SOUTHERN ARC MINERALS INC.
Form 51-102F1
Management Discussion and Analysis
For the Nine Month Period Ended March 31, 2011

Introduction

The following discussion, prepared as of May 27, 2011, is management's assessment and analysis of the results and financial condition of Southern Arc Minerals Inc. and its subsidiaries (the "Company" or "Southern Arc") and should be read together with the unaudited financial statements for the nine month period ended March 31, 2011 and the audited consolidated financial statements for the year ended June 30, 2010 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.

Additional information relating to the Company is available on SEDAR at www.sedar.com.

Forward-Looking Statements

Certain of the statements made and information contained herein is "forward-looking information" within the meaning of the British Columbia Securities Act. These statements relate to future events or the Company's future performance. All statements, other than statements of historical fact, may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "propose", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon by investors as actual results may vary. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement. In particular, this MD&A contains forward-looking statements, pertaining to the following: capital expenditure programs, development of resources, treatment under governmental and taxation regimes, expectations regarding the Company's ability to raise capital, expenditures to be made by the Company on its properties and work plans to be conducted by the Company. With respect to forward-looking statements listed above and contained in the MD&A, the Company has made assumptions regarding, among other things:

- uncertainties relating to receiving mining and exploration permits in Indonesia;
- uncertainties relating to receiving oil and gas permits in Alberta;
- the impact of increasing competition;
- unpredictable changes to the market prices for gold, copper, natural gas and oil;
- exploration and developments costs for its properties in Indonesia and Canada;
- availability of additional financing and farm-in or joint-venture partners;
- anticipated results of exploration and development activities;
- the Company's ability to obtain additional financing on satisfactory terms.

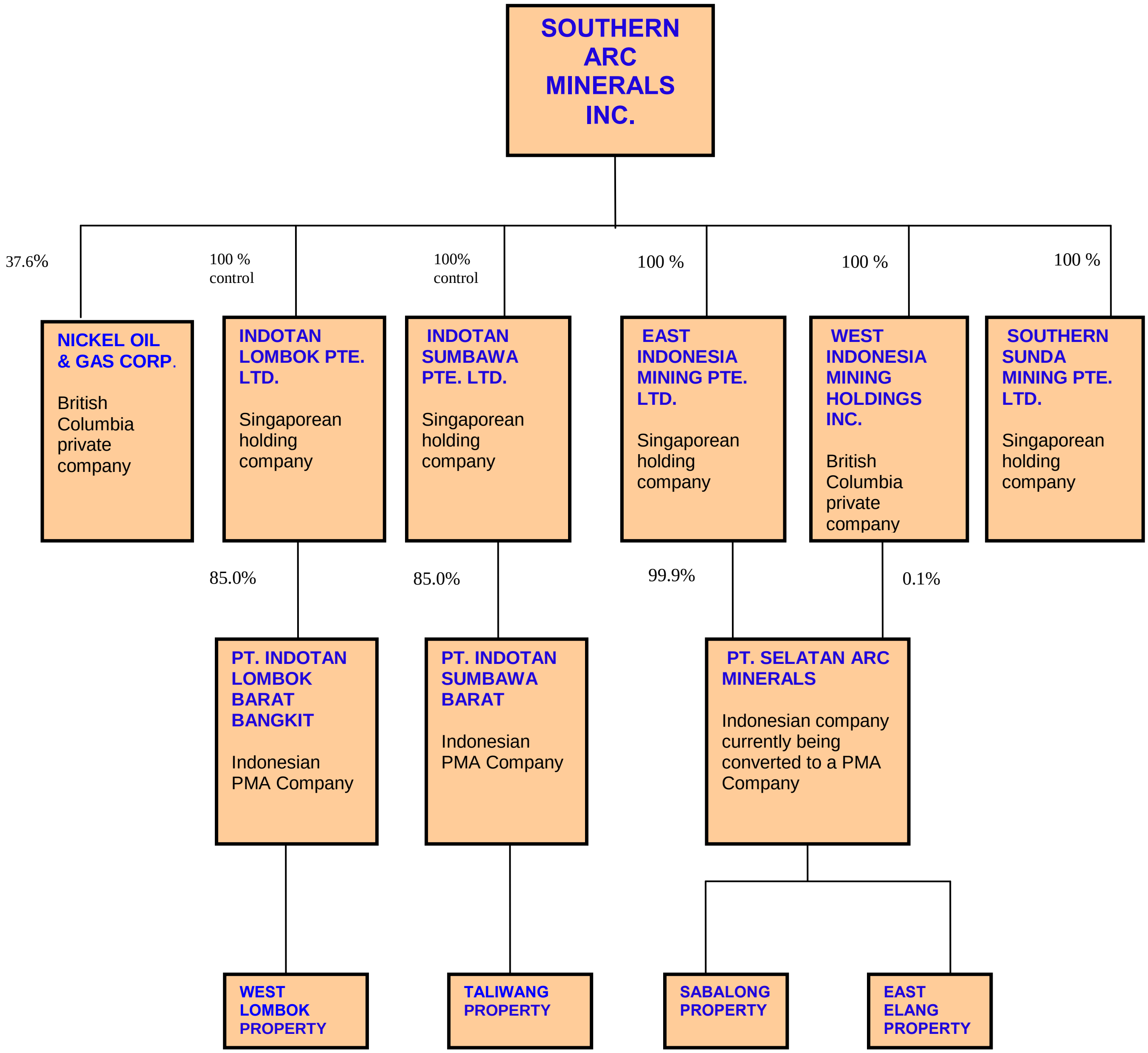
Forward-Looking Statements (cont'd…)

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A and Company's Management's Proxy Circular which can be found on SEDAR website (www.sedar.com): volatility in the market price for minerals; uncertainties associated with estimating resources; geological, technical, drilling and processing problems; liabilities and risks, including environmental liabilities and risks, inherent in mineral and oil and gas operations; fluctuations in currencies and interest rates; incorrect assessments of the value of acquisitions; unanticipated results of exploration activities; competition for, amongst other things, capital, undeveloped lands and skilled personnel; lack of availability of additional financing and farm-in or joint venture partners and unpredictable weather conditions.

Investors should not place undue reliance on forward-looking statements as the plans, intentions or expectations upon which they are based might not occur. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. The Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law.

Description of Business

The Company was incorporated in British Columbia on August 19, 2004 and is trading on the TSX Venture Exchange under the symbol "SA". The Company is a natural resource company actively engaged in the acquisition and exploration of mineral properties in Indonesia. Southern Arc also owns 37.6 % of Nickel Oil & Gas Corp. ("Nickel Oil & Gas" or "Nickel", formerly Canada Nickel Corp.), a private company active in mineral and oil and gas exploration in Canada and owns five other direct and three other indirect subsidiaries. To date, the Company has not generated revenues from operations and is considered to be in the exploration stage.


SOUTHERN ARC MINERALS INC.
37.6%
NICKEL OIL & GAS CORP.
British Columbia private company
100 % control
INDOTAN LOMBOK PTE. LTD.
Singaporean holding company
100% control
INDOTAN SUMBAWA PTE. LTD.
Singaporean holding company
100 %
EAST INDONESIA MINING PTE. LTD.
Singaporean holding company
100 %
WEST INDONESIA MINING HOLDINGS INC.
British Columbia private company
100 %
SOUTHERN SUNDA MINING PTE. LTD.
Singaporean holding company
85.0%
PT. INDOTAN LOMBOK BARAT BANGKIT
Indonesian PMA Company
85.0%
PT. INDOTAN SUMBAWA BARAT
Indonesian PMA Company
99.9%
0.1%
PT. SELATAN ARC MINERALS
Indonesian company currently being converted to a PMA Company
WEST LOMBOK PROPERTY
TALIWANG PROPERTY
SABALONG PROPERTY
EAST ELANG PROPERTY

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 economically mineable deposits. The geological focus of the Company is on areas in which the geological setting is well understood by management.

Trends

In previous years, the resource exploration industry had been through a difficult period, with reduced 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 the resources themselves. 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 explorers. With improving metal prices and increasing demand, especially from Asia, there was a discernible need for the development of exploration projects. Junior companies, like the Company, are key participants in identifying properties of merit to explore and develop.

Risks and Uncertainties

The Company's financial instruments consist of cash and cash equivalents, receivables, long term investments, and accounts payable and accrued liabilities and loans payable. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations.

The Company's credit risk is primarily attributable to cash and cash equivalents. Management believes that the credit risk concentration with respect to cash and cash equivalents is remote as it maintains accounts with highly-rated financial institutions.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at March 31, 2011, the Company had a cash balance of $25,774,261 (June 30, 2010 - $1,604,476) to settle current liabilities of $1,955,729 (June 30, 2010 - $1,997,846). All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal period.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

Risks and Uncertainties (cont'd…)

(a) Interest rate risk

The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions is subject to floating rate of interest. The interest rate risks on cash and on the Company's obligations are not considered significant.

(b) Foreign currency risk

The Company's largest non-monetary assets are its resource interests in Indonesia. The Company could accordingly be at risk for foreign currency fluctuations and developing legal and political environments. The Company minimizes cash and monetary assets or liabilities in Indonesia.

At March 31, 2011, the Company had US$2,955,652 (approximately CAD$2,872,354) and Indonesian Rupiah ("Rph") 2,776,900,374 (approximately CAD$306,670) in cash, and US$1,000,000 (CAD$971,800) in loans payable. As at March 31, 2011, US$ amounts were converted at a rate of US$1.029 to CAD$1 and Rupiah amounts were converted at a rate of Rph 9,055 to CAD$1.

(c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

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 prices 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 the properties are sold or abandoned, at which time the deferred costs are written off.

Outlook

The Company's current focus is on its Lombok Island property, including the Selodong Intrusive Complex (SIC), a large, gold-rich copper porphyry prospect and the Pelangan-Mencanggah Epithermal Vein Prospects. The Company has identified 14 porphyry Cu-Au drill target areas within the SIC, along with km's of Au-Ag mineralized breccias structures ("MSB"). Phase 2 drilling of epithermal Au-Ag targets at the Pelangan Prospect commenced in late March 2011, whilst Phase 1 drilling at the Mencanggah Prospect will be initiated shortly.

On Sumbawa Island, ground geophysical surveys are currently in progress on the Company's Sabalong property, under the terms of the Southern Arc - Vale Joint Venture Agreement, with Phase 1 drilling planned for calendar Q2, 2011. Work with Vale on the East Elang project is also continuing.

The Company is working towards completion of a Joint Venture Agreement with Newcrest Mining regarding its Taliwang property on Sumbawa Island, Indonesia which is subject to completion of definitive documentation. Low-key surface exploration activities on Taliwang have been on-going since Q1, 2011. The current exploration program is based on the results of informal discussions between the Company and Newcrest.

Lombok and Taliwang (Sumbawa) Properties, Indonesia

Background

During 2005, the Company acquired its original interests in the Lombok and Taliwang properties by paying $81,572 and issuing 11,500,000 common shares (valued at $862,500) to Sunda Mining Corporation ("Sunda") and by paying $180,000 and issuing 1,000,000 common shares (valued at $125,000) to Indotan Inc. ("Indotan"). The Company also granted a 0.5% net smelter return ("NSR") to individuals related to Sunda and a 2% NSR to Indotan on the Taliwang property and a 0.5% NSR to individuals related to Sunda and a 1% NSR to Indotan on approximately 8% of the current Lombok Property, which excludes Block 1 described below.

In August, 2005, the Company entered into an agreement with PT Newmont Nusa Tenggara ("Newmont") regarding a property ("Block 1") which now forms the western portion of the Company's Lombok property (including the Selodong, Mencanggah, and Pelangan prospects) and is included in the IUP license. The acquisition was completed through a relinquishment by Newmont of the Block 1 area. The terms of the agreement include granting Newmont a 2% NSR on any mineral production from the Block 1 area and 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. The Company has the right to repurchase this 2% NSR for US$1 million at any time.

In December 2009, the Company acquired the right to the name Indotan Inc. as well as control over two companies (Indotan Lombok Pte. Ltd. and Indotan Sumbawa Pte. Ltd.) (each a "Singapore Company"). As consideration, the Company issued 3,500,000 of its common shares with a value of $2,415,000 subject to two assignable options. The first option, which entitled the Company to acquire 500,000 of these shares at a price of $0.50 per common share until August 15, 2010, was assigned to a related party in relation to a loan agreement and was exercised during the period ended December 31, 2010. The second option entitles the Company to acquire 1,500,000 of these shares at a price of $0.90 per common share within a period of 18 months. The acquisition of the Singapore Companies was accounted for using the purchase method and the purchase price of $2,415,000 was allocated to resource properties.

During the period ended March 31, 2011, the Company established new 85% owned Indonesian subsidiaries (PT. Indotan Lombok Barat Bangkit ("PT ILBB") and PT. Indotan Sumbawa Barat ("PT ISB")) to hold its Lombok and Taliwang properties respectively.

The Company has advanced Loans Receivable of $318,180 (US$300,000) on an unsecured basis and without interest to these subsidiary companies as capital contributions on behalf of the Indonesian shareholders and these funds are to be repaid to the Company from future revenues of the subsidiaries.

The Exploration Stage of the Lombok IUP (encompassing 10,088 Ha) is initially valid for 5 years and permits the Company to pursue exploration activities up to the conclusion of a feasibility study. This period may be extended with approval of the Indonesian Government. On approval of a feasibility study, the Company will automatically be able to transition the IUP into the Exploitation Stage, with the right to conduct mining production on this property for 20 years, with the potential for two further 10-year extension periods.

Southern Arc holds 85% of the shares of PT ILBB, with 10% being held by the local government (the West Lombok Regency) and the remaining 5% held by the Company's original Indonesian partner, PT Puri Permata Mega ("PTPM"). A Joint Venture Agreement among the three partners was finalized in preparation to advance the property.

Lombok and Taliwang (Sumbawa) Properties, Indonesia (cont'd…)

Southern Arc strongly feels that having the local Regency as an equity partner creates a synergistic and mutually beneficial environment for the advancement of this project. This relationship will ensure that it is in the local government's interest to support the Company's activities and that the local community will receive benefits directly from Southern Arc success in West Lombok. The West Lombok Regency and the PTPM interests are free-carried throughout the life of the project.

The Taliwang Exploration IUP license was issued by the Regent of West Sumbawa on July 9, 2010. The Exploration IUP covers the period from General Survey through to Feasibility Study. The Company has the automatic right to conduct commercial production for 20 years and a further two 10 year extension periods if warranted.

Lombok Property

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 the Company incorporated it into its CoW application area. The area of interest comprises a 13-km long, northwest trending structural corridor of hydrothermal mineralization and alteration within which lie the Selodong porphyry Cu-Au Prospect, Mencanggah epithermal/porphyry District and Pelangan Epithermal Prospect.

Selodong Prospect

Aside from on-going CSR responsibilities and permitting-related matters, no exploration activities were undertaken during the reporting period.

The Company has completed Phase 1 drilling at Selodong with 30 holes (SLD001 to SLD030) totaling 17,859.30 metres completed in September 2008. These holes have tested seven of the 14 porphyry Cu-Au targets, with the majority having intersected broad zones (126.45 to 855.105 metres) of significant Cu-Au mineralization. Drill hole rationale and results have been detailed in previous Management Discussion and Analysis filed with SEDAR releases at www.sedar.com.

Pelangan Prospect (Kayu Putih, Tanjung, Radja, Ratu and Lala mineralized structured breccia)

Surface prospecting in 2011 has focused on geo-mapping of lithocap-related porphyry mineralization at Batu Sendi and commencement of mapping of inferred MSB mineralization between Raja South and North Mencanggah. Because of this year's extremely drawn-out monsoon season, exploration progress rates have been somewhat hindered. Aside from geo-mapping and geochemical sampling, hydrothermally altered outcrop samples have been collected on a regular basis and submitted for spectral analysis, with the aim of establishing a thermal vectoring towards near-surface porphyry mineralization.

With the advent of the IUP license being issued, logistical preparations are underway to facilitate commencement of Phase I and II drilling programs of the Pelangan and Mencanggah Epithermal targets. Again, access road upgrades and maintenance have been slowed because of the effects of the extended monsoon season.

Due to the effects of the extended monsoon, Phase 2 drilling at the Pelangan Prospect only commenced in late March 2011. The results of the first seven diamond drill holes from the Central Raja have confirmed that high-grade epithermal gold mineralization remains open beyond 250 metres depth below surface. All Phase 2 drill holes to date have intersected Mineralized Structural Breccia ("MSB") epithermal mineralization.

Lombok Property (cont'd…)

Highlight intersections are described below. All intervals are reported as downhole lengths.

Drillhole PLD003 returned:

	16.55 m @ 5.5 g/t Au & 3.7 g/t Ag from 232.95 m
(including	7.70 m @ 10.9 g/t Au & 6.1 g/t Ag from 237.5 m)
(including	4.50 m @ 17.6 g/t Au & 8.0 g/t Ag from 240.7 m)

PLD003 intersected high-grade mineralization over 250 m vertically below surface and 100 m below the high-grade intersection of PLD002 thus confirming the depth potential at Pelangan. The mineralization in this area is exposed at the surface and remains open at depths exceeding 250 m. PLD003 was drilled in the same cross-section as previously reported drill holes RGD01 (10.70 m @ 2.93 g/t Au & 20 g/t Ag, including 4.7m @ 5.8 g/t Au & 27 g/t Ag), PLD001 (4.85 m @ 7.11 g/t Au & 18.5 g/t Ag) and PLD002 (17.25 m @ 5.73 g/t Au & 11.7 g/t Ag).

Drillhole PLD008 intersected MSB mineralization 50 m southeast of drill holes PLD001, PLD002 and PLD003, approximately 90 m below surface and returned two broad mineralized intervals:

	11.55 m @ 9.80 g/t Au & 31.1 g/t Ag from 70.35 m
(including	3.50 m @ 26.1 g/t Au & 96.5 g/t Ag)
and	11.80 m @ 1.40 g/t Au & 9.2 g/t Ag from 93.7m
(including	2.00 m @ 3.70 g/t Au & 22.6 g/t Ag)

Drillholes PLD004 and PLD006 have been completed on a section 150 m southeast of PLD003 down dip from the Phase 1 drill hole RDG04 (9.5 m @ 6.2 g/t Au & 41 g/t Ag). These holes intersected MSB's at 75 m and 115 m below surface respectively and returned mineralized intervals grading:

PLD004	10.95 m @ 2.0 g/t Au & 34.0 g/t Ag from 79.25 m
(including	1.50 m @ 5.6 g/t Au & 166 g/t Ag)
PLD006	16.15 m @ 1.4 g/t Au & 12.0 g/t Ag from 110.05 m
(including	2.45 m @ 4.7 g/t Au & 34.0 g/t Ag)

Drillhole PLD005 intersected two narrow zones of mineralization approximately 200 m northwest of PLD003 these have returned:

	1.75m@ 1.15 g/t Au & 4.9 g/t Ag from 72.20 m
and	1.95 m @ 1.16 g/t Au & 13.7 g/t Ag from 92.90 m

Drill hole PLD007 returned a broad high grade mineralised interval with:

	39.7m @ 9.4g/t Au & 15.7g/t Ag from 78.8m
(including	17.4m @ 19.4g/t Au & 28.3g/t Ag from 78.8m)
(including	6.15m @ 37.7g/t Au & 26g/t Ag from 88.1m)
and a second interval of:	0.75m @ 22.1g/t Au & 15.4g/t Ag from 127.7m

PLD007 was drilled on a section 105 metres NW along the structure from previously reported drill holes PLD001 (4.85m @ 7.11g/t Au & 18.5g/t Ag), PLD002 (17.25m @ 5.73g/t Au & 11.7g/t Ag) and PLD003 (16.55m @ 5.5g/t Au & 3.7g/t Ag). PLD007 intersected mineralisation over 100 metres vertically below surface. Its substantial width highlights the potential for high-grade "blow outs" or swells within ore shoots in the MSB structures. These have potential to host significant high-grade tonnage.

Lombok Property (cont'd…)

Drill hole PLD009, located 80 metres SE of PLD007 and at a slightly lower elevation, reported an intersection of:

8.2m @ 4.4g/t Au & 2.7g/t Ag from 217.3m
(including 4.3m @ 7.5g/t Au & 3.9g/t Ag from 217.3m)

Drilling will continue to step out on 50 m spaced sections at Raja to identify further high-grade shoots for aggressive infill drilling. Drilling at the 600 metre long South Raja Zone will commence shortly.

Mencanggah Prospect

An additional three (3) drill rigs, capable of coring to depths of 400-700 metres, have been mobilized to the Mencanggah Epithermal/Porphyry Prospect. These rigs will immediately be tasked to commence Phase 1 drilling. Defined epithermal targets have been prioritized based on detailed geological mapping and geochemical sampling. Surface prospecting and mapping have defined the extent of epithermal quartz veining over a broad area (6.5 km long by up to 4.5 km wide, including an aggregate proven strike length of more than 15 km), along with the presence of potential copper-gold porphyry style targets.

On May 16, a group of local demonstrators set fire to the Company's Tibu Serai drilling camp. Company personnel were forced to abandon the camp, but nobody was injured. The demonstrators then turned their attention on a newly sited drill rig located at Bising and set it on fire, after which they travelled to Raja Pelangan (a distance of 15 km) where additional drill rigs were set on fire at this location. Again no Company personnel were injured. All damaged equipment was insured and the Company expects no significant financial loss from this incident.

Security and other issues related to this incident were addressed at a meeting (chaired by the Regent) on May 18, 2011 where Company personnel along with relevant village heads, sub-district chiefs, Regency department heads and the Regency security team attended. This meeting was considered successful to ensure a common understanding of the Company's drilling program at all levels within the community.

Taliwang Property (Sumbawa)

The Company's branch office within the West Sumbawa Regency is fully active and staffed, as per conditions of the Mining Business License ("IUP"). The Company's 2010-2011 exploration work program and budget is still pending by relevant Regency authorities, waiting on resolution of the Joint Venture Agreement ("JVA") between the shareholders of the Indonesian holding Company, PT. Indotan Sumbawa Barat ("PT ISB"). Southern Arc holds 85% of the shares of PT ISB, with 10% being held by the local government (the West Sumbawa Regency) and the remaining 5% held by the Company's original Indonesian partner, PTPM. Delays to the completion of the JVA have arisen through the distraction of the Newmont CoW divestment issue, along with the Company trying to find an amicable solution to demands by the Regency government.

On November 19, 2010 Newcrest Mining Limited ("Newcrest") and the Company announced the signing of a Heads of Agreement ("Agreement") involving a joint venture investment in the Taliwang property. The Agreement (which is non-binding other than relationship of parties, exclusivity, confidentiality, access and governing law provisions) includes the following commercial terms:

1. Newcrest will solely fund expenditures of US$4 million on the Taliwang project during the first two years of the Agreement (the "Minimum Spend Obligation") by way of a convertible loan;

Taliwang Property (Sumbawa) (cont'd…)

2. Upon completion of the Minimum Spend Obligation, Newcrest may convert its loan into shares equal to 75% of the shares of the holding company that will have an 85% interest in the Taliwang IUP;
3. Following its acquisition of the shares in the Singapore company, Newcrest may retain its interest in the Taliwang project by solely funding additional expenditures to a maximum of US$46 million or to a completed Feasibility Study, whichever occurs first, with a minimum expenditure of US$2 million per annum; and
4. During the period of the Minimum Spend Obligation, a joint technical committee comprised of representatives of both parties and controlled by Newcrest, will supervise and direct the exploration programs.

If Newcrest fully complies with the funding terms of the Agreement, it will earn an effective 63.75% interest in the Taliwang project, leaving Southern Arc with an effective 21.25% interest. The remaining interest is held by the West Sumbawa Regency government (10%) and PT. Puri Permata Mega (5%).

Newcrest and the Company originally set March 31, 2011 as the deadline for completion of definitive agreements in relation to the joint venture, but this date has been mutually extended by both parties as a result of Newcrest being fully briefed on the on-going JVA negotiation process described above.

Sabalong and East Elang (Sumbawa) Properties

The Company has entered into an option and joint venture agreement with Vale S.A through its wholly owned subsidiary Vale International S.A. ("Vale"), regarding its East Elang and Sabalong properties. To exercise its option to purchase a 75% interest in the property(ies), Vale must fully fund the advancement of either property, through to and including the completion of a bankable feasibility study, at no cost to the Company. The Vale commitments include:

Phase 1 – Vale will fund US$1,000,000 (Sabalong) and US$1,200,000 (East Elang) of exploration expenditures within one year from the date the Company receives an exploration activities permit from the Ministry of Forestry for the that property; If Vale elects, they could proceed to;

Phase 2 minimum program – Vale could fund at least US$2,000,000 (Sabalong) and/or US$2,500,000 (East Elang) of additional exploration expenditures within 2 years of commencing Phase 2;

Phase 2 full program – Vale may proceed to completion of a pre-feasibility study or fund further exploration expenditures of at least US$10,000,000 (on either property) within 4 years of commencing Phase 2;

Upon completing the Phase 2 full program, Vale may elect to solely fund the completion of a bankable Feasibility Study within 7 years of commencing Phase 2.

If Vale completes a bankable feasibility study on either of the East Elang or Sabalong properties within the permitted timeframes, Vale will be entitled to receive a 75% interest in the Company's subsidiary PT. Selatan Arc Minerals ("PT SAM") which holds the IUP's for Sabalong and East Elang.

Sabalong and East Elang (Sumbawa) Properties (cont'd…)

The processing of the mandatory Ministry of Forestry ("MoF") permit continue throughout the reporting period, with delays relating to major personnel reshuffles in the MoF and associated changes in internal department policies. Company personnel continue on a daily basis to push for resolution on the matter, with the current view being that the MoF permit should be issued by the Ministry near the end of May, 2011.

Sabalong

Surface exploration activities continued this period with completion of the ground magnetic geophysical survey over the Lito-Toyang Prospect areas. Subsequent modeling by David Burt, Geophysicist and Vale's Country Manager in Indonesia, has defined a number of magnetic anomalies in the northwest, west and southern parts of the survey grid, confined to the Lito Prospect area only.

Geophysical contractors GPX Surveys Pty Ltd from Perth – Australia have been contracted to undertake a 24.5 line km IP-resistivity survey over defined magnetic anomalies. Survey equipment and personnel have mobilized, with the survey expected to commence in the 4th week of May. GPX's equipment is rated effective to 700+ metres vertical ground penetration, necessary to identify near-surface lithocap porphyry copper-gold mineralization.

In addition, an environmental baseline survey conducted under the auspices of a joint University team was initiated this period. Field data will be collected on a regular basis as part of the requirements of fully fledged Environmental Impact Study Report (or "AMDAL") a component of any Feasibility Study.

The *Sabalong property*, covering 9,950 hectares, comprises epithermal gold-silver-bearing quartz veins, with lesser high-level hydrothermal breccias and silica cappings, with the latter genetically associated with an early high temperature potassic event, in the form of structurally-controlled "silica ledges", or lithocaps located upper or distal to a porphyry system (Davies, 2008).

East Elang

The *East Elang property*, covering 9,670 hectares adjoins immediately to the east of the Newmont Mining Corporation's Elang-Dodo property, host to a copper-gold discovery of size greater than one billion tones (with yet undisclosed grades).

Whilst the MoF permit is still pending, Company field activities have focused on socialization at village and sub-district levels. At such meetings Company liaison personnel explain the Company's planned exploration program, CSR, social and environmental commitments, along with the prioritizing of the use of local personnel and companies in its exploration program.

Other Properties, Indonesia

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

Nickel Oil & Gas Corp. (formerly Canada Nickel Corp.)

Southern Arc owns 37.59% or 15.3 million shares in Nickel Oil & Gas Corp. ("Nickel Oil & Gas" or "Nickel"), a private company. During the year ended June 30, 2010, Nickel Oil & Gas entered into a farmout and option agreement granting Nickel the option to earn certain oil and gas rights with respect to property in the Brewster and Pine Creek areas, Alberta, Canada.

Brewster

The Brewster farmout and option agreements granted Nickel Oil & Gas the right to earn the following interests in the petroleum and natural gas rights to the base of the Belly River Formation:

(a) 20% interest in 43-13-W5M: Section 22 by paying 100% of the costs of completing a previously drilled well on Section 22;

(b) 48% interest in 43-13-W5M: Section 26 by paying 100% of the costs of drilling and completing, capping or abandoning a well on Section 26; and

(c) 48% interest in 43-13-W5M: Section 27 by paying 80% of the costs of drilling and completing, capping or abandoning a well on Section 27.

A joint venture party holding a 20% interest in both Section 22 and 26 elected not to participate in the operations described above and consequently has forfeited its 20% interest in production from these wells until such time as the parties participating in the operation have collectively recovered a penalty equal to 400% of the costs associated with the drilling and completion of these Wells. As a result, Nickel Oil & Gas effectively holds a 40% interest in Section 22 and a 68% interest in Section 26 until such time as the 400% penalty has been recovered.

In December 2009, the previously drilled well on Section 22 was completed, earning Nickel the Section 22 interest described above. The Section 22 well is currently shut in. Nickel Oil & Gas also successfully drilled the well on Section 26 and completed it in two intervals of the Belly River formation, earning Nickel Oil & Gas the interests in Section 26 described above. Nickel's joint venture partner solely funded the completion, equipping and tie-in costs of the well and will receive 100% of all revenue from the well until it recoups 125% of the payout costs incurred. At current production rates and low gas prices, this is not expected to occur until mid 2015.

Pine Creek

During the year ended June 30, 2010, Nickel Oil & Gas, entered into a farmout and option agreement granting Nickel the option to earn certain oil and gas rights with respect to property located at 55-18-W5M, Section 9 in the Pine Creek area, Alberta. There is good well control in the Pine Creek area with recent success by other oil and gas companies and close proximity to infrastructure. During the period ended September 30, 2010, Nickel entered into an Amending Agreement with its joint venture partner on the Pine Creek Property. Under the Agreement, Nickel earned a 60% working interest in two sections by funding 100% of the costs of drilling of the horizontal well. Nickel Oil & Gas had an obligation to pay 100% of the completion, equipping and tie-in costs. The horizontal well has been drilled by Nickel and Nickel's joint venture partner solely funded the completion, equipping and tie-in costs of the well. According to the Amending Agreement, the joint venture partner shall receive 100% of all revenue from the well until it recoups 125% of the payout costs incurred. At current production rates and low gas prices, this is not expected to occur until late 2013.

Other

Nickel Oil & Gas holds a royalty equal to 1.5% of Net Smelter Returns ("NSR") in the Nickel Bay Project, Ontario. Nickel Oil & Gas has granted an exclusive option to purchase two-thirds of this 1.5% NSR (namely, 1%), as follows: 0.33% for $833,333 before November 26, 2014, an additional 0.33% for $833,333 before November 26, 2014, and a further 0.34% for $833,334 before the second anniversary of commercial production.

Financing

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

During the nine months ended March 31, 2011:

a) the Company's 37.59% owned subsidiary, Nickel Oil and Gas issued 1,000,000 shares to an officer for total gross proceeds of $200,000;
b) the Company disposed of all its holdings in the MAVII notes (refer to financial statements Note 7) and received $890,277. Concurrently, the Company repaid the bank bridge loan of $550,000 (refer to financial statements Note 8);
c) the Company's subsidiary borrowed US$1,000,000 from a director of the Company. The loan was non-interest bearing and repayable upon demand and was repaid on April 1, 2011;
d) the Company issued 975,000 common shares at $0.30 to $0.80 per share for total proceeds of $463,000 pursuant to the exercise of stock options previously granted; and
e) the Company completed an equity offering of 17,738,750 common shares of the Company at a price of $1.60 per common share (and 1,064,325 warrants exercisable at $1.60 for a period of 18 months) for gross proceeds of $28,382,000.

Results of Operations for the three months ended March 31, 2011

During the three month period ended March 31, 2011, the Company had a loss of $1,746,670 compared to a loss of $382,406 for the comparable period ended March 31, 2010. Significant fluctuations occurred in the following categories:

a) Stock-based compensation of $1,014,090 (2010 - $nil) increased as a result of stock options granted during the period. Stock-based compensation expense is accounted for at fair value as determined by the Black-Scholes Option Pricing Model using estimates that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of stock-based compensation, the fair value of the Company's stock and the risk-free interest rate.
b) Consulting fees of $191,822 (2010 – $13,695) increased as a result of increased activity during the period.
c) Foreign exchange gain of $6,620 was realized during the period ended March 31, 2011 (2010 – loss of $3,852) due to the effect the fluctuation of the $US/$CAD exchange rate had on the Canadian equivalent of the Company's holdings and transactions in its $US bank balance and $US loan balance.
d) Management fees were unchanged compared to 2010 and are discussed in detail in the related parties section.
e) Office and miscellaneous expense increased to $275,995 (2010 - $70,216) as a result of higher levels of activity including increased administrative charges from a related party.
f) Professional fees of $137,381 (2010 - $97,187) increased as a result of increased exploration activity during the period.
g) Property investigation cost recovery of $94,500 during the three month period ended March 31, 2011 resulted from reallocation of charges from earlier in the year. In 2010 property investigation costs of $35,001 were incurred.
h) Travel expenses of $140,305 (2010 – $22,186) increased as a result of increased activity during the period.

Results of Operations for the three months ended March 31, 2011 (cont'd…)

i) During the three month period ended March 31, 2011, the Company invested $943,709 cash (2010 - $505,666) on resource properties and $104,301 on property plant & equipment (2010 - $nil).

j) During the three month period ended March 31, 2011, the Company received $453,146 of exploration advances and spent $243,158 on exploration activities related to its joint venture on the Sabalong and East Elang properties (2010 - $nil, $nil).

Results of Operations for the nine months ended March 31, 2011

During the nine month period ended March 31, 2011, the Company had a loss of $5,160,529 compared to loss of $1,001,553 for the comparable period ended March 31, 2010. Significant fluctuations occurred in the following categories:

a) Stock-based compensation of $3,679,906 (2010 - $333,661) increased as a result of stock options granted during the period. Stock-based compensation expense is accounted for at fair value as determined by the Black-Scholes Option Pricing Model using estimates that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of stock-based compensation, the fair value of the Company's stock and the risk-free interest rate.

b) Consulting fees of $281,113 (2010 – $22,695) increased as a result of increased activity during the period.

c) Foreign exchange gain of $17,583 was realized during the period ended March 31, 2011 (2010 – loss $5,845) due to the effect the fluctuation of the $US/$CAD exchange rate had on the Canadian equivalent of the Company's holdings and transactions in its $US bank balance and $US loan balance.

d) Management fees were unchanged compared to 2010 and are discussed in detail in the related parties section.

e) Office and miscellaneous expense increased to $405,748 (2010 - $137,297) as a result of higher levels of activity including increased administrative charges from a related party.

f) Professional fees of $448,296 (2010 - $270,598) increased as a result of increased exploration activity during the period.

g) Property investigation costs of $nil were expensed during period ended March 31, 2011 (2010 - $37,670).

h) Travel expenses of $233,662 (2010 - $25,223) increased as a result of increased activity during the period.

i) Other items included a $54,852 gain on the sale of the Company's MAV II notes (2010 - $250,000 gain on settlement of a lawsuit).

j) During the nine month period ended March 31, 2011, the Company invested $1,831,429 cash (2010 - $2,851,071) on resource properties and $104,301 on property plant & equipment (2010 - $nil).

k) During the nine month period ended March 31, 2011, the Company received $453,146 of exploration advances and spent $243,158 on exploration activities related to its joint venture on the Sabalong and East Elang properties (2010 - $nil, $nil).

Summary of Quarterly Results

	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010
Total assets	$51,109,911	$25,002,393	$24,538,433	$24,898,967
Resource properties	24,216,140	23,195,375	22,769,384	22,410,416
Working capital (deficit)	24,018,795	(530,251)	(323,958)	479,631
Accumulated deficit	(20,853,141)	(19,106,471)	(18,727,289)	(15,692,612)
Net loss	(1,746,670)	(379,182)	(3,034,677)	(557,674)
Basic and diluted loss per share	(0.02)	(0.01)	(0.04)	(0.01)

	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009
Total assets	$22,910,770	$23,434,431	$19,243,326	$19,496,869
Resource properties	20,626,421	20,318,136	15,691,274	15,483,236
Working capital	758,642	1,652,957	2,632,708	3,091,375
Accumulated deficit	(15,134,938)	(14,752,532)	(14,679,954)	(14,133,385)
Net loss	(382,406)	(72,578)	(546,569)	(4,975,499)
Basic and diluted loss per share	(0.01)	(0.00)	(0.01)	(0.07)

Liquidity

The Company’s cash position at March 31, 2011 was $25,774,261, an increase of $24,169,785 from June 30, 2010. The increase is primarily due to issuance of common shares by the Company and one of its subsidiaries.

As at March 31, 2011, the Company’s working capital was $24,018,795. The Company has financed its operations during the period primarily from the issuance of equity, with loans from a director and from the sale of investment in MAV II notes (mostly used to repay the bank loan).

Net cash used in operating activities for the nine month period ended March 31, 2011 was $1,731,746 compared to net cash used of $69,669 during the same period ended March 31, 2010. The cash used in operating activities reflects the higher level of operations during the period, while in the comparable period for 2010 there was a lower level of operating activity and a significant draw down (source of funds) from use of prepaids and deposits.

Net cash used in investing activities for the nine month period ended March 31, 2011 was $591,933 compared to cash used of $2,933,709 during the period ended March 31, 2010. The cash used in investing activities for the period consists primarily of additions to resource properties and to property plant and equipment, partially offset by proceeds of a sale of investment and exploration advances from our joint venture partner. In 2010, investment in resource properties was significantly higher and there was no sale of investment.

Net cash provided by financing activities for the period ended March 31, 2011 was $26,549,795 compared to $1,755,359 during the period ended March 31, 2010. In 2011, significant equity issuance was partially offset by repayment of loans. In 2010, source of funds were the loans and issuance of equity.

Investment

	March 31, 2011	June 30, 2010
MAVII Notes	$ -	$ 835,799

At June 30, 2010, investments included Master Asset Vehicle II ("MAVII") notes received in exchange for Canadian third-party asset backed commercial paper ("ABCP") that was held by the Company.

During the period ended March 31, 2011, the Company:

i) received repayments of investment of $374 (2010 - $11,958); and

ii) disposed of all of its holdings in MAVII notes for proceeds of $890,277. Concurrently, the Company repaid the demand non-revolving bridge loan of $550,000 (Note 8 i)) to its bank and recognized a gain on sale of investment of $54,852.

Investment in Nickel Oil & Gas

On July 7, 2008, the Company acquired 15,300,000 common shares of Nickel Oil & Gas Corp, a related corporation, for $5,355,000, representing 59.77% of the outstanding shares of Nickel Oil & Gas at that time. As a result of the share purchase, the Company acquired control of Nickel Oil & Gas. The acquisition of Nickel Oil & Gas has been accounted for using the purchase method.

During the period ended March 31, 2011, Nickel Oil & Gas issued additional common stock to an officer which further diluted the Company's ownership percentage of Nickel Oil & Gas to 37.59% (June 30, 2010 – 38.54%) resulting in a gain on diluted interest in subsidiary of $43,466 (year ended June 30, 2010 - $221,008). The Company maintains control as a result of a common director.

The financial results presented in this report include the results of operations of Nickel Oil & Gas from the date of acquisition.

Related Party Transactions

During the period ended March 31, 2011, the Company entered into transactions with related parties as follows:

a) paid $301,500 (2010 - $301,500) for management fees and $90,000 (2010 - $50,700) for administration, recorded in office and miscellaneous expense, to a private company controlled by the Chief Executive Officer and director of the Company;

b) paid $200,750 (2010 - $Nil) for geological consulting services included in resource properties to an officer of the Company and a company controlled by an officer of the Company;

Related Party Transactions (cont'd…)

c) paid $165,453 (2010 - $Nil) for geological consulting services included in resource properties to an officer of the Company;

d) paid $Nil (2010 - $4,744) for legal fees, included in professional fees, to a firm in which a director of Nickel Oil & Gas is a partner;

e) has a US$1,000,000 (CDN$971,800) (2010- $Nil) loan from a director of the Company (Note 8 (ii));

f) issued 1,000,000 common shares of Nickel Oil & Gas for proceeds $200,000 (2010 - $Nil) to an officer of Nickel Oil & Gas;

g) paid $2,021 (2010 - $Nil) for directors fees to an officer of a subsidiary.

h) entered into a contract with a company controlled by a director and officer of the Company, for drilling services at the Company's Lombok property. This contract was awarded under a competitive bidding process and all charges under the contract are considered to be at market rates. A balance of $72,561 is included in accounts payable for drilling services incurred during the period ended March 31, 2011 under this contract.

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.

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 period.

Commitment

The Company has committed to rent office space for the period ended August 31, 2012 totaling $3,241 per month.

Current Share Data

As at the date of this MD&A, the Company has 96,143,740 common shares issued and outstanding and has the following stock options:

	Number of Shares	Exercise Price	Expiry Date
Options	3,150,000	$ 0.40	September 16, 2014
	3,500,000	$ 0.80	July 19, 2015
	400,000	$ 2.00	January 18, 2016
	300,000	$ 1.85	February 11, 2016
	7,350,000		

As at the date of this MD&A, the Company has 1,064,325 warrants outstanding, exercisable at $1.60 per share during the period to August 24, 2012.

Financing

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

Investor Relations

John Proust, Chairman, CEO and Director, coordinates investor relations' activities.

Recent accounting pronouncements

International financial reporting standards ("IFRS")

In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of July 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011. The key elements, timing and status of the Company's changeover plan are outlined below:

1. The Company has developed internal knowledge to manage the changeover, design systems and produce IFRS reports. Senior accounting staff has upgraded their knowledge with respect to IFRS thought courses, reading and discussion with advisor.
2. The Company has reviewed IFRS accounting policies, standard changes, and GAAP differences require or optional upon conversion, such as IFRS 1, and made choices where necessary. See below for further discussion.
3. The Company assessed its internal and disclosure control processes and concluded no significant ongoing modifications are needed as a result of the conversion to IRFS. However the Company will implement additional controls to review changes to the Company's financial statement resulting from the conversion including an enhanced review by the Company's executive and outside advisors.
4. The Company has assessed the impact on data systems and has concluded there will be no significant changes required due to conversion to IFRS.

Accounting policies

IFRS employs a conceptual framework that is similar to Canadian GAAP; however significant differences exist in certain matters of recognition, measurement and disclosure. While the adoption of IFRS will not change the cash flows of the Company, the adoption will result in changes to the reported financial position and results of operations of the Company. A summary of the significant accounting policy changes on transition to IFRS are provided below:

IFRS1 First-Time Adoption of International Financial Reporting Standards
Under IFRS1 'First-time Adoption of international Financial Reporting Standards', IFRS is applied retrospectively at the transition date except for the application of certain exemptions either required by IFRS 1 or elected by the Company under IFRS 1. Set forth below are the IFRS1 elected and mandatory exemptions that are expected to be applied by the Company on conversion.

Share-based payments
IFRS 1 permits the application of IFRS 2 Share Based Payments only to equity instruments that had not vested by the date of transition to IFRS. The Company has applied this exemption and will only apply IFRS 2 for equity instruments that had not vested by July 1, 2011.

Business Combinations
IFRS 1 permits the Company's to keep the original GAAP accounting treatment for business combinations that occurred prior to the date of transition to IFRS. The Company has applied this exemption and will not restate business combinations that occurred before July 1, 2010.

Estimates
IFRS 1 specifies that estimates made under prior GAAP are not to be changes on transition to IFRS unless they were in error. Information acquired after the date of the estimate is not to be applied retroactively.

Exploration and Evaluation
IFRS 6 – Exploration and Evaluation of Mineral Resources, allows the Company the option to retain its Canadian GAAP policy of capitalizing exploration and evaluation expenses. The Company has concluded that it is appropriate to continue with this policy.

Income Tax, Deferred Tax Liability
Under Canadian GAAP deferred taxes on foreign assets and liabilities are calculated in the local tax currency and are converted to the functional currency on the balance sheet date at current exchange rates as discussed above. This method is not allowed under IFRS.

IAS 12 – Income Taxes, requires deferred income taxes to be recognized for temporary differences arising from the difference between the historical exchange rate and the current exchange rate translations of the costs of non-monetary assets and liabilities denominated in currencies other than the Company's functional currency. The application of this standard to the Company's mineral properties will result in a new amount being recorded for deferred income taxes. Under IFRS this expenses or recovery will be charged to deferred income tax expenses.

Disclosure and Financial Statement Presentation
In addition to the above noted GAAP differences, IFRS will require more in depth disclosure. The Company is taking the necessary steps to adjust the systems requirements to ensure proper data collection for IFRS disclosure purposes.

The information provided here on expected GAAP differences are only management's estimates and actual impacts and election may differ once IFRS compliant financial statements are finalized. The full accounting effects of adopting IFRS has not yet determined as some key accounting policy are still being evaluated. The Company expects to be IFRS compliant within the required timelines.

Adoption of Shareholder Rights Plan

At the October 25, 2010 annual and special meeting of the shareholders of the Corporation, the Company's shareholders ratified the Company's Share Holder Rights Plan dated effective October 21, 2010 (the "Plan").

The Plan is designed to ensure the fair treatment of shareholders in connection with any take-over bid for outstanding common shares of the Company. The Plan seeks to provide shareholders with adequate time to properly assess a take-over bid without undue pressure. It also provides the Board of Directors with adequate time to fully assess an unsolicited take-over bid, to allow competing bids to emerge, and, if applicable, to explore other alternatives to the take-over bid to maximize shareholder value.

The Plan is not intended to prevent or deter take-over bids that treat shareholders fairly. Under the Plan, those bids that meet certain requirements intended to protect the interests of all shareholders are deemed to be "Permitted Bids". Permitted Bids must be made by way of a take-over bid circular prepared in compliance with applicable securities laws and, among other conditions, must remain open for 60 days. In the event a takeover bid does not meet the Permitted Bid Requirements of the Plan, the rights will entitle shareholders, other than any shareholder or shareholders making the take-over bid, to purchase additional common shares of the Corporation at a substantial discount to the market price of the common share at that time. The Plan has an initial term of three years.

The Plan is similar to plans adopted by other Canadian companies and ratified by their shareholders. The plan is subject to approval of the TSX Venture Exchange.

Change in Management and Board Members

During January, 2011, the Company announced the addition of Mr. Robert Gallagher to its Board of Directors; the addition of Mr. Malcolm Baillie and Mr. Robert Parsons to its Board of Advisors; and appointment of Mr. Brian Richardson as Chief Financial Officer. Mr. Cyrus Driver resigned as interim Chief Financial Officer.