

SOUTHERN ARC MINERALS INC.
FORM 51-102F1
MANAGEMENT DISCUSSION AND ANALYSIS
NINE MONTH PERIOD ENDED MARCH 31, 2007

The following discussion, prepared as of May 9, 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 March 31, 2007 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.

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.

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Trends

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

Risks and Uncertainties

The Company is subject to a number of risk factors due to the nature of the mining business in which it is engaged, 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

Background

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.

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Resource Properties (cont'd...)

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

Background (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. A third 12 month extension to the SIPP period is currently being processed by the relevant regional authorities. The Company expects the preliminary round of negotiations on the new 7+ generation COW agreement for the Taliwang property to commence in June 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 October 2007.

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Resource Properties (cont'd...)

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

Background (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 revocation by the Central Government of an unconstitutional provincial land utilization regulation. Because of both central and regency Mines Department endorsement letters the Company has continued unabated throughout 2006-2007 with a full exploration program. It is hoped that once the local land utilization regulation has been revised 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 Lombok Island 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 focused on Mineralized Structural Breccia (“MSB”) 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.

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Resource Properties (cont'd...)

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

Pelangan Prospect (Kayu Putih, Tanjung, Radja, Ratu and Lala mineralized structured breccia) (cont'd...)

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. From June 2006 until February 2007 fifty one drill holes totaling 3,762.05 metres were completed.

Drill Hole Review:

Raja, Ratu & Lala Mineralized Structural Breccias

The Raja, Ratu and the Lala MSBs are located within the southern portion of the Pelangan Prospect. Zones of significant gold/silver mineralization have been intersected in 12 of 19 drill holes completed

Highlights of drill hole intervals include:

Drill hole QDG04: 3.7 m @ 2.3 g/t Au
(including; 1.4 m @ 4.9 g/t Au)

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Resource Properties (cont'd...)

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

Raja, Ratu & Lala Mineralized Structural Breccias (cont'd...)

	4.3 m @ 2.1 g/t Au & 10 g/t Ag (including; 2.5 m @ 3.2 g/t Au & 16 g/t Ag)
Drill hole QDG06	1.0 m @ 7.36 g/t Au & 186 g/t Ag
Drill hole RDG01:	10.7 m @ 2.9 g/t Au & 20 g/t Ag (including; 4.7 m @ 5.8 g/t Au & 27 g/t Ag) 3.45 m @ 4.1 g/t Au & 64 g/t Ag (including; 1.1 m @ 7.6 g/t Au from 63.2 m)
Drill hole RDG02:	6.1 m @ 2.4 g/t Au & 17 g/t Ag (including; 3.5 m @ 3.8 g/t Au & 26 g/t Ag)
Drill hole RDG03:	6.3 m @ 2.5 g/t Au / 81 g/t Ag (including; 1.6 m @ 5.7 g/t Au / 50 g/t Ag) 12.1 m @ 2.3 g/t Au & 16 g/t Ag (including; 3.15 m @ 4.8 g/t Au & 22 g/t Ag)
Drill hole RDG04:	9.5 m @ 6.2 g/t Au & 41 g/t Ag (including; 3.05 m @ 14.2 g/t Au & 61 g/t Ag)
Drill hole RDG05:	22.95 m @ 4.1 g/t Au & 17 g/t Ag (including; 2.25 m @ 14.6 g/t Au & 10 g/t Ag and 1 m @ 21.4 g/t Au & 23 g/t Ag)
Drill hole RDG06:	16.1 m @ 2.7 g/t Au & 23 g/t Ag (including; 5.7 m @ 5.2 g/t Au & 30 g/t Ag)
Drill hole RDG07:	11.3 m @ 2.8 g/t Au / 22 g/t Ag (including 1.6 m @ 6.6 g/t Au / 38 g/t Ag) 19.75 m @ 4.6 g/t Au & 28 g/t Ag (including; 2.5 m @ 5.5 g/t Au & 28 g/t Ag and 3.9 m @ 13.5 g/t Au & 22 g/t Ag and 4.6 m @ 3.6 g/t Au & 24 g/t Ag)
Drill hole RDG08:	13.1 m @ 1.3 g/t Au & 15 g/t Ag (including; 1.85 m @ 2.5 g/t Au & 16 g/t Ag and 1.7 m @ 2.6 g/t Au & 27 g/t Ag)
Drill hole RDG12	22 m @ 1 g/t Au & 14 g/t Ag (including 3.8 m @ 2.3 g/t Au & 13 g/t Ag)

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Resource Properties (cont'd...)

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

Raja MSB

The Raja MSB comprises a 1.7 km long north-northwest trending mineralized, linear breccias zone which has been subdivided by mapping into north, central and southern zones. The north-northwest trend of Raja is a secondary structure related to the dominant 320° orientation which hosts numerous mineralized breccias and porphyry occurrences within the West Lombok Property. At surface the Raja MSB exhibits a 'pinch and swell' character with zones up to 20 metres in width.

Shallow drilling along the central and southern zones of the Raja MSB to date has confirmed continuity of gold mineralization with a 600 metre strike length between drill holes QDG06 and RDG07. Two holes have been completed on the northern extension of the vein and have intercepted significant quartz and sulphide rich zones confirming the continuity of the structure north from the central Raja MSB.

All drill holes were cored at angles between 55° to 60°, and spaced at intervals between 50 to 150 metres along strike, and confirming a vertical to sub-vertical dip on the structure. Most of the mineralization was intercepted below the base of surface oxidation.

The program to date has confirmed the presence of extensive, near surface gold mineralization within the central and southern parts of the Raja MSB. Drilling intercepts are of a comparable magnitude to earlier surface outcrop sampling.

Ratu MSB

Five of the 19 holes reported are located at the Ratu Zone. The 5 drill holes targeted extensions below high-grade surface rock-float at the Ratu MSB but failed to intersect major structures. The large volume of locally high-grade material located at the Ratu MSB is now believed to be derived from the Tanjung MSB. Narrow mineralized drill intercepts recorded at the Ratu MSB are related to "horse-tail" splay structures developed between the Raja and Tanjung MSB's.

Lala MSB

First-pass mapping and sampling has recently been completed over the Lala MSB which parallels the Raja MSB 350 metres to the east. Mapping has defined a series of mineralized structures oriented between north-northwest and east-west over a 1 kilometre strike. Mineralized structure exposures are comprised of outcrops up to 15 metres in width in the southern zone but generally are limited to discontinuous sub-crops to the central and northern zones. Preliminary assay results from 163 rock-chip samples collected to date show consistently high grades along the length of the Lala MSB. The average gold result from 163 rock-chips is 1.6 g/t Au with a peak result of 51 g/t Au. A series of shallow drill holes is planned to test the down-dip extensions of these high-grade surface samples.

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Resource Properties (cont'd...)

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

Tanjung-Jati Mineralized Structural Breccias

The Tanjung-Jati MSB is located in the western region of the Pelangan Prospect. Zones of potentially significant gold mineralization have been intersected in 8 of 13 drill holes completed within the Tanjung-Jati MSB.

Highlights of drill hole intervals include:

Drill hole TDG01:	18.45 m @ 1.1 g/t Au & 4 g/t Ag;
(including;	1.6 m @ 4.1 g/t Au & 3 g/t Ag);
Drill hole TDG02:	10.5 m @ 13.4 g/t Au & 8 g/t Ag;
(including;	2.3 m @ 47.9 g/t Au & 24 g/t Ag).
Drill hole TDG03:	8.6 m @ 2.7 g/t Au / 4 g/t Ag;
(including;	2.95 m @ 6.1 g/t Au / 9 g/t Ag);
Drill hole TDG06	4.6 m @ 3.1 g/t Au & 10 g/t Ag;
(including	1.45 m @ 5.5 g/t Au & 10 g/t Ag);
Drill hole TDG07	18.45 m @ 1 g/t Au & 7 g/t Ag;
(including	1.2 m @ 6.6 g/t Au & 4 g/t Ag);
Drill hole JDG03	9.2 m @ 5.9 g/t Au & 11 g/t Ag;
(including	1.25 m @ 24.9 g/t Au & 7 g/t Ag);
	9.05 m @ 1.6 g/t Au & 10 g/t Ag;
(including	1.75 m @ 6.1 g/t Au & 28 g/t Ag).

Tanjung-Jati MSB comprises a 1.5 km long northwest trending structure divided by a central split to form Jati to the west and Tanjung to the east. The northwest trend of Tanjung-Jati parallels the dominant 320° orientation.

At surface the mineralized structural breccias exhibit a 'pinch and swell' character with zones up to 20 metres in width. Shallow drilling along the strike length of the zone has confirmed continuity to depths of around 50 metres with locally high-grade intercepts.

All drill holes to date have been cored at angles between 55° to 60°, and spaced at intervals between 50 to 230 metres along strike, confirming a vertical to sub-vertical dip on the structural breccias. Most of the mineralization has been intercepted below the base of surface oxidation.

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Resource Properties (cont'd...)

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

Tanjung-Jati Mineralized Structural Breccias (cont'd...)

The program to date has confirmed the presence of mineralized zones with locally high grade intercepts. Sub-surface intercepts are up to 15 metres wide showing good continuity along strike. Infill and deeper drilling will seek to locate more high-grade mineralization as significant areas along strike, which also host high grade surface samples, have yet to be drilled. Drilling intercepts received so far are generally comparable in magnitude to previous outcrop sampling.

Kayu Putih Mineralized Structural Breccias

The Kayu Putih Mineralized Structural Breccias (“Kayu Putih MSB”) is situated in the northern area of the Pelangan Prospect. Zones of potentially significant gold mineralization have been intersected in 9 of the 14 drill holes assayed within the Kayu Putih MSB.

Highlights of drill hole intervals include:

Drill hole KDG003:	3 m @ 4.1 g/t Au
(including;	1 m @ 5.9 g/t Au)
Drill hole KDG004:	11.4 m @ 9.6 g/t Au & 47 g/t Ag
(including;	1 m @ 71 g/t Au & 182 g/t Ag)
Drill hole KDG012:	11.1 m @ 3.1 g/t Au & 8 g/t Ag
(including;	2.55 m @ 9 g/t Au & 16 g/t Ag)
	4.1 m @ 5.9 g/t Au & 9 g/t Ag
(including;	1.1 m @ 18.1 g/t Au / 25 g/t Ag)
Drill hole KDG013:	5 m @ 4.2 g/t Au & 15 g/t Ag
(including;	1.4 m @ 9.8 g/t Au & 21 g/t Ag)

Kayu Putih comprises two intersecting mineralized structures with east-west and northwest trends, over an area of 800 by 400 metres. The east-west oriented structure at Kayu Putih is inferred to be hosted within ‘en-echelon ramp-structures’, which can be associated with high-grade mineralization. At the Kayu Putih MSB, the en-echelon ramp-structures are developed between major, mineralized northwest trending structures that parallel the dominant 320° orientation which hosts numerous mineralized structural breccias and porphyry occurrences within the West Lombok Property.

Southern Arc has completed 17 shallow drill holes drilled on a north-south grid orientation at angles between 55° to 60° dip with variable spacing between holes. The deepest mineralized intercept occurs at 59 metres vertically below surface and most intersections occur below the base of complete oxidation. Dips of the structures vary between 60° to 80°. The majority of drill holes are drilled perpendicular to the mineralized structures. Drilling at Kayu Putih has been spaced between 50 to 100 metre intervals.

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Resource Properties (cont'd...)

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

Kayu Putih Mineralized Structural Breccias (cont'd...)

The program to date has confirmed the presence of near surface high-grade zones within the southern part of the mineralized structure. A 450 metre long strike zone between drill holes KDG02 and KDG12 shows the best potential for continuous high grade mineralization. Future drilling will test the down-dip extension of this zone for high-grade shoots.

Mencanggah Prospect (West Lombok)

Preliminary surface evaluation programs consisting of geochemical sampling and mapping have been completed at the Mencanggah Prospect, located centrally within a 13 km long northwest trending structural corridor of mineralization and alteration along which also lie the Pelangan Epithermal-Gold and Selodong Copper-Gold Porphyry Prospects. Eleven targets displaying epithermal vein/breccia and/or porphyry Cu-Au mineralization styles were evaluated. Five anomalies have been selected for further detailed prospect-scale work, including scout diamond drilling where warranted.

The first-pass evaluation program comprised geologic mapping and the collection of 2,189 channel and rock chip samples over a 50 km² area. The five selected targets scheduled for follow-up include Tibu Serai and Bising, which host gold-mineralised structural breccias (“MSBs”), along with Mahoni, Kedaro and Lembangan Geres, which are located on the margins of the Selodong Intrusive Complex (“SIC”) and exhibit both porphyry-style stockwork veins and MSBs.

Tibu Serai is located within the northern part of the Mencanggah Prospect, comprising an area of 1,800 m by 700 m and hosts six discrete (T1 to T6) northwest trending MSBs with maximum dimensions to 840 m by 20 m. 151 chip-channel samples between 1 m to 5 m lengths were collected across the strike at nominal 20 m intervals along the MSBs. Significant surface gold intersections include:

TS1: 2 m @ 95 g/t Au; 2 m @ 9.83 g/t Au; 2.5 m @ 6.12 g/t Au; & 6 m @ 2.25 g/t Au.

TS2: 2 m @ 8.2 g/t Au; 2 m @ 3.59 g/t Au; & 2 m @ 2.77 g/t Au.

TS3: 3 m @ 1.83 g/t Au.

TS4: 2 m @ 5.84 g/t Au.

TS5: 2 m @ 2.71 g/t Au.

The composite weighted average for all channel samples reported a tenor of 1.98 g/t Au.

The Bising MSB target is located centrally within the Mencanggah Prospect and comprises two major east-west trending MSB zones (B1 & B2) up to 700 m in strike length and 100 m wide. From 93 chip-channel samples of 1m to 5 m lengths an overall average grade of 2.27 g/t Au was reported.

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Resource Properties (cont'd...)

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

Mencangah Prospect (West Lombok) (cont'd...)

Higher grade gold intercepts include:

B1: 66 m @ 1.1 g/t Au (incl. 12 m @ 3.54 g/t Au & 4 m @ 6.26 g/t Au)
22 m @ 1.13 g/t Au (incl. 2 m @ 2.11 g/t Au).

B2: 8 m @ 1.9 g/t Au (incl. 2 m @ 3.95 g/t Au)

2 m @ 6.81 g/t Au; 4 m @ 1.92 g/t Au; & 2 m @ 3.19 g/t Au.

Mahoni lies at the extreme south of the prospect and represents one of three targets exhibiting porphyry-style mineralization along the margins of the SIC. Mineralization and alteration have been identified within a 2.0 km by 1.0 km north-south corridor comprising MSBs in the western and northern portions, whilst porphyry style stockwork veining, with locally overprinting MSBs, is found in the south-eastern portion.

MSB mineralization comprises several north-south trending discontinuous lenses up to 5 m wide and having a maximum length of 500 m. From 205 rock-chip samples assayed the average gold tenor reported was 1.02 g/t Au, to a peak value of 54.0 g/t Au.

Porphyry stockworks are coincident with ground-magnetic “highs”. Sampling of weathered leached exposures reported an average tenor of 0.07 g/t Au, to a maximum of 1.75 g/t Au and 1.4% Cu. In general, copper values are very subdued as a result of near-surface oxidation.

Porphyry-style stockwork mineralization hosted within altered diorite at Kedaro has been identified over a 300 m by 300 m area centred on the northeast end of a strong ground magnetic anomaly. Twenty-two rock chip samples collected from the quartz-limonite stockworks reported an average grade of 0.30 g/t Au, to a maximum tenor of 2.2 g/t Au.

Lepangan Geres is located at the northeast margin of the prospect, comprising a 1.0 km by 1.5 km area of hydrothermal alteration on the margins of a large magnetic anomaly. Mineralized outcrops of altered diorite and diatreme-style breccias have been sampled in the northeast and southwest corners of the target. These outcrops display gold anomalism equivalent to porphyry-style grades. Assay highlights include:

- Southwest zone: Twenty six channel samples of up to 10 m in length within a 200 m by 150 m area returned a weighted average grade of 0.19 g/t Au, including 10 m @ 0.89 g/t Au. Copper is anomalous with a peak value of 0.17 %.
- Northeast zone: Five channel samples of up to 5 m lengths along a 20 m outcrop reported a weighted average grade of 0.37 g/t Au and a peak copper value of 0.20%.

All five targets exhibit significant mineralization and alteration based on first-pass investigations. Further detailed work will seek to quantify and clarify the mineralization styles to identify potential drill targets.

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Resource Properties (cont'd...)

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

Selodong Prospect

Newmont has provided all of its historical exploration data on the Selodong Cu-Au porphyry including drill core. 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. A man-portable rig capable of coring 200 m PQ, 400 m HQ and 600+ m NQ was mobilized to site in March 2007 to commence a 3,500+ m program.

Montong Botek and Blongas II are regarded as the best porphyry targets at this point and will be the focus of the initial drilling program. At Montong Botek 8 out of 13 drill holes were stopped in Cu-Au mineralisation (due to drilling limitations) and several intersected long intervals of significant Cu-Au grades. For example:

SGD001 366.2 m @ 0.24% Cu, 0.37 g/t Au from 2.0 m (composite of 3 mineralised intervals)

PSG004 82.0 m @ 0.49% Cu, 0.73 g/t Au from 0.0 m

PSG028 150.6 m @ 0.21% Cu, 0.42 g/t Au from 0.0 m

and three of the drill holes exhibited increasing gold grade with depth:

PSG015B 75.8 m @ 0.40% Cu, 0.38 g/t Au from 75.0 m
(inc. 15.8 m @ 0.64% Cu, 0.72 g/t Au from 135.0 m to end of hole)

PSG018 141.5 m @ 0.37% Cu, 0.63 g/t Au from 14.0 m
(inc. 52.3 m @ 0.58% Cu, 1.1 g/t Au from 103.2 m to end of hole)

PSG018B 140.6 m @ 0.31% Cu, 0.51 g/t Au from 10.6 m
(inc. 76.2 m @ 0.34% Cu, 0.70 g/t Au from 75.0 m to end of hole)

At Blongas II 6 out of 10 drill holes ended in mineralisation and two deeper holes recorded long intervals of Cu-Au mineralisation containing high Au intervals:

SGD002 192.2 m @ 0.25% Cu, 0.54 g/t Au from 153.3 m
(inc. 61.1 m @ 0.38% Cu, 0.93 g/t Au from 202.6 m)

SGD003 285.0 m @ 0.19% Cu, 0.38 g/t Au from 154.8 m
(inc. 67.1 m @ 0.29% Cu, 0.71 g/t Au from 267.4 m)

Based on interpretation of geology and alteration mineralogies, the Montong Botek and Blongas II porphyries would appear to have suffered little erosion; hence there is good potential for preservation of the full mineralised system at depth.

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Resource Properties (cont'd...)

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

Selodong Prospect (cont'd...)

Three other areas hosting porphyry style mineralisation (Blongas I, Kekalik, and Belikat) were also identified by Newmont in the 1990's. These will subsequently be drill tested.

In addition SA geologists have recently located three new areas hosting porphyry style mineralisation with supporting geochemical, alteration and ground geophysical anomalies within the western and northern parts of the prospect, and at least 7 other coincident geophysical/geochemical anomalies are currently being followed up within the Selodong Intrusive Complex.

East Lombok Island 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 are warranted to test these vein targets.

Sumbawa Island Properties

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, 2006 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. Drill hole rationale and results have been detailed in previous Management Discussion and Analysis reviews. The prospect is currently on a care and maintenance basis.

SOUTHERN ARC MINERALS INC.

Resource Properties (cont'd...)

Sumbawa Island Properties (cont'd...)

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 south-eastern corner of the Companies Taliwang property, approximately 12 km north of Newmont's Batu Hijau porphyry Cu-Au mine. 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 .

SOUTHERN ARC MINERALS INC.

Resource Properties (cont'd...)

Sumbawa Island Properties (cont'd...)

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

J3 Prospect (cont'd...)

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.

Hitam Manis

A portable diamond rock saw has been used to representatively channel sample the extremely hard jasperoid surfaces. Most of the channel samples have been cut diagonally across the mineralised jasperoid bed in order to sample across both the full thickness of the unit and to include prominent mineralized, sub-vertical fracture sets. Some of the previously reported high grade samples were re-sampled in this manner.

Recent channel samples from the northern area of the HM zone include:

5.0m (3.6 m) @ 6.78 g/t Au & 123 g/t Ag 5.0m (3.6 m) @ 1.31 g/t Au & 13 g/t Ag
2.3m (1.6 m) @ 3.14 g/t Au & 44 g/t Ag 4.9m (3.4 m) @ 18.09 g/t Au & 39 g/t Ag
5.3m (3.8 m) @ 1.3 g/t Au & 6 g/t Ag

(True thickness of the mineralised bed is shown in brackets)

The four best contiguous diagonal sections result in a weighted average of 7.93 g/t Au & 57 g/t Ag over a rock face averaging 3.5 m high and approximately 12 m wide.

In the same area as described in the preceding paragraph, selected diagonal cuts and a composite sample were taken along the face of a NW trending fault trace and returned high grade channel samples of 4.0m @ 139.6 g/t Au & 93 g/t Ag, and 3.0m @ 58.4 g/t Au & 136 g/t Ag. A composite sample of eight contiguous diagonal cuts averaged 10.47 g/t Au & 54g/t Ag over a vertical face with dimensions 1.75 m high and 14.0 m long. While the company is comfortable with these assays results we have no way of determining the third dimensions of these higher grades zones without subsurface (drill) samples.

SOUTHERN ARC MINERALS INC.

Resource Properties (cont'd...)

Sumbawa Island Properties (cont'd...)

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

Hitam Manis (cont'd...)

Additional channel sampling of a NE to N curving jasperoid ledge (3m high × 120m long) situated approximately 350 m southeast from the zone of higher grades resulted in surface intersections of:

1.0m (0.7m) @ 3.12 g/t Au & 18 g/t Ag	2.0m (1.4m) @ 2.57 g/t Au & 182 g/t Ag
2.0m (1.4m) @ 2.52 g/t Au & 18 g/t Ag	3.5m (2.5m) @ 2.43 g/t Au & 35 g/t Ag
2.0m (1.4m) @ 2.36 g/t Au & 171 g/t Ag	1.5m (1.1m) @ 2.36 g/t Au & 5 g/t Ag

(True thickness of the mineralised bed is shown in brackets)

A recent orientation IP ground survey over the area of interest defined geophysical signatures suggestive of subsurface lateral extensions of known jasperoid surface mineralization. Modeling suggests that these subsurface bodies are flat-lying, with lesser north-south structural feeder zones postulated in the eastern grid area. Further to the west similar geophysical signatures have been noted in areas of subcropping jasperoid and extensive talus scree fields.

A program of 6 to 7 shallow (50 to 75 m) scout diamond drill holes has commenced to test subsurface extensions of known surface jasperoid mineralization. In some instances holes will be scissored to test for potential footwall mineralization, as well as to confirm the geometry of the jasperoid body.

The J3 Prospect 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 flat-lying receptive carbonate 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 totalling 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.

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 costeaning and a ground IP-resistivity survey, that preliminary scout diamond drilling if warranted will commence later in 2007.

SOUTHERN ARC MINERALS INC.

Resource Properties (cont'd...)

Sumbawa Island Properties (cont'd...)

Sabalong (West Sumbawa)

The Company was granted a new exploration license (Kuasa Pertambangan, "KP") through its locally-controlled Indonesian entity, over part of West Sumbawa Island, West Nusa Tenggara Province. The Sabalong KP area (9,950 ha) was previously explored by Newmont (1986 to 1992) and Rio Tinto Zinc (1993 to 1998) under fourth and sixth generation Contracts of Work. The KP license issued by the Sumbawa regency on April 28, 2007 is valid for twelve months and can be extended for a further 12 months as part of the General Survey conditions of the license.

Previous exploration in the KP area by Newmont reported Au-Ag anomalous drainages from four contiguous catchment areas. Subsequent follow-up ground traverses identified extensive hydrothermal alteration of intermediate pyroclastics and intrusive rocks, hosting high-sulfidation epithermal quartz veins. Rock chip assays reported a maximum tenor of 0.77 g/t Au and 260 g/t Ag. The area was dropped afterwards as part of mandatory relinquishments that form part of the conditions of the Contract of Work. Rio Tinto Zinc (RTZ) subsequently acquired the KP area, as well as other ex-Newmont blocks, as part of a 543,200 ha Contract of Work area. Initial reconnaissance sampling by RTZ reconfirmed Newmont's Au-Ag anomalous catchment areas, along with delineation of potential carbonate-replacement and base metal mineralization further to the east. Additional prospect evaluation work defined an area of 3.0 by 2.0 km of phyllic alteration assemblages, hosting zones of residual silica and enargite-bearing quartz veins typical of high-sulfidation epithermal systems. Subsequent diamond drilling reported (Dalimunthe and Stevadji, 1998) an encouraging intersection of 32m @ 3.5 g/t Au from drill hole SL-18.

The Company intends to commence preliminary exploration activities later in the quarter, with personnel seconded from its Taliwang and Flores projects. Initial ground activities will focus on evaluation of historical prospect and anomaly areas, along with routine socialization meetings.

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 was renewed for a further 12 month period commencing on the March 13, 2007.

SOUTHERN ARC MINERALS INC.

Resource Properties (cont'd...)

Sumbawa Island Property, Indonesia (cont'd...)

East Elang KP (Southwest Sumbawa) (cont'd...)

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 km² are anticipated to commence June 2007, upon the issuing of the mandatory Forestry access permit.

Flores Island Property, Indonesia

The Company has previously been granted four exploration licenses over parts 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. Additional 12 month extensions were granted for Longgo and Tebedo on February 24, 2007 and July 4, 2006 respectively. The Bolol and Dalong KP licenses were relinquished because of a lack of economic potential. .

SOUTHERN ARC MINERALS INC.

Resource Properties (cont'd...)

Flores Island Property, Indonesia (cont'd...)

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.

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 currently in progress and if warranted, targets will subsequently be drill tested.

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)

SOUTHERN ARC MINERALS INC.

Resource Properties (cont'd...)

Flores Island Property, Indonesia (cont'd...)

Tebedo KP (Flores) (cont'd...)

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 has been recently been tested using ground IP-resistivity and TDEM surveys. Geophysical data is currently being processed and if warranted targets will subsequently be drill tested.

Other Properties, Indonesia

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.

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 nine month period ended March 31, 2007, the Company incurred a loss of \$484,109, compared to a loss of \$1,495,842 for the nine month period ended March 31, 2006, as a result of incurring various general and administrative expenses. The general and administrative expenses primarily consisted of consulting fees of \$64,299 (March 31, 2006 - \$88,285) and professional fees of \$111,973 (March 31, 2006 - \$116,582) for corporate oversight and stewardship, administration and accounting services, and for general corporate counsel. The Company also recognized stock-based compensation of \$64,708 (March 31, 2006 - \$1,041,653) in the statement of operations as a result of vesting incentive stock options granted previously.

During the period ended March 31, 2007, the Company completed a non-brokered private placement of 7,000,000 units at a price of \$0.30 per unit for gross proceeds of \$2,100,000. Each unit consists of one common share and one-half of a non-transferable share purchase warrant. Each whole warrant may be exercised to purchase an additional common share of the Company at a purchase price of \$0.45 for a period of two years to March 28, 2009. If the weighted daily average trading price of the Company's common shares on the TSX exceeds \$0.70 for 10 consecutive trading days, the Company may give 30 days written notice to the holders of warrants that the warrants will expire. Share issue costs of \$130,890 were incurred in connection with the private placement, including 259,010 agent warrants with a fair value of \$47,334. Proceeds of \$489,850 were received subsequent to March 31, 2007.

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 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.

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

- 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.
- 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

	March 31, 2007	December 31, 2006	September 30, 2006	June 30, 2006
Total assets	\$ 9,870,209	\$ 7,776,487	\$ 7,915,080	\$ 8,156,158
Resource properties and deferred costs	7,930,215	6,965,583	6,054,429	5,382,679
Working capital	1,538,469	630,945	1,695,870	2,502,397
Accumulated deficit	(2,949,809)	(2,803,136)	(2,629,037)	(2,465,700)
Net Loss	(146,673)	(174,099)	(163,337)	(388,540)
Basic and diluted loss per share	(0.00)	(0.00)	(0.00)	(0.01)

SOUTHERN ARC MINERALS INC.

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

	March 31, 2006	December 31, 2005	September 30, 2005	June 30, 2005
Total assets	\$ 8,094,658	\$ 4,860,083	\$ 3,572,684	\$ 3,726,995
Resource properties and deferred costs	4,508,688	3,651,387	3,154,781	2,683,876
Working capital	3,426,357	1,006,688	249,272	817,479
Accumulated deficit	2,077,160	(866,394)	(722,132)	(581,318)
Net Loss	(1,210,766)	(144,262)	(140,814)	(310,198)
Basic and diluted loss per share	(0.03)	(0.00)	(0.00)	(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.

Net cash used in operating activities for the nine month period ended March 31, 2007 was \$415,134 compared to net cash used of \$654,245 during the period ended March 31, 2006. 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 nine month period ended March 31, 2007 was \$2,474,357 compared to cash used of \$1,691,410 during the period ended March 31, 2006. 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 nine month period ended March 31, 2007 was \$1,537,475 compared to \$4,887,879 during the period ended March 31, 2006. 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.

SOUTHERN ARC MINERALS INC.

Investor Relations

The Company held its annual general meeting on November 27, 2006. At March 31, 2007 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 for the nine month period ended March 31, 2007 as follows:

- a) Paid or accrued \$112,500 (March 31, 2006 - \$72,000) for management fees to a company controlled by a director of the Company (John Proust).
- b) Paid or accrued \$13,500 (March 31, 2006 - \$Nil) for administration fees, in office expense, to a company controlled by a director of the Company (John Proust).
- c) Paid or accrued \$82,923 (March 31, 2006 - \$Nil) 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 \$18,410 (March 31, 2006 - \$Nil) for consulting fees to a director of the Company (Robert Vidoni)
- e) Paid or accrued \$66,300 (March 31, 2006 - \$48,100) for professional fees to a firm in which an officer is a partner (Cyrus Driver).
- f) Accounts payable includes \$31,218 (March 31, 2006 - \$5,500) 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:

	March 31, 2007	June 30, 2006
Due from director and officer (John Proust)	\$ -	\$ 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.

SOUTHERN ARC MINERALS INC.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, deposit, receivables, share subscriptions receivable 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	\$ 11,355
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.

SOUTHERN ARC MINERALS INC.

Current Share Data

As at May 8, 2007, the Company has 54,782,884 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
	2,275,000	0.56	January 13, 2011
	350,000	0.70	April 13, 2011
Warrants	1,825,750	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
	3,759,010	0.45	March 28, 2009

Outlook

The Company continues to expand and advance its portfolio of exploration properties across Lombok Island, Sumbawa Island and Flores Island 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.