



Southern Arc

MINERALS INC.

Recent Developments in Indonesian Mining Industry Regulatory Framework

MARCH 2010

www.southernarcminerals.com

CAUTIONARY NOTE

Some of the statements contained in this presentation are forward-looking statements, such as estimates and statements that describe future plans, objectives or goals, including words to the effect that Southern Arc Minerals Inc. implies a stated condition or that it forecasts certain results could occur. Because forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results relating to, among other things, reserves, resources, results of exploration, reclamation and other post-closure costs, capital costs and mine production costs could differ materially from those currently forecast in such statements by reason of factors such as changes in general economic conditions and conditions in the financial markets, changes in demand and prices for the minerals, litigation, legislative, environmental and other judicial, regulatory, technological and operational difficulties encountered in connection with mining activities, labour relations matters, costs and changing foreign exchange rates. This list is not exhaustive of the factors that may affect any of forward-looking statements. These and other factors should be considered carefully and readers should not place undue reliance on Southern Arc Minerals Inc. statements.

NEW MINING LAW AND MINING BUSINESS LICENSES (IUPs)

Part I:

Background – The 1967 Mining Law

NEW MINING LAW AND MINING BUSINESS LICENSES (IUPs)

Old Licensing Regime

- Mining Authorization (known as a KP)
 - Owned by local Indonesian company or cooperative.
 - Granted in phases: general survey, exploration, exploitation, sale and transport, refining and processing.
- Contract of Work (CoW) and Coal Contract of Work (CCoW)
 - The entire rule book for life of mine.
 - Bilateral – can only be changed if both parties agree.
 - International arbitration clause.
 - *Lex Specialis* status.
 - Seamless transition from one phase of mine to the next phase.

NEW MINING LAW AND MINING BUSINESS LICENSES (IUPs)

Part II :

The 2009 Mining Law

NEW MINING LAW AND MINING BUSINESS LICENSES (IUPs)

New Licensing Regime

- Mining Business License (IUP)
 - Within IUP area (WIUP).
 - IUP Exploration and IUP Production-Operation.
- People's Mining Business License (IPR)
 - Within IPR area (WPR).
- Special Mining Business License (IUPK)
 - Within IUPK area (WIUPK).
 - Part of State Reserve Area (WPN) of national strategic interest.
 - Commodities : copper, tin, gold, iron, nickel, bauxite and coal.
- IUP and IUPK are open to domestic and foreign investors through a tender system.

NEW MINING LAW AND MINING BUSINESS LICENSES (IUPs)

Types and terms of Licenses

- Exploration IUP or IUPK
 - General survey, exploration and feasibility study.
 - Term – metals (8 years) and coal (7 years).
 - Area – metals (100,000 Ha) and coal (50,000 Ha).
 - For one mineral (and associated minerals) or coal.
- Production IUP or IUPK
 - Construction, mining, processing & refining, transport and sale.
 - “Guarantee” for Exploration IUP holder to obtain Production IUP.
 - Term – metals/coal: 20+10+10 years.
 - Area – metals (25,000 Ha), coal (15,000 Ha).

NEW MINING LAW AND MINING BUSINESS LICENSES (IUPs)

Issuer and Eligible Holder

- IUP
 - Issuer: Minister/Governor/Regent/Mayor.
 - Holders: business entity (including state/regional enterprises), cooperatives and individuals.
 - Application: depending on mineral type – tender (metal or coal) or direct application (non-metal and rock/stone).
- IUPK
 - Issuer: Minister upon approval by central parliament.
 - Holders: Priority first to State (BMN) & Regional (BUMD) enterprises, followed by business entities.
 - Application: open tender for any specified minerals and coal.

NEW MINING LAW AND MINING BUSINESS LICENSES (IUPs)

Key Provisions (1 of 3)

Mining can now only be carried out in areas (WIUP, WPR & WIUPK) designated by the Central Government as being open for mining activity.

Previous contract-based system for foreign investment has been replaced by mining license's (IUPs) available equally to both foreign and Indonesian investors.

Different treatment of key license terms for coal vs metals vs non metals vs rocks principally the validity term and the maximum mining area.

New coal and minerals mining projects must be awarded through competitive tender process, not merely direct application.

Existing CoWs and CCoWs will be grandfathered, but must be amended within 1 year to conform to the new law. Industry commentators suggest that this not workable and little, or no change will happen to CCoWs & CoWs.

Existing KPs to be converted to IUPs no later than May 01, 2010.

NEW MINING LAW AND MINING BUSINESS LICENSES (IUPs)

Key Provisions (2 of 3)

Within 90 days after the 5th anniversary of production, IUP/IUPK with foreign shareholding must divest a minimum of 20% issued shares.

Requirement within five years of law enactment to establish domestic processing and refinery plants for value enhancement to mineral products.

Government Controls - Domestic market obligations, selling prices, production, supply and sale of minerals and coal.

Central Government can suspend or revoke IUPs if regulations are not followed. Criminal sanctions for Regents or other entities who do not follow regulatory requirements.

Active regulation of mining contractors with strong requirements to prioritize use of local contractors. Restrictions on affiliated mining contractors and IUP/IUPK holder.

NEW MINING LAW AND MINING BUSINESS LICENSES (IUPs)

Key Provisions (3 of 3)

Fiscal terms – prevailing central taxes, non-tax state revenue, regional taxes and retributions. For IUPK additional 10% net profit royalty payable to central (4%) and regional (6%) governments.

Settlement of disputes by domestic courts and National Arbitration Body (BANI).

Requirement for IUP/IUPK holder must to provide Reclamation and Post Mining Guarantees in the form of time deposits, bank guarantee or insurance policy. Amounts yet to defined.

RECENT DEVELOPMENTS IN INDONESIAN MINING INDUSTRY REGULATORY FRAMEWORK

Part III:

Land Acquisition Process

LAND ACQUISITION PROCESS

- New Mining Law is only a framework pending implementing regulations which are only now being enacted into law.
- Recently issued government regulations No. 22/2010 and 23/2010 provide a framework for procedures and requirements for new WIUPs & WIUPKs. Central Government first designates WIUP/WIUPK and then hands over to regional government to tender.
- Acquisition strategy process:
 - Tender process.
 - Acquisition of interests in Contracts of Work (or CCow) either directly or via offshore holding level.
 - Existing KPs: no direct foreign ownership permitted. Alternative structures used to obtain economic interest (cooperation & offtake agreements).
 - IUPs/IUPKs – likely to be direct or indirect acquisitions of shares in license holder.

LAND ACQUISITION PROCESSES

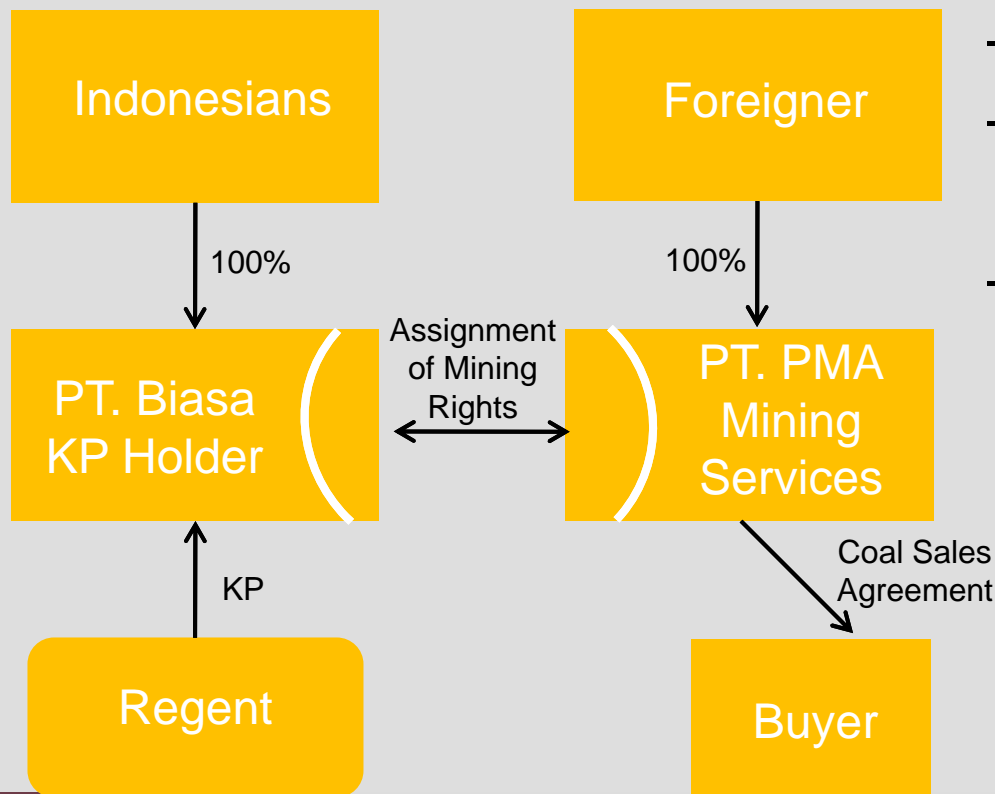
Tender Process

- WIUP Metals/Coal
 - Tender announcement no later than 3 months prior to the tender date → prequalification (fit and due diligence, DIF payment) → submission of tender documents & price offering by qualifiers → tender winner to be announced within 35 days by relevant government authority with input by tender committee → fulfillment of administrative & financial requirements by tender winner → issuing of IUP by government authority.
- WIUPK Specific Minerals/Coal
 - Priority given to state & regional enterprises (tender if more than one). If no interest: tender system as for WIUP by interested parties.
- Non-metal and rock/stone WIUP Application: direct application.

LAND ACQUISITION PROCESS

Restructuring KP Arrangements

- The Structures we have seen: “Assignment of Mining Rights”

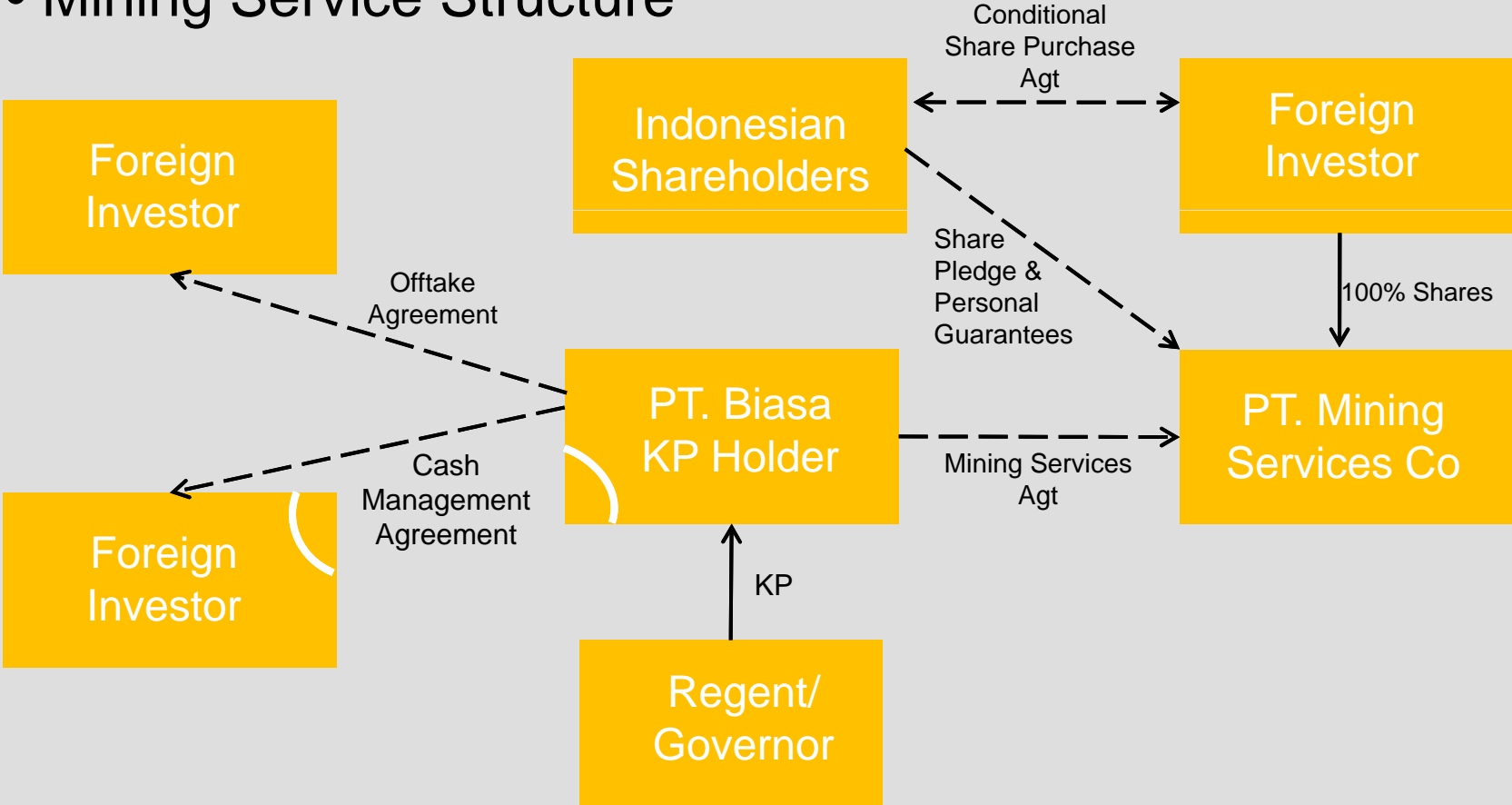


- KP is effective license
- KP can only be transferred in whole, not in part
- Any transfer of KP requires approval of Regent

LAND ACQUISITION PROCESS

Restructuring KP Arrangements

- Mining Service Structure



RECENT DEVELOPMENTS IN INDONESIAN MINING INDUSTRY REGULATORY FRAMEWORK

Part IV:

Process of Conversion of Existing Licenses

PROCESS OF CONVERSION OF EXISTING LICENSES

Conversion of Existing Licenses

- KPs – automatic conversion of pre-existing licenses (prior to January 12, 2009) to be completed by May 01, 2010.
- Stakeholder must be compliant with regards to administrative reporting, annual taxes and retribution. Requirement for exploration work program and budget, along with progress report.
- Approval by central MEMR of regional government's mining/exploration tenement plan.
- Payment of seriousness bonds & non-tax state revenue
- Issuing of IUP by regent/governor.
- Requirement within 90 days from issuing of IUP for stakeholder to commence exploration activities, or within 30 days of any MoF permit being issued.

PROCESS OF CONVERSION OF EXISTING LICENSES

Conversion of Existing Licenses

- CoW/CCoW: will be grandfathered until they expire, BUT must be amended within 1 year (January 11, 2010) to conform to the new Mining Law principles.
- Last 12 months:
 - June 15, 2009 all stakeholders called to a meeting with MEMR and presented with a list of proposed amendments to CoWs & CCoWs.
 - Early 2010 stakeholders summoned to MEMR to discuss progress with regards to the proposed amendments.
- Future: proposed amendments to CoW/CCoW uncertain. Industry commentator's are of the view that there will be little, or no changes.

PROCESS OF CONVERSION OF EXISTING LICENSES

Conversion of Existing Licenses

- KP applications prior to Mining Law:
 - If applicant issued with a reservation letter by Governor/ Regent prior to January 12, 2009 then the KP can be converted to a IUP license without tender.
- CoW applications prior to Mining Law:
 - If application lodged a minimum of 1 year before enactment of the Mining Law and having secured in-principle approval or a preliminary general survey permit (SIPP) will be honoured and can be converted to an IUP without tender.

PROCESS OF CONVERSION OF EXISTING LICENSES

Conversion of Existing Licenses

- CoW/CCoW: will be grandfathered until they expire, BUT must be amended within 1 year (January 11, 2010) to conform to the new Mining Law principles.
- Last 12 months:
 - June 15, 2009 all stakeholders called to a meeting with MEMR and presented with a list of proposed amendments to CoWs & CCoWs.
 - Early 2010 stakeholders summoned to MEMR to discuss progress with regards to the proposed amendments.
- Future: proposed amendments to CoW/CCoW uncertain. Industry commentator's are of the view that there will be little, or no changes.

RECENT DEVELOPMENTS IN INDONESIAN MINING INDUSTRY REGULATORY FRAMEWORK

Part V:

Implications for SA's tenement holding position and future acquisitions

IMPLICATIONS FOR CURRENT SA TENEMENTS AND ACQUISITIONS

- Implications for current SA's tenement holdings:
 - CoW Applications (Lombok and West Sumbawa)
 - conversion to IUP Exploration licenses without tender.
 - requirement to establish Singaporean and Indonesian holding companies for each of the IUP licenses.
 - commencement of exploration activities within 90 days of issuing IUP, or 60 days after issuing MoF permit.
 - KP Licenses (Sumbawa Island & Central Java)
 - mandatory requirements for conversion of KP to IUP Exploration licenses before May 01, 2010.
 - commencement of exploration activities within 90 days of issuing IUP, or 30 days after issuing MoF permit.

IMPLICATIONS FOR FUTURE SA TENEMENTS AND ACQUISITIONS

- Implications for future SA's acquisitions:
 - With the newly enacted implementing regulation pertaining to tenders and associated uncertainties, SA will for the immediate future focus on opportunities from existing IUP/KPs and CoWs.
 - Once the tender system and regulatory environment are stable, based on assessment from on-going project generative work SA will be an active participant in WIUP & WIUPK tenders.

THANK YOU FOR YOUR ATTENTION.