7,352,900 shares in escrow at June 30, 2006.

During the period from incorporation on August 19, 2004 to June 30, 2005, the Company:

- a) issued 9,000,001 common shares at \$0.075 per share for proceeds of \$675,001.
- b) issued 12,500,000 common shares for the acquisition of resource properties (Note 3).
- c) issued 2,000,000 common shares at \$0.075 per share and 3,000,000 common shares at \$0.125 per share for total proceeds of \$525,000 as seed capital financing.
- d) completed an IPO of 8,000,000 common shares at \$0.25 per share for gross proceeds of \$2,000,000. The agent received a cash commission of \$160,000, and warrants to acquire 1,600,000 common shares exercisable at \$0.25 per share until June 30, 2006. The agent also received 100,000 common shares valued at \$25,000 as a corporate finance fee.

The Company incurred additional share issue costs totalling \$199,489, \$86,301 of which were incurred at December 31, 2004.

Results of Operations

During the year ended June 30, 2006, the Company incurred a loss of \$1,884,382, compared to a loss of \$581,318 for the period from incorporation on August 19, 2004 to June 30, 2005, as a result of incurring various general and administrative expenses. The general and administrative expenses primarily consisted of consulting fees of \$226,193 (June 30, 2005 - \$117,400) and professional fees of \$138,518 (June 30, 2005 - \$94,292) for corporate oversight and stewardship, administration and accounting services, and for general corporate counsel. The Company also recognized stock-based compensation of \$1,263,238 (June 30, 2005 - \$187,205) in the statement of operations as a result of issuing incentive stock options.

SOUTHERN ARC MINERALS INC

Selected Annual Information

The following table provides a brief summary of the Company's financial operations. For more detailed information, refer to the financial statements.

	Year ended June 30, 2006	Period from Incorporation on August 19, 2004 to June 30, 2005
Total revenues	\$ -	\$ -
Loss for the year	(1,860,585)	(581,318)
Basic and diluted loss per share	(0.05)	(0.03)
Total assets	8,179,955	3,726,995
Total long-term liabilities	-	-
Cash dividends	-	-

Stock-based compensation is recorded as a result of issuing options to directors, officers and consultants.

During the year ended June 30, 2006, the company expended and capitalized a total of \$2,722,600 in deferred acquisition and exploration expenditures between the Lomkok Property - \$892,848, Sumbawa Property - \$1,763,147, Flores Property - \$42,808 and other property \$23,797. \$23,797 of mineral property assets were written-off to operations due to an abandoned agreement.

Summary of Quarterly Results

	June 30, 2006	March 31, 2006	December 31, 2005	September 30, 2005
Total assets	\$ 8,156,158	\$ 8,094,658	\$ 4,860,083	\$ 3,572,684
Resource properties and deferred costs	5,382,679	4,508,688	3,651,387	3,154,781
Working capital	2,502,397	3,426,357	1,006,688	249,272
Accumulated deficit	(2,465,700)	2,077,160	(866,394)	(722,132)
Net Loss	(388,540)	(1,210,766)	(144,262)	(140,814)
Basic and diluted loss per share	(0.01)	(0.03)	(0.00)	(0.00)

SOUTHERN ARC MINERALS INC.

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	(310,198)	(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 year ended June 30, 2006 was \$646,642 compared to net cash used of \$286,323 during the period ended June 30, 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 investing activities for the year ended June 30, 2006 was \$2,656,900 compared to cash used of \$1,529,742 during the period ended June 30, 2005. The cash used in investing activities for the periods consists primarily of the acquisition and exploration of resource properties.

Net cash provided by financing activities for the year ended June 30, 2006 was \$5,013,968 compared to \$2,840,512 during the period ended June 30, 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

Refer to Note 7 – June 30, 2006 financial statements.

SOUTHERN ARC MINERALS INC.

Financial Instruments

The Company's financial instruments consist of cash, 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 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:

2007	\$ 31,300
2008	9,100

Off-balance Sheet Arrangements

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

Stock-based compensation

The Company uses the Black-Scholes Option Pricing Model in determining the fair value of options and agent warrants 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.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's Chairman and Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure.

SOUTHERN ARC MINERALS INC.

As at the end of the period covered by this management's discussion and analysis, management of the Company, with the participation of the Chairman, CEO and CFO, evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the Chairman and CEO and CFO have concluded that, as of the end of the period covered by this management's discussion and analysis, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the Chairman and CEO and the CFO, as appropriate to allow timely decisions regarding required disclosure.

Current Share Data

As at October 24, 2006, the Company has 46,442,884 common shares issued and outstanding and has the following stock options and warrants outstanding:

	Number of Shares	Exercise Price	Expiry Date
Options	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
Warrants	1,280,000	0.125	April 15, 2007
	1,885,750	0.50	December 28, 2007
	71,406	0.56	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.