

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

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The following discussion, prepared as of January 31, 2007 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 period ended December 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 years ended June 30, 2006 and 2005 and the Management Discussion and Analysis for those periods.

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 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 for which the Company may explore 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 Island and Sumbawa Island Properties, Indonesia

The Company entered into an agreement with Sunda Mining Corporation ("Sunda") pursuant to which Sunda assigned its option to acquire certain rights on the Lombok Island property ("Lombok") and the Sumbawa Island 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 Inc. ("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 Island and Sumbawa Island Properties, Indonesia (cont'd...)

Pursuant to the Option Agreement, the Company acquired all of Indotan's rights to the Properties in consideration for 1,000,000 common shares of the Company, valued at \$125,000, and \$180,000 in cash. Indotan is still nominally in control of the properties by virtue of being the legal holder of applications to the Indonesian government for contracts of work respecting each property, but Indotan has assigned all beneficial rights respecting the ownership and conduct for such applications to the Company (see below for details). Under the terms of the option agreement, Indotan retained a 1% net smelter return royalty ("NSR") in connection with the properties. The Company has an option, until February, 2010 to acquire 50% of Indotan's 1% NSR on the Properties in consideration for the payment of \$500,000. The Company acquired this option for \$60,000. 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.

The Lombok and Sumbawa properties 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 in March 2007. Accordingly, the joint central government-provincial government COW negotiating team is currently being assembled. It is hoped that the COW can be finalized before mid 2007.

## **SOUTHERN ARC MINERALS INC.**

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

#### Lombok Island and Sumbawa Island 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. Relevant extensions for the Lombok SIPP license were filed in early 2006 and are pending awaiting the issuance of a provincial land utilization regulation. Because of both central and regency Mines Department endorsement letters the Company has continued unabated throughout 2006 with a full exploration program. It is hoped that once the local land utilization regulation has been enacted that COW negotiations will commence forthwith.

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*.

### **West Sumbawa Property**

#### Lemonga Gold Prospect (West Sumbawa)

Exploration on 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.

The phase two drilling program was completed in July, with a total of 5,655.50 metres drilled in 40 diamond core holes (LDG-17 to 56). All holes were drilled at right angles to the strike of the veins at -45° and -60° inclinations.

Interpretation of data from the completed CSAMT (“resistivity”) ground survey 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 Hole Review*

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.

## **SOUTHERN ARC MINERALS INC.**

### **West Sumbawa Property (cont'd...)**

#### *Drill Hole Review (cont'd...)*

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.

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.

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

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### **West Sumbawa Property (cont'd...)**

#### *Drill Hole Review:*

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.

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.

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### **West Sumbawa Property (cont'd...)**

#### *Drill Hole Review (cont'd...)*

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.

#### *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.

#### *Jereweh Prospect (West Sumbawa)*

A number of historical Newmont geochemical anomalies in the southern part of the property are currently under evaluation by field teams namely the J3 and J6 anomalies.

#### *J3 Prospect*

The J3 Prospect is situated in the southeastern corner of the Companies Taliwang property, approximately 12 km north of Newmont's Batu Hijau porphyry Cu-Au mine.

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### **West Sumbawa Property (cont'd...)**

#### *Jereweh Prospect (West Sumbawa)* (cont'd...)

J3 was discovered by Newmont during first pass regional drainage sampling in 1987 and subsequently targeted by detailed geochemical and geophysical programs. Au-Ag±base metal mineralization was identified from a contact zone of a flat lying silicified limestone and an altered volcanoclastic sediment unit. Newmont's channel sampling from a mineralized 2.7 m thick limestone bed averaged 6.75 g/t Au with a maximum of 12.0 g/t Au and 121 g/t Ag. This anomalous outcrop is situated on the eastern edge of a 1.8 x 1.3 km zone of widespread anomalous Au soil geochemistry. The most significant anomaly, within this zone comprises a 700 x 200 m NW trending zone of >50 ppb Au in soil. This is interpreted as an erosional window through unaltered limestone cover re-exposing the mineralized limestone/volcanic contact. Moderate base metal, As, Sb and Mo soil anomalies as well as IP and resistivity anomalies are associated with elevated gold soil geochemistry throughout the area.

Preliminary orientation surveys by the Companies personnel during November to December 2006 relocated the Newmont discovery outcrop referred to above which SA geologists have named "Hitam Manis" (HM, Indonesian for "Black Sweet"). Outcrop sampling and mapping of the main silicified zone (interpreted as jasperoid ledges) and the peripheral alteration envelope, reported significant high grade Au-Ag channel samples. From 14 rock samples submitted, 6 samples assayed >1.0 g/t Au, including 216.0 g/t Au and 330 g/t Ag over 3.0 metres, 64.0 g/t Au and 52 g/t Ag over 3.0 metres and 10.40 g/t Au & 50 g/t Ag over 3.3 metres respectively (Figure 1) .

Immediately south of HM, a possible fault offset of similar jasperoidal material returned a value of 33.6 g/t Au and 17 g/t Ag over 2.5m. Assay results from additional surface rock chip sampling peripheral to HM confirm the widespread Au anomalism previously defined by Newmont. Significant rock chip values including 10.1 g/t Au and 14.3 g/t Au have been reported as far as 720 m northwest and 635 m west of HM respectively. Several pods of jasperoid outcrop and subcrop have been mapped up to 2,500 m west of HM coinciding with Newmont's Au-As-Sb soil anomalies.

The geological and geochemical signatures indicate the potential for carbonate replacement Au-Ag mineralization, with a model of steeply-dipping fault/fracture structures channeling Au-Ag rich hydrothermal fluids into receptive flat-lying carbonate basal horizons.

#### *J6 Prospect*

The J6 Prospect is located approximately 4 km west of J3. Mineralization here comprises auriferous base-metal veins hosted within hydrothermal breccia bodies and volcanoclastic and pyroclastic rocks. Trenching of quartz stockwork zones by the previous operator returned anomalous results including 110m @ 1.09 g/t Au (includes 25m @ 2.46 g/t Au). Scout diamond drilling (seven holes totaling 651.3 m) in 1998 by Newmont intersected erratic quartz base-metal sulfide (pyrite-galena-sphalerite-chalcopyrite) sheeted veins and stockworks, with significant intersections of 8.41 g/t Au over 3.9m, 20.8 g/t Au over 0.70m and 10.2 g/t Au over 1.73m.

## **SOUTHERN ARC MINERALS INC.**

### **West Sumbawa Property (cont'd...)**

#### *Jereweh Prospect (West Sumbawa)* (cont'd...)

The current geologic mapping and sampling program over J3 is gradually moving westwards towards J6 and may in time prove a genetic relationship between the two prospects. SA anticipates that following completion of surface evaluation, including limited costeaming and a ground IP-resistivity survey, that preliminary scout diamond drilling if warranted will commence late in the next quarter.

### **East Elang KP (Southwest Sumbawa)**

The Company, through its locally controlled Indonesian division, on March 13, 2006 was issued an exploration license (Kuasa Pertambangan, "KP") for an area of 9,670 ha adjoining Newmont's Elang copper and gold 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.

The Company commissioned lithostructural consultant Peter Pieters to undertake a remote sensing/photogeological study of the KP and surrounding areas including the Elang discovery. Pieters has suggested that the intersection of NNW trending fault/fractures and a major 4-6 km wide WNW trending structural corridor, together along with secondary NNW to N tensional structures play a role in localizing hydrothermal alteration and mineralization. All these structural components that influence the distribution of mineralization at the Elang discovery are also found on the Company's property. In the northern extreme of the KP previous explorer's BLEG gold anomalies correspond with an interpreted remnant Miocene volcanic centre. The anomalous gold values may be related to low sulfidation epithermal vein deposits linked to concealed intrusives.

Airborne geophysical data recently provided to the Company by Newmont was analyzed by consultant geophysicist Nigel Hungerford, FAusIMM, ASEG to establish whether similar geophysical responses from the Elang discovery are repeated on the KP. Newmont flew two generations of aeromagnetic surveys over the property and adjacent ground including Elang in 1991 (400-1000 m N-S flight lines) and 1993 (200 m E-W flight lines). Hungerford noted that the Elang discovery sits at the intersection of obvious NNW and NNE magnetic lineaments. Similar linear directions extend through the KP area. Circular magnetic features with subdued magnetic responses (about 600nT) derived from secondary magnetite alteration as at Elang were noted in two locations within the KP. One in the SW corner lies at the intersection of NNW and NE linears. Another broader magnetic anomaly occurs on the eastern property boundary and is inferred to be an alteration aureole to a large intrusive body.

Ground truthing of the structural interpretation, along with a regional stream sediment sampling program at a density of one sample per km<sup>2</sup> are anticipated to commence March 2007, upon the issuing of the mandatory Forestry access permit.

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

#### 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 mineralized structured breccia)

In the West Lombok Project, SA's field crews have, since mid-February, focused on mineralized structural breccia targets at the Pelangan Prospect. 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 mineralized structural breccia 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 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). Particularly encouraging are the possible high grade ore shoots in the east-west segment of Kayu Putih and in parts of Radja and Ratu. In the case of Kayu Putih 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

Radja and Ratu 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 has been 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 June 2006 to drill a series of shallow, scissored drill holes (40 to 80 m depth, termed "geo-drilling") to provide subsurface information on structural breccia geometry and grade. This is complimented by ground CSAMT geophysical surveys, a proven geophysical technique in identifying the mineralized structured breccias, veining and peripheral silification. Based on these results a subsequent scout drilling program of 2,000 m to 2,250 m is envisaged using a deeper coring man-portable drilling rig.

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### West Lombok Project (cont'd...)

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

Surface evaluation programs consisting of geochemical sampling, geophysical and geo-drilling are in progress or have been completed for each of these prospects. This series of programs is expected to be completed by the 1<sup>st</sup> quarter of 2007.

#### Selodong Prospect

Newmont has provided all of its historical exploration data on the Selodong Cu-Au porphyry including drill core (see Table 1 for highlights). Porphyry 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 have been contracted to undertake an initial planned 2,400 m drilling program, scheduled to commence in the March 2007. Relevant logistical requirements including a 35 man drill camp, drill pad and access roads were 90% completed by year end.

**Table 1: Historical Selodong Drilling Intersections.**

Drill Hole	Location	From	To	Interval	Au	Cu
		(m)	(m)		(m)	(g/t)
PSG-02A	Selodong	6	55.3	49.3	0.42	0.31
PSG-04	Selodong	0	82.1	82.1	0.74	0.49
	Selodong	105.5	119.6	14.1	0.79	0.48
PSG-08A	Selodong	34.6	55.3	20.7	0.49	0.07
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
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

A total of 34 shallow and four deep diamond holes were drilled by Newmont on a number of separate porphyry Cu-Au targets within the prospect area. Because of drill rig limitation shallow drill holes only reached a vertical extent of 100-110 m. At least 18 of these holes ended in porphyry Cu-Au mineralization.

## **SOUTHERN ARC MINERALS INC.**

### **East Lombok Project**

#### *Awang Prospect*

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 in early 2007, depending on water availability and target priority.

### **Flores Property, Indonesia**

The Company has been granted four 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. These licenses were granted for twelve months and have, or are currently in the process of being extended for a further twelve months.

#### *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. Initial evaluation work by the Company's field crews comprising prospect-scale geologic mapping, bedrock geochemistry validation, petrological studies and outcrop channel sampling is still in progress.

Recent assay results from bedrock auguring have confirmed the validity of the historical Aberfoyle Cu-Pb-Zn soil anomaly, with 43 of 124 samples reporting values in excess of >500ppm Cu to a maximum tenor of 7,890ppm Cu. Similar Pb and Zn levels, together with associated Ag and Mo are coincident, or peripheral to the Cu enriched zones, which extend over a strike length of 1,000 metres and are individually up to 170m wide. Elevated soil geochemistry is related to a series of strongly oxidized hematite±magnetite-gypsum-base metal sulfide gossanous pods located along a northwest structural linear. Immediately westward geologic mapping has identified advanced argillic altered volcanics, with localized base metal sulfide veins and stockwork. Moderate surface intersections of 0.14-0.67 g/t Au, 0.11-1.47% Cu, 0.13-2.05% Pb and 0.13-3.60% Zn have been reported from both localities to date.

A ground EM geophysical survey is scheduled to commence in mid April and if warranted, targets will subsequently be drill tested.

## **SOUTHERN ARC MINERALS INC.**

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

#### **Flores Property, Indonesia** (cont'd...)

##### *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 epicrostics 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 epicrostic 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, was planned to be tested using a combination of ground IP-resistivity surveys and geo-drilling in the 3<sup>rd</sup> quarter, but social differences between traditional land owners and the local government resulted in access being denied to the Company.

Land access problems relating to tribal social issues have only recently been resolved. A gradient-array IP/resistivity survey has been chosen as the most appropriate geophysical method for mapping structurally-controlled exhalative and replacement Au-Ag mineralization. Previous outcrop channel sampling of silica-barite-base metal rich zones returned surface intersections including 11m @ 4.72 g/t Au/445 g/t Ag, 36m @ 3.20 g/t Au/183 g/t Ag (incl. 10m @ 5.02 g/t Au/339 g/t Ag) and 28m @ 3.39 g/t Au/126 g/t Ag respectively. The ground geophysical survey is scheduled to commence in early March and again if warranted, targets will subsequently be drill tested.

## **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 recent bedrock sampling program using a small motorized spiral auger was undertaken over selected parts of the prospect, with geochemical results confirming the limited extent of the historical soil anomaly. Additional outcrop channel sampling have all reported assay values of low tenor and as a result the property is in the process of being relinquished.

Previous 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 recent bedrock sampling program using a small motorized spiral auger was undertaken over selected parts of the prospect, with geochemical results confirming the limited extent of the historical soil anomaly. Additional outcrop channel sampling has all reported assay values of low tenor and as a result the property is in the process of being relinquished.

#### *Dalong KP (Flores)*

Because of limited economic potential the KP has been relinquished.

### **Other Properties, 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.

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.

### Financing

The continuing operations of the Company are dependent upon its ability to raise adequate financing and to commence profitable operations in the future.

### Results of Operations

During the six month period ended December 31, 2006, the Company incurred a loss of \$337,436, compared to a loss of \$285,076 for the six month period ended December 31, 2005, as a result of incurring various general and administrative expenses. The general and administrative expenses primarily consisted of consulting fees of \$139,299 (December 31, 2005 - \$102,418) and professional fees of \$70,733 (December 31, 2005 - \$71,818) for corporate oversight and stewardship, administration and accounting services, and for general corporate counsel. The Company also recognized stock-based compensation of \$58,186 (December 31, 2005 - \$20,541) in the statement of operations as a result of vesting incentive stock options granted previously.

### 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 period	(1,884,382)	(581,318)
Basic and diluted loss per share	(0.05)	(0.03)
Total assets	8,156,158	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 recorded stock-based compensation of \$1,263,238 (2005 - \$187,205). The increase in the loss, from 2005 to 2006, is primarily a result of the increase in the stock-based compensation.

## SOUTHERN ARC MINERALS INC.

The increase in assets, from 2005 to 2006, is explained by:

- a) Cash increased to a balance of \$2,723,873 at June 30, 2006 (June 30, 2005 - \$1,013,447) as a result of cash received from private placements, the exercise of stock options and the exercise of warrants.
- b) Resource properties increased to a balance of \$5,382,679 at June 30, 2006 (June 30, 2005 - \$2,683,876) due to increased acquisition costs and exploration during 2006.

### Summary of Quarterly Results

	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006
Total assets	\$ 7,776,487	\$ 7,915,080	\$ 8,156,158	\$ 8,094,658
Resource properties and deferred costs	6,965,583	6,054,429	5,382,679	4,508,688
Working capital	630,945	1,695,870	2,502,397	3,426,357
Accumulated deficit	(2,803,136)	(2,629,037)	(2,465,700)	2,077,160
Net Loss	(174,099)	(163,337)	(388,540)	(1,210,766)
Basic and diluted loss per share	(0.00)	(0.00)	(0.01)	(0.03)

	December 31, 2005	September 30, 2005	June 30, 2005	March 31, 2005
Total assets	\$ 4,860,083	\$ 3,572,684	\$ 3,726,995	\$ 2,156,114
Resource properties and deferred costs	3,651,387	3,154,781	2,683,876	2,081,569
Working capital	1,006,688	249,272	817,479	103,491
Accumulated deficit	(866,394)	(722,132)	(581,318)	(286,006)
Net Loss	(144,262)	(140,814)	(310,198)	(184,479)
Basic and diluted loss per share	(0.00)	(0.00)	(0.01)	(0.01)

### Liquidity and Capital Resources

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.

## **SOUTHERN ARC MINERALS INC.**

### **Liquidity and Capital Resources (cont'd...)**

Net cash used in operating activities for the six month period ended December 31, 2006 was \$241,525 compared to net cash used of \$329,875 during the period ended December 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 investing activities for the six month period ended December 31, 2006 was \$1,730,120 compared to cash used of \$933,176 during the period ended December 31, 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 six month period ended December 31, 2006 was \$5,148 compared to \$816,272 during the period ended December 31, 2005. The cash provided by financing activities consists of the issuance of common shares net of share issuance costs.

The Company has adequate working capital to meet its ongoing exploration and general and administrative expense obligations. Depending on the development of the business, the Company may need to raise additional cash for working capital or other expenses. Presently, the Company has no revenues and obtains its cash requirements through equity financing, such as private placements. The Company may encounter higher than anticipated expenses, or opportunities for acquisitions or other business initiatives that require significant cash commitments, or other unanticipated problems or expenses that could result in a requirement for additional capital before that time. In this event the Company may need to raise additional cash and financing may not be available on favourable terms, or at all.

### **Investor Relations**

The Company held its annual general meeting on November 25, 2005. At December 31, 2006 the Company engaged an investor relations consultant in order to raise its profile with the investment community.

### **Related Party Transactions**

The Company entered into transactions with related parties as follows:

- a) Paid or accrued \$75,000 (December 31, 2005 - \$48,000) for consulting fees to a company controlled by a director of the Company (John Proust).
- b) Paid or accrued \$9,000 (December 31, 2005 - \$Nil) for administration fees, in office expense, to a company controlled by a director of the Company (John Proust).

## SOUTHERN ARC MINERALS INC.

### Related Party Transactions (cont'd...)

- c) Paid or accrued \$69,363 (December 31, 2005 - \$68,696) for geological consulting fees included in resource properties to an officer of the Company and a company controlled by an officer of the Company (Hamish Campbell).
- d) Paid or accrued \$30,500 (December 31, 2005 - \$37,900) for professional fees to a firm in which an officer is a partner (Cyrus Driver).
- e) Accounts payable includes \$39,380 (December 31, 2005 - \$23,262) for professional fees owing to a firm in which an officer is a partner (Cyrus Driver).

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.

The amounts due from related parties are as follows:

	2006	2005
Due from director and officer (John Proust)	\$ 10,114	\$ 10,880

The fair value of the amounts due to or from related parties is not determinable as they have no fixed terms of repayment, do not bear interest and are unsecured.

### Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, 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.

## **SOUTHERN ARC MINERALS INC.**

### **Commitment**

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

2007	\$ 22,610
2008	15,890

### **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.

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.

## SOUTHERN ARC MINERALS INC.

### Current Share Data

As at February 26, 2007, 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
<b>Options</b>	1,400,000	\$ 0.25	June 30, 2010
	2,275,000	0.56	January 13, 2011
	350,000	0.70	April 13, 2011
<b>Warrants</b>	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 and advance 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.