

**SOUTHERN ARC MINERALS INC.**  
**FORM 51-102F1**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE SIX MONTHS ENDED DECEMBER 31, 2007**

---

**Introduction**

The following discussion, prepared as of February 27, 2008, 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 six months ended December 31, 2007 and 2006 and related notes attached thereto. The preparation of financial data is in accordance with Canadian generally accepted accounting principles and all figures are reported in Canadian dollars unless otherwise indicated.

The reader should also refer to the annual audited financial statements for the years ended June 30, 2007 and 2006 and the Management Discussion & Analysis for those periods.

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

**Forward Looking Statements**

Certain of the statements made and information contained herein is "forward- looking information" within the meaning of the Ontario Securities Act. Forward-looking statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation, risks and uncertainties relating to foreign currency fluctuations; risks inherent in gold and copper exploration and development including environmental hazards, industrial accidents, unusual or unexpected geological formations, risks associated with the estimation of resources and reserves and the geology, the possibility that future exploration, development or exploration results will not be consistent with the Company's expectations; the potential for and effects of labour disputes or other unanticipated difficulties with or shortages of labour; the inherent uncertainty of future production and cost estimates and the potential for unexpected costs and expenses, commodity price fluctuations; uncertain political and economic environments; changes in laws or policies, delays or the inability to obtain necessary governmental permits; and other risks and uncertainties, including those described under Risk Factors in the Company's Management Proxy Circular that can be found on the SEDAR website. Forward-looking information is in addition based on various assumptions including, without limitation, the expectations and beliefs of management, the assumed long term price of gold and copper; that the Company can access financing, appropriate equipment and sufficient labour. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements.

**Description of Business**

The Company was incorporated in British Columbia on August 19, 2004. The Company is a natural resource company engaged in the acquisition and exploration of mineral properties in Indonesia. To date, the Company has not generated revenues from operations and is considered to be in the exploration stage.

## **SOUTHERN ARC MINERALS INC.**

### **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.

### **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.

## **SOUTHERN ARC MINERALS INC.**

### **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 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 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 was granted by the local regional authorities on June 20, 2007. Whilst discussions for the Contract of Work negotiations were undertaken by the regional government in November 2007, because of extenuating circumstances the preliminary round of COW negotiations for the Taliwang property will commence March 14-16, 2008. It is hoped that the COW may be finalized in 2008.

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 both the central and regency Mines Department having issued endorsement letters, the Company has continued activities unabated throughout 2006 and 2007 with a full exploration program. It is hoped that once the local land utilization regulation has been revised COW negotiations will commence forthwith.

## SOUTHERN ARC MINERALS INC.

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

#### Background (cont'd...)

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 the *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 only 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 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 the Company incorporated it into its COW application area. Newmont has provided the complete database covering the results of its previous exploration of the area, and this has been incorporated into the Company’s database.

#### Selodong Prospect

Newmont previously explored the Selodong Intrusive Complex (SIC) during the 1990s completing 7,956 m of diamond drilling over a 2 by 2.5 km area. Thirty-five of 52 drill holes intersected intervals of Cu-Au mineralized diorite-porphry and volcanics. The Company has obtained the complete drill core and digital database from Newmont and the Company geologists have fully utilized these in their drill planning.

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 late February 2007 to commence a 7,000+ m drilling program. A second man-portable rig was mobilized to site on November 5, 2007.

Montong Botek and Blongas II are regarded as the best porphyry targets at this point and have been the focus of the initial drilling program. At Montong Botek 8 out of 13 Newmont drill holes were stopped in Cu-Au mineralization (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 mineralized 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)

## SOUTHERN ARC MINERALS INC.

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

#### Selodong Prospect (cont'd...)

At Blongas II 6 out of 10 drill holes ended in mineralization and two deeper holes recorded long intervals of Cu-Au mineralization 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 mineralized system at depth.

Since April 2007, the Company has completed ten drill holes (SLD001 to SLD015) totaling 8,723.8 metres in the SIC area, with holes SLD016 and SLD017 currently in progress. These holes have tested five of the 15 porphyry Cu-Au targets and all have intersected broad zones (363.5 to 500.2 metres) of significant Cu-Au mineralization. Within these intervals significant widths of high grade Cu-Au values were intersected and as such the SIC porphyry system would be classified in the “Gold-Rich” category of porphyry Cu mineralization. Details of holes drilled by the Company in the SIC area is detailed in Table 1 below:

**Table 1: Southern Arc SIC Drilling Intercepts**

Hole	UTM Coord.		Elev. (m)	Azi. (deg)	Incl. (deg)	Depth (m)	Significant Drill Intersection
	Easting	Northing					
SLD001	390950	9021167	130.9	045°	-65°	476.0	442.2 m at 0.28% Cu / 0.42 g/t Au from 33.8 m (incl. 105.0 m at 0.60% Cu / 1.04 g/t Au from 33.8 m)
SLD002	391049	9021236	150.3	225°	-60°	518.0	384.65 m at 0.30% Cu / 0.40 g/t Au from 18.1 m (incl. 117.2 m at 0.56% Cu / 0.80 g/t Au from 118.7 m)
SLD003	390869	9021117	149.8	090°	-60°	643.5	363.5 m at 0.30% Cu / 0.51 g/t Au from 33.3 m (incl. 250.1 m at 0.35% Cu / 0.64 g/t Au from 33.3 m)
SLD004	391158	9022027	78.3	220°	-65°	605.0	407.25 m at 0.25% Cu / 0.45 g/t Au from 160.25 m (incl. 192.25 m at 0.36% Cu / 0.74g/t Au from 160.25m)
SLD005	391017	9021886	95.7	090°	-65°	565.6	406.6 m at 0.23% Cu / 0.29 g/t Au from 8.0 m (incl. 42.5 m at 0.39% Cu / 0.57 g/t from 200.4 m)
SLD006	391206	9022193	90.3	260°	-65°	607.0	500.2 m at 0.17% Cu / 0.30 g/t Au from 49.8 m (incl. 174 m at 0.22% Cu / 0.45 g/t Au from 200.2 m)
SLD007	391159	9022431	185.3	290°	-65°	586.6	245.1 m at 0.18% Cu / 0.22 g/t Au from 175.5 m (incl. 63.05 m at 0.26% Cu / 0.26 g/t Au from 348.75 m)
SLD008	391193	9022755	68.6	270°	-65°	521.10	No significant results.
SLD009	390122	9021667	64.0	195°	-65°	600.00	70.8 m at 0.18 g/t Au from 95.7 m
SLD010	389813	9021665	170.0	040°	-65°	600.50	32.0 m at 0.20 g/t Au from 160.5 m

## **SOUTHERN ARC MINERALS INC.**

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

#### *Selodong Prospect* (cont'd...)

SLD001, located within the northern part of the Montong Botek Porphyry Stock (MBPS), was drilled northeast at an inclination of  $-65^{\circ}$ , with the aim of extending mineralization previously intersected by Newmont drilling, along with testing the limits of mineralization in the northeast quadrant of the MBPS. SLD001 was completed at a total depth of 476.0 m, with the first 33.8 m intersecting a non-mineralized late stage dyke, below which continuous mineralization was logged to the bottom of the hole.

High-grade Cu-Au mineralization in SLD001 intersected between 33.8 and 138.8 m (refer to values above) is hosted within an early phase of mineralized quartz-diorite. This high-grade intrusive phase is inferred to have been intersected in several of the previous shallow Newmont drill holes including: PSG004, PSG015B, and PSG032. Extensions of this high-grade phase are being targeted in the ongoing drilling program by the Company.

Drill hole SLD002 was drilled at an inclination of  $-60$  degrees in the opposite direction of drill hole SLD001 to determine the south western extent of the mineralization.

The first 335.0 m of SLD002 intersected moderate to strong stockwork porphyry veining hosted by a number of quartz diorite intrusive phases and associated brecciation zones. Around 335 m the diorites appear faulted against a chaotic, polymictic diatreme breccia which continues to a depth of 478 m. This breccia exhibited a variety of hydrothermal textures and structures. Basement rock comprising recrystallized limestone with lesser tuffaceous horizons prograding into marbles and later garnet-epidote skarns was logged from 478 m to the end of the hole.

Drill hole SLD003 was completed at a total depth of 643.5 metres. It was drilled eastward at an inclination of  $-60$  degrees targeting the eastern and southern extensions of Cu-Au mineralization intersected in SLD001 and SLD002.

The upper half of SLD003 to a depth of 288.4m intersected chalcopyrite and locally bornite mineralized porphyry stockworks hosted in a series of quartz diorite intrusives, which were later cut by hornblende diorite dykes. From 288.4 to 497.2m a polymictic diatreme breccia intersected in both SLD001 and SLD002 was logged. The breccia contains variable amounts of mineralized diorite clasts which have been stoped out of the enclosed porphyry stock and contribute to elevated Cu-Au grades. A slice of basement metasediments and associated garnet-epidote skarns was logged from 497.2 to 526.4 m, whilst feldspar to diorite porphyry intrusives often displaying high temperature alteration assemblages was encountered for remainder of the hole.

The drill rig was subsequently moved in late June 2007 to the Blongas II Porphyry target, located 600 m north of Montong Botek. Blongas II is the second of fifteen porphyry copper-gold targets within the Selodong Intrusive Complex to be drill tested. A total of three holes (SLD004 to SLD006) were drilled in this target area.

Drill hole SLD004 was drilled on a southwest azimuth at an inclination of  $-65$  degrees targeting extensions of Cu-Au mineralization previously intersected in drill holes SGD002 and SGD003 completed by Newmont. It was completed at a total depth of 605.0 meters.

## **SOUTHERN ARC MINERALS INC.**

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

#### *Selodong Prospect* (cont'd...)

The upper 85 m of SLD004 intersected sheared, phyllic altered dioritic intrusives, with localized stockwork veining and rare secondary copper minerals. From 85 to 160 m a post-mineralization hornblende diorite dyke was intersected. Variable secondary magnetite alteration, with associated porphyry-style stockwork and disseminated copper sulfide minerals are observed within diorite intrusives between 160 to 523 m. Post-mineralization diorite dykes cross-cut these intrusives from 352 to 390 m. Strong secondary potassic-altered feldspar porphyry intrusives were logged in the remainder of the hole.

Drill hole SLD005 was drilled eastward at an inclination of  $-65^{\circ}$  to a depth of 565.6 metres. SLD005 proved lateral and depth extensions of Cu-Au mineralization previously intersected in Newmont's drill holes SGD002, PSG002 and PSG002A.

The upper 241 m of SLD005 intersected a series of altered diorite intrusives hosting porphyry-style quartz stockwork veining and secondary magnetite. From 172 to 200 m a post-mineralization hornblende diorite dyke was intersected. A fault-silver of volcanic country rock, with metasediment equivalents was logged from 241 to 252 m. Intrusive rocks logged between 252 and 540 m show variable secondary magnetite alteration and porphyry stockworking, overprinted by phyllic alteration. Intense phyllic alteration of intrusive units is prevalent for the remainder of the hole. Shear/fault zones often 10's of metres wide were intersected throughout the majority of the hole, confirming the dominant regional N to NW trending structural regime.

Drill hole SLD006 was collared to the north of the outcrop of the Blongas II intrusive and drilled westward at an inclination of  $-65^{\circ}$  to a depth of 607.0 meters in an area previously untested by deep drilling.

For the length of drill hole SLD006 a number of generations of altered diorite intrusives hosting porphyry-style quartz stockwork veining were logged. These are observed to be cut by syn- and post-mineralization dykes of dacitic and dioritic compositions. The mineralized intrusives generally exhibit zones of potassic alteration with secondary magnetite, hosting higher copper-gold grades, and zones showing variable overprinting by phyllic alteration. Phyllic alteration marginal to higher-grade potassic mineralization is a zonation typical of many porphyry Cu-Au deposits.

Based on results from drill holes SLD004 -SLD006 an inferred N to NW trending structural corridor of porphyry Cu-Au mineralization is envisaged through Blongas II and Blongas I targets. This zone appears to be some 250 m to 300 m wide and approximately 2.0+ kilometer m in length. Holes SLD007 and SLD008 were drilled further along strike and into the Blongas I target to test the depth extent and grade of mineralization of this newly identified zone.

SLD007 drilled westward at an orientation of 290 degrees and an inclination of  $-65$  degrees to a depth of 586.6 meters. SLD007 was collared at an elevation 89 metres above the collar of SLD006.

For the length of drill hole SLD007 several generations of altered diorite intrusives hosting porphyry-style quartz stockwork veining were logged. These are observed to be cut by syn- and post-mineralization dykes of dacitic and dioritic compositions. The mineralized diorite intersected between 175 and 421 metres comprises a central potassic altered zone with phyllic overprinting increasing outwards. Potassically altered higher grade mineralization has been structurally faulted into an overlying phyllic halo which indicates potential for preservation of higher grade mineralization at depth and along strike of the areas drilled to date.

## **SOUTHERN ARC MINERALS INC.**

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

#### *Selodong Prospect* (cont'd...)

Drill hole SLD008 was collared 324 metres north of SLD007, in order to test one of several northern extensions of an inferred 2.0+ kilometre long, structural corridor of porphyry Cu-Au mineralization. SLD008 drilled westward at an orientation of 270 degrees and an inclination of -65 degrees to a depth of 521.1 metres. The hole intersected strongly faulted and sheared diorite intrusives ± porphyry-style quartz stockwork veining, metavolcanics and metasediments from 0.0 m to 382.8 m. The remainder of the hole encountered fault slivers of potassic altered diorite porphyry and basement metavolcanics. All logged rock lithologies show later intense phyllic/argillic overprinting. Episodic fault movement and later phyllic/argillic overprinting probably remobilized and/or destroyed earlier Cu-Au mineralization in the area.

Drill holes SLD009 and SLD010 were collared in the Kekalik target area to test coincident outcropping diorite intrusive with variable porphyry-style quartz stockwork veining, Au±Cu±Mo soil anomalism and strong magnetic signatures. SLD010 was collared 196 metres west of SLD009 to test western portions of the same general target. All drill holes encountered porphyry Cu-Au style mineralization and associated hydrothermal alteration, but Cu-Au grades were severely downgraded because of late-stage phyllic overprinting and/or dilution relating to mineralized components being part of an extensive diatreme breccia unit.

SLD009 drilled southward at an orientation of 195 degrees and an inclination of -65 degrees to a depth of 600.0 metres. Whilst variably stockworked diorite was encountered between 0.0-78.7 m, the majority of the hole (78.7 to 441.0 m) intersected phyllic altered polymict breccia (diatreme?) cross-cut by zones of anhydrite-pyrite stockwork with trace amounts of chalcopyrite and molybdenite. From 441.0 to 600.0 m fault slivers of diorite porphyry with phyllic overprinting, skarn and metavolcanics were logged.

SLD010 drilled northeastward at an orientation of 40 degrees and an inclination of -65 degrees to a depth of 600.5 metres. For the entire length of the hole intense phyllic to argillic altered polymict breccia (diatreme?) with stockwork anhydrite-carbonate-pyrite veining was encountered. Diorite intrusive with variable porphyry-style quartz stockwork veining and later intense phyllic overprinting were logged as a component of breccia clasts. Targeted stockwork vein zones mapped in stream tributaries are most likely large rafted blocks (up to 180 m length x 50 m wide) that were stoped out of pre-existing mineralized intrusive body through diatreme brecciation events.

The Company's recent compilation of surface geological mapping, geochemical and geophysical results has developed 15 porphyry Cu/Au drill targets within the Selodong Intrusive Complex. These 15 distinct porphyry Cu-Au drill targets are located over an aerial extent in excess of 20 square kilometers. They show coincident magnetic highs associated with secondary magnetite alteration, elevated surface Cu-Au-Mo geochemistry and associated intense fracturing and vein stockworks typical of porphyry Cu-Au deposits. Six of these targets were scout drilled by the previous operator Newmont and this drilling has confirmed the model. The remaining nine target areas have yet to be drill tested. Details of each of these drill targets are shown in Table 2.

Because of the strong spatial correlation of elevated Cu-Au grades and secondary magnetite alteration recognized in drill holes to date, the Company has had geophysical consultants GRS of Brisbane, Australia, undertake modeling of ground magnetic data from the Selodong area. Images from 3D geological/geomagnetic models by GRS confirm the potential for significant depth and size of the 15 targets. This work forms part of the on-going objective of developing 3D geological/geomagnetic models to focus ongoing drill targeting and exploration within the Selodong Intrusive Complex.

## SOUTHERN ARC MINERALS INC.

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

#### Selodong Prospect (cont'd...)

Based on the encouraging drilling results to date and the large number of porphyry Cu-Au drill targets as detailed in Table 2, Management intends to drill test each target to better understand the geometry, grade, and size potential with the objective of prioritizing the targets for future work.

**Table 2: Selodong Intrusive Complex Porphyry Cu-Au Drill Targets**

Anomaly	Geology	Geophysics				Surface Geochemistry					Mineralized Drill Intercepts (Cu in %, Au in g/t)
		3D		Mag IP		Soil	Rock	Cu	Au	Mo	
		Mod	High	Mod	High						
Montong Botek	Magnetite altered diorite + Quartz stockworks centred on N & NE structure.	✓			✓	✓	✓	✓	✓	✓	- 18 shallow drill holes max. depth 155.5 m. - 4 deep drill holes (3 by the Company) to max. depth 643.5 m. - Intercepts from 14 to 442.2 m, with ranges of 0.21-0.6 Cu & 0.24-1.04 Au. - Best interval: 442.2 m @ 0.28 Cu & 0.42 Au (incl. 105.0 m @ 0.6 Cu & 1.04 Au)
Blongas I (BI)	Magnetite altered diorite + quartz stockworks centred on N & NE structure.	✓			✓	✓	✓	✓	✓	✓	- 4 shallow drill holes, max. depth 129.9m. - 1 deep drill hole depth 501.2m. - Intercepts from 20.5 to 115.1m, with ranges of 0.09-0.19 Cu & 0.1-0.3 Au. - Best interval: 115.1m @ 0.14 Cu & 0.24 Au.
Blongas II (BII)	Magnetite altered diorite + quartz stockworks centred on N & NE structure.		✓		✓	✓		✓	✓	✓	-10 shallow drill holes max. depth 150m. - 3 deep holes (1 by SA) to max. depth 605m. - Intercepts from 40.4 to 407.25m with ranges of 0.19-0.5 Cu and 0.25- 1.05 Au. - Best interval: 407.25m @ 0.25 Cu & 0.45 Au (incl. 102.25m @ 0.5 Cu & 1.05 Au)
Blongas III (BIII)	Magnetic anomaly covered by alluvium diorite	✓		✓		✓		✓	✓	✓	Not yet drill tested

	and quartz stockworks are mapped peripherally.										
Belikat-Mahoni	Zones of quartz stockworks in altered diorite centered on a complex structural zone at the margin of a regional circular feature.		✓		✓	✓	✓	✓	✓	✓	<ul style="list-style-type: none"> <li>- 4 shallow drill holes, max. depth of 150.8m.</li> <li>- Intercepts from 19.7 to 72.6m, with ranges from 0.05-0.1 Cu &amp; 0.18-0.42 Au.</li> <li>- Best interval: 67.6m @ 0.1 Cu &amp; 0.21 Au, the last 2 samples of this hole gave 7.6m @ 0.13 Cu &amp; 0.38 Au.</li> </ul>
Kekalik	3 areas of quartz stockworks in altered diorite centered on a local circular feature with N & NE structural intersects.		✓		✓	✓	✓	✓	✓	✓	<ul style="list-style-type: none"> <li>- 3 historic drill holes, maximum depth of 150.2m.</li> <li>- Intercepts from 17.3 to 72.1m with ranges from 0.03-0.13 Cu &amp; 0.13-0.27 Au.</li> <li>- Best interval: 72.1m @ 0.13 Cu &amp; 0.25 Au.</li> </ul>
KK2	Magnetite altered diorite + quartz stockworks centered on NE & NW structure.		✓	✓		✓		✓	✓	✓	Not yet drill tested
KK3	Magnetite altered diorite + quartz stockworks centered on NE & NW structure.	✓			✓	✓		✓	✓	✓	Not yet drill tested
Kedaro	Magnetite altered diorite + quartz stockworks centered on N & NW structure intersection.		✓		✓	✓	✓	✓	✓	✓	Not yet drill tested
KD2	Magnetite altered diorite + quartz stockworks centered on NE & NW structure.		✓		✓	✓		✓	✓	✓	Not yet drill tested
KD3	Quartz stockworks hosted in porphyry intrusives centered on N & NW structure intersection.	✓		✓		✓		✓	✓	✓	Not yet drill tested
KD4	Quartz	✓			✓	✓		✓	✓	✓	Not yet drill tested

	stockworks hosted in porphyry intrusives centered on N & NE structure intersection.										
KD5	Zones of quartz stockworks hosted in porphyry intrusives centered on N & NE structure intersection.	✓			✓	✓		✓	✓		Not yet drill tested
KD6	N & NE structure intersection on margin of local circular feature, target to be mapped.	✓		✓		✓		✓	✓		Not yet drill tested
Lapangan Geres	Magnetite altered diorite + Quartz stockworks, mineralization also hosted in breccia (diatreme). N & NE structure intersection on margin of regional circular feature.		✓				✓	✓	✓		Not yet drill tested

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

In the West Lombok Project, the Company'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.

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:

## SOUTHERN ARC MINERALS INC.

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

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

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 actually 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 the Company 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 was 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)
	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 & 129 g/t Ag)
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 Au
(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)

## **SOUTHERN ARC MINERALS INC.**

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

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

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

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)

#### *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. Phase 2 drilling planned for the 2nd quarter of 2008 will comprise a series of deeper holes to test both vertical and lateral extensions of significant Au-Ag drill intercepts.

## SOUTHERN ARC MINERALS INC.

### Ratu MSB

Five of the 19 holes reported are located at the Ratu Zone. The five 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 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 one 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. 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 are planned to test the down-dip extensions of these high-grade surface samples.

### 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 were 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);



## **SOUTHERN ARC MINERALS INC.**

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

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.

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. Phase 2 drilling planned for the 2nd quarter of 2008 will comprise a series of deeper holes to 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 km<sup>2</sup> area. The five selected targets scheduled for follow-up include Tibu Serai and Bising, which host gold-mineralized 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; 2 m @ 9.83 g/t; 2.5 m @ 6.12 g/t; & 6 m @ 2.25 g/t.  
TS2: 2 m @ 8.2 g/t; 2 m @ 3.59 g/t; & 2 m @ 2.77 g/t.  
TS3: 3 m @ 1.83 g/t.  
TS4: 2 m @ 5.84 g/t.  
TS5: 2 m @ 2.71 g/t.

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

## SOUTHERN ARC MINERALS INC.

### Mencanggah Prospect (West Lombok) (cont'd...)

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.

Higher grade gold intercepts include:

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

B2: 8 m @ 1.9 g/t (incl. 2 m @ 3.95 g/t)  
2 m @ 6.81 g/t; 4 m @ 1.92 g/t; & 2 m @ 3.19 g/t.

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, to a peak value of 54.0 g/t.

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.

## **SOUTHERN ARC MINERALS INC.**

### **East Lombok Project**

#### *Awang Prospect*

Surface mapping and sampling, accompanied by ground CSAMT surveying at the Awang Prospect, has identified a number of low sulfidation quartz vein swarms, some of which can be traced for up to 2.5 km in strike length, with widths of 3 to 8 metres. Highest Au-Ag grades (4.63 g/t Au & 110 g/t Ag) coincide with low temperature (<200° C) quartz forms, which are subordinate to higher temperature (250-260° C) forms and higher Au:Ag ratios. At least 4 to 5 drill holes 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 LDG-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 Management Discussion and Analysis filed on SEDAR on March 1, 2007. The prospect is currently on a care and maintenance basis.

#### *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 were evaluated in the first half of 2007 by field teams namely the J3 and J6 prospects.

#### *J3 Prospect*

The J3 Prospect is situated in the south-eastern corner of the Company's 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 flatlying 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 by 1.3 km zone of widespread anomalous Au soil geochemistry.

## SOUTHERN ARC MINERALS INC.

### Sumbawa Island Properties (cont'd...)

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

The most significant anomaly, within this zone comprises a 700 by 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 Company's personnel during November to December 2006 relocated the Newmont discovery outcrop referred to above which SA geologists have named "Hitam Manis" (HM, Indonesian for "Sweet Black"). 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 .

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.

Channel sampling using a portable diamond rock saw reported intersections in the northern area of the HM zone including:

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 mineralized 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.

Additional channel sampling of a NE to N curving jasperoid ledge (3m high by 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 mineralized bed is shown in brackets)

## **SOUTHERN ARC MINERALS INC.**

### **Sumbawa Island Properties** (cont'd...)

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

An 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 total of seven holes totaling 413.6 m were drilled at inclinations of  $-45^{\circ}$  to  $-75^{\circ}$ , to a maximum depth of 79.40 metres. The holes were targeted to test subsurface extensions of known surface Au-Ag jasperoid mineralization. All but one drill hole intersected a shallow, westward-dipping jasperoid layer of variable thickness (intercepts of 0.2 to 5.55 m), hosted by a volcano-sedimentary sequence of andesitic tuff, lavas, fossiliferous limestones and marls. No definitive sub-vertical structural feeder zones were identified.

Aside from an intersection in drill hole J3DH-01 of 2.0 m at 1.93 g/t Au and 11 g/t Ag from 7.2 to 9.2 m, no other significant Au-Ag intersections were reported.

#### *J6 Prospect*

The J6 Prospect is located approximately 4 km west of J3. Mineralization there 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.

#### *Sabalong KP (West Sumbawa)*

On April 28, 2007, the Company was issued an exploration license (Kuasa Pertambangan, "KP") over parts 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 commenced preliminary exploration activities in June 2007 and has completed, to date, a regional BLEG program, semi-detailed and detailed (in-progress) follow-up surface prospect evaluation programs.

## **SOUTHERN ARC MINERALS INC.**

### **Sumbawa Island Properties** (cont'd...)

#### *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 March 13, 2007. A subsequent application was lodged by the Company in January 2008 for an additional 12 month extension to the General Survey Period.

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 to 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 to 1000 m N-S flight lines) and 1993 (200 m E-W flight lines). Hungerford noted that the Elang discovery sits at the intersection of obvious NNW and NNE magnetic lineaments. Similar linear directions extend through the KP area. Circular magnetic features with subdued magnetic responses (about 600nT) derived from secondary magnetite alteration as at Elang were noted in two locations within the KP. One in the SW corner lies at the intersection of NNW and NE linears. Another broader magnetic anomaly occurs on the eastern property boundary and is inferred to be an alteration aureole to a large intrusive body.

Ground truthing of the structural interpretation, along with a regional stream sediment sampling program at a density of one sample per km<sup>2</sup> are anticipated to commence March 2008, upon the issuing of the mandatory Forestry access permit.

#### *Flores Property, Indonesia*

Four exploration licenses over parts of West Flores Island were granted to the Company in 2005. Surface exploration programs during 2005-2007 have shown mineralization to be of limited extent and the Company has subsequently surrendered its licenses and the assets were written off.

### **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.

## SOUTHERN ARC MINERALS INC.

### Results of Operations

During the six months ended December 31, 2007, the Company incurred a loss of \$5,919,737, compared to a loss of \$337,436 for the six months ended December 31, 2006. Significant fluctuations incurred in the following categories:

- a) Stock-based compensation of \$5,336,715 (December 31, 2006 - \$58,186) 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 risk-free interest rate.
- b) Consulting fees of \$25,700 (December 31, 2006 - \$64,299) decreased is a result of a decrease in the use of consultants during the period.
- c) Travel of \$76,894 (December 31, 2006 - \$1,454) increased due to increase in travel to Indonesia by the Company's management, directors and consultants.
- d) Office and miscellaneous of \$76,984 (December 31, 2006 - \$27,471) increased mainly due to advertising expenses.
- e) The Company expended \$691,789 on resource properties.

### Summary of Quarterly Results

	December 31, 2007	September 30, 2007	June 30, 2007	March 31, 2007
Total assets	\$ 23,069,567	\$ 12,105,094	\$ 10,794,600	\$ 9,870,209
Resource properties and deferred costs	9,903,666	9,211,877	8,443,787	7,930,215
Working capital	11,731,794	1,284,020	1,953,355	1,538,469
Accumulated deficit	(9,403,223)	(8,553,892)	(3,483,486)	(2,949,809)
Net Loss	(849,331)	(5,070,406)	(533,677)	(146,673)
Basic and diluted loss per share	(0.01)	(0.09)	(0.01)	(0.00)

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

Significant fluctuations in net loss and accumulated deficit are primarily due to stock-based compensation expenses incurred as a result of options issued. The fluctuations in total assets, resource properties and working capital are primarily a result of cash received from private placements and cash spent on resource properties.

## **SOUTHERN ARC MINERALS INC.**

### **Liquidity**

The Company has financed its operations to date primarily through the issuance of common shares.

The unaudited 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 six month period ended December 31, 2007 was \$405,085 compared to net cash used of \$241,525 during the period ended December 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 six month period ended December 31, 2007 was \$1,579,934 compared to cash used of \$1,730,120 during the period ended December 31, 2006. The cash used in investing activities for the periods consists primarily of the acquisition and exploration of resource properties (\$1,576,166) and cash exchanged for Canadian Asset Backed Commercial Paper.

Net cash provided by financing activities for the six month period ended December 31, 2007 was \$13,019,399 compared to \$5,148 during the period ended December 31, 2006. The cash provided by financing activities consists of the issuance of common shares net of share issuance costs.

### **Asset-backed Commercial Paper**

As at December 31, 2007, the Company held an investment of \$1,200,222 consisting of Canadian Asset-Backed Commercial Paper ("ABCP"), net of a \$211,804 fair value adjustment. The ABCP investment matured on August 17, 2007, but was not repaid and remains outstanding.

The Montreal Group representing banks, asset-backed commercial paper providers and major investors has reached an agreement to restructure the ABCP market. This restructuring, which is expected to be completed by March 31, 2008, will replace the existing short-term investments with longer term notes with a maturity of 7 years, on average. These notes will be issued as Senior and Subordinated Notes and a margin facility will be in place to finance margin calls.

There is no active market for this type of investment, therefore, to determine the fair value, the Company used a probability weighted valuation technique considering the associated credit risk and the time value of money. Based on the limited available information the Company used the following assumptions in its valuation: the trust is a going concern, the Senior Notes will be AAA rated, and the Notes will be interest bearing. The credit risk interest premium was estimated by management and these estimates are not based on observable market prices or rates. The fair market value of this investment may be affected by changes in the assumptions. In addition, there is no certainty regarding the eventual recovery of this investment and consequently the timing and amount of any future cash flows may vary materially from current estimates.

Since the investment is no longer capable of reasonably prompt liquidation, the Company has reclassified this investment to long-term in other assets. This investment continues to be classified as held-for trading.

As the Company has substantial cash balance, this investment has no material impact on current operations and liquidity of the Company.

## **SOUTHERN ARC MINERALS INC.**

### **Investor Relations**

The Company engages an arms-length investor relations consultant in order to raise its profile with the investment community. During the six month period ended December 31, 2007, the Company paid \$50,872 to this consultant.

### **Related Party Transactions**

During the six months ended December 31, 2007 the Company entered into transactions with related parties as follows:

- a) Paid \$84,000 (December 31, 2006 - \$75,000) for management services and \$9,000 (December 31, 2006 - \$9,000) for administration fees, recorded in office expense, to a private company controlled by Chief Executive Officer of the Company.
- b) Paid \$94,733 (December 31, 2006 - \$69,363) for geological consulting services, included in resource properties, to an officer of the Company and a company controlled by an officer of the Company.
- c) Paid \$25,700 (December 31, 2006 - \$18,410) for engineering consulting services to an officer of the Company.
- d) Paid or accrued \$36,500 (December 31, 2006 - \$39,380) for professional accounting fees to a firm in which an ex-officer is a partner.

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.

### **Financial Instruments**

The Company's financial instruments include cash and cash equivalents, deposit, receivables, accounts payable and accrued liabilities and long-term debt. 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.

### **Off-balance Sheet Arrangements**

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

## SOUTHERN ARC MINERALS INC.

### 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.

### Commitment

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

Unit	Commencement Date	Term	\$/ month	Remaining Fiscal 2008	Remaining Fiscal 2009
1522	1-Oct-07	31-Dec-08	\$1,145	\$6,870	\$6,870
1521	1-Feb-08	31-Dec-08	\$1,246	\$7,476	\$7,476
1518	1-Oct-07	31-Dec-08	\$1,688	\$10,128	\$10,128
				<u>\$24,474</u>	<u>\$24,474</u>

### Current Share Data

As at the date of this MD&A, the Company has 71,376,546 common shares issued and outstanding and has the following stock options and warrants outstanding:

	Number of Shares	Exercise Price	Expiry Date
<b>Options</b>	900,000	\$ 0.25	June 30, 2010
	675,000	0.56	January 13, 2011
	125,000	0.70	April 13, 2011
	3,215,000	1.56	September 26, 2012
	400,000	1.56	October 3, 2012
<b>Warrants</b>	940,786	1.00	March 24, 2008
	39,360	0.70	March 24, 2008
	2,329,480	0.45	March 28, 2009
	4,630,168	1.75	December 18, 2009
	582,422	1.20	December 18, 2008
	86,250	1.75	January 8, 2010

## **SOUTHERN ARC MINERALS INC.**

### **Change in Management and Directors**

During the six months ended December 31, 2007, the Company has appointed Eduard Epshtein as Chief Financial Officer. Concurrent with Mr. Epshtein's appointment, Cyrus Driver tendered his resignation of C.F.O. and contributes as an Advisor to the Company.

### **Change in accounting policy**

#### *Financial instruments*

Effective July 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") under CICA Handbook Section 1530 "Comprehensive Income" ("Section 1530"), Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and Measurement" ("Section 3855"), Section 3861 "Financial Instruments – Disclosure and Presentation" and Section 3865 "Hedges". These new sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles.

Under Section 3855, all financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification as follows: (1) held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; (2) available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired; and (3) all derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sale normal purchase exemption and changes in their fair value are recorded in income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income.

As a result of the adoption of these new standards, the Company has classified its cash and cash equivalents as held-for-trading. Receivables and long-term investment are classified as loans and receivables. Accounts payable and accrued liabilities are classified as other financial liabilities, all of which are measured at amortized cost. The Company has elected to measure all derivatives and embedded derivatives at fair value and the Company has a policy not to use hedge accounting.

Section 3855 also provides guidance on accounting for transaction costs incurred upon the issuance of debt instruments or modification of a financial liability. Transaction costs are now deducted from the financial liability and are amortized using the effective interest method over the expected life of the related liability.

As a result of the application of Section 3855, there was no effect on the Company's deficit position as at July 1, 2007.

## **SOUTHERN ARC MINERALS INC.**

### **Outlook**

The Company's focus of current exploration activities is the Selodong Intrusive Complex (SIC), a large, gold-rich copper porphyry prospect situated Lombok Island in Indonesia. The Company has identified 15 porphyry Cu-Au drill target areas within the SIC and will continue drill-testing the identified targets. The Company will also work to expand and advance its portfolio of exploration properties across Lombok Island, Sumbawa Island and Flores Island. 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.