SOUTHERN ARC MINERALS INC.
FORM 51-102F1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008

Introduction

The following discussion, prepared as of November 25, 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 Company's unaudited consolidated financial statements for the period ended September 30, 2008 and the audited financial statements for the year ended June 30, 2008 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 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.

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 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 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 explorationists. With improving metal prices and increasing demand, especially from Asia, there is 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 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 much 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 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.

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.

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. Contract of Work negotiations with a joint-governmental team commenced in late April 2008 and by the end of the third quarter fundamentals of the CoW document had been agreed upon. Once negotiations are finalized the document will follow an established intergovernmental administrative process, culminating in the CoW document being signed by the Minister of Energy and Mineral Resources on behalf of the Indonesian government and by the Company's CEO. It is hoped the CoW process will be completed in the next 2-3 months.

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 since 2006 and into 2008 with a full exploration program. With the recent election of a new pro-business Governor the Company is already seeing positive developments in regards to revision of the contentious land utilization regulation and subsequent CoW negotiations.

The Company also entered into an agreement with PT Newmont Nusa Tenggara ("NNT") regarding an 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-porphyry 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 reviewed all geological data in March 2007 and 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 an initial 7,000+ m drilling program. A second man-portable rig of similar capabilities was mobilized to site on November 5, 2007. A larger man-portable rig capable of coring 1000 m NQ was mobilized to site in late February 2008 to test depth extensions of porphyry Cu-Au mineralization in priority target areas.

Montong Botek and Blongas II are regarded as the best porphyry targets at this time 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)

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.

Compilation of surface geological mapping, geochemical and geophysical results has revealed 15 porphyry Cu/Au drill targets within the Selodong Intrusive Complex. These 15 distinct porphyry Cu-Au drill targets are located over an areal 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.

Because of the strong spatial correlation of elevated Cu-Au grades and secondary magnetite alteration recognized in drill holes to date, the Company 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.

The Company has completed Phase 1 drilling at Selodong with 30 holes (SLD001 to SLD030) totaling 17,859.30 metres completed in the SIC area. These holes have tested nine of the 15 porphyry Cu-Au targets, with the majority having intersected broad zones (126.45 to 855.105 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	045º	-65º	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	225º	-60º	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	090º	-60º	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	220º	-65º	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	090º	-65º	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	260º	-65º	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	290º	-65º	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	270º	-65º	521.10	No significant results.
SLD009	390122	9021667	64.0	195º	-65º	600.00	70.8 m at 0.18 g/t Au from 95.7 m
SLD010	389813	9021665	182.0	040º	-65º	600.50	32.0 m at 0.20 g/t Au from 160.5 m
SLD011	390914	9021416	112.3	095°	-60°	600.10	89.9 m at 0.16% Cu / 0.22 g/t Au from 91.1 m (incl. 24.8 m at 0.24% Cu / 0.34 g/t Au from 111.3 m) 26.0 m at 0.13% Cu / 0.11 g/t Au from 251.0 m
SLD012	389508	9020980	56.7	275°	-65°	600.00	No significant results
SLD013	390729	9021296	46.3	025°	-65°	600.00	576.95 m at 0.12% Cu/0.25 g/t Au from 0.00 m (incl. 106.6 m at 0.18% Cu/ 0.30 g/t Au from 262.75 m 52.0 m at 0.15% Cu and 0.45 g/t Au from 441.35 m)

SLD014	389325	9020703	93.7	250°	-65°	600.00	No significant results
SLD015	390570	9021264	25.9	025°	-65°	600.40	53.0 m at 0.07% Cu/0.23 g/t Au from 260.0 m 232.0 m at 0.05% Cu/0.17 g/t Au from 361.0 m
SLD016	390244	9022187	84.6	270°	-70°	600.00	4.0 metres at 0.45 g/t Au from 42.85 m
SLD017	390720	9021142	65.6	090°	-73°	953.80	208.10 m at 0.12% Cu/ 0.22 g/t Au from 0.00 m (incl. 13.00 m at 0.38% Cu/ 0.54 g/t Au from 8.50 m
SLD018	391096	9020846	97.8	270°	-65°	567.20	No significant results.
SLD019	389808	9023702	249.4	090°	-65°	600.00	126.45 m at 0.16% Cu/0.23 g/t Au from 193.60 m (incl 44.00 m at 0.22% Cu/0.34 g/t Au from 195.60 m)
SLD020	391201	9021606	156.1	270°	-65°	600.50	No significant results.
SLD021	389858	9026277	301.4	090°	-70°	521.00	142.55 m at 0.07% Cu/0.14 g/t Au from 0.00 m)
SLD022	391059	9021748	115.4	270°	-65°	567.70	No significant results.
SLD023	390729	9021296	46.3	085°	-70°	871.00	855.10 m at 0.10% Cu/0.22 g/t Au from 0.00 m (incl. 242.00 m at 0.18% Cu/0.41 g/t Au from 210.00 m)
SLD024	390516	9021706	62.3	045°	-65°	414.50	20.00 m at 0.24 g/t Au from 290.65 m
SLD025	389971	9026436	394.7	270°	-70°	550.10	132.60 m at 0.08% Cu/0.14 g/t Au from 0.00m
SLD026	391204	9021945	81.0	270°	-72°	756.00	334.35 m at 0.17% Cu/0.31 g/t Au from 0.00 m (incl. 104.00 m at 0.23% Cu/0.50 g/t Au from 222.35 m)
SLD027	389990	9023583	243.0	270°	-65°	523.60	174.90 m at 0.12% Cu/0.25 g/t Au from 15.50 m (incl. 54.00 m at 0.18% Cu/0.37 g/t Au from 87.05 m)
SLD028	390058	9026640	394.0	270°	-65°	429.60	No significant results.
SLD029	390985	9020932	110.0	000°	-65°	595.20	504.65 m at 0.13% Cu/0.16 g/t Au from 0.00 m (incl. 127.95 m at 0.14% Cu/0.26 g/t Au from 156.70 m)
SLD030	391252	9022091	77.6	270°	-65°	585.30	472.60 m at 0.16% Cu/0.28 g/t Au from 98.20 m (incl. 101.00 m at 0.28% Cu/0.56 g/t Au from 276.70 m)

Drilling Results:

For details of drill holes SLD001-020 the reader is referred to previous Management Discussion & Analysis, together with SEDAR releases at www.sedar.com.

Montong Botek

Drill hole **SLD023**, the second of two deep holes completed at Montong Botek was located at previous drill pad SLD013 to test an inferred northerly plunge of Cu-Au mineralization as suggested from previous drill intercepts in holes in SLD001, 002, 011, 013, 17 and SGD001.The reported broad intercept of 855.1 m @ 0.10% Cu/0.22 g/t Au confirms continuity of economic Cu-Au grades at depth and opens the mineralized strike potential further north.

SLD023 was drilled eastward at an inclination of -70 degrees to a depth of 871.0 m. From surface to a depth of 592.0 m polymictic breccia comprising mineralized quartz-diorite (QD1) and altered diorite clasts were logged. Narrow diorite dykes intrude the breccia between 364.0 to 366.0 m and 529.0 to 561.0 m. From 592.0 m until the end of hole altered volcanic and volcanic-derived sediments were encountered.

SLD024 was targeted to test for a potential NW extension linking Montong Botek to the Kekalik target, 600 m to the northwest. The target area of SLD024 was supported by locally outcropping quartz-stockworks and a broad zone of elevated Cu+Au soil geochemistry.

SLD024 was drilled NE at an azimuth of 045 degrees, at an inclination of -65 degrees to a depth of 414.5 m. Polymictic breccia was cored from surface to the end of the hole, with narrow late diorite dykes cross-cutting the breccia at 1.0 and 180.0 m. The breccia comprises predominantly non-mineralized clasts of volcanic, meta-sediment and increasingly more propylitically altered diorite to the bottom of the hole. Only a narrow zone of low-grade gold mineralization, 20.00 m @ 0.24 g/t Au from 290.65 m was intersected within a zone of mineralized breccia clasts. The elevated Cu+Au soil geochemistry at the target is attributable to concentrations of mineralized clasts within the polymictic breccia.

SLD029 was designed to test possible southward extensions and limits of higher grade Cu-Au mineralization defined in previous holes drilled into the target. Results from SLD029 (504.65 m @ 0.13% Cu/0.16 g/t Au) extend a halo of breccia-hosted lower-grade mineralization surrounding high-grade mineralization previously intersected by holes SLD001 to SLD003 and SGD001. The generation of geological and mineralization wire-frame models for the Montong Botek-Blongas II porphyry couple is currently in progress.

The drill hole, located 220 m south-southeast of SLD003, was drilled northward at an inclination of -65 degrees to a depth of 595.20 m, passing approximately 150 m vertically below previous high-grade intercepts in SLD003 and SGD001. From surface to a depth of 528.00 m coring intercepted polymictic breccia hosting variable amounts of mineralized diorite clasts (QD1). Narrow late-stage diorite dikes cut the breccia at depths of 14.70 m, 89.60 m, and 159.20 m, respectively. Altered volcanics and volcaniclastics were intersected from 528.00 m to the end of the hole.

Blongas II

SLD022 was drilled 150 m south of SLD05 at Blongas II to test for potential southwest extensions of high grade mineralisation previously intersected in SLD004: 407.25 m @ 0.25% Cu and 0.45g/t Au, including 192.25 m @ 0.36% Cu and 0.74g/t Au. Drill hole rationale was based on elevated, Cu-Au soil geochemistry at this locality. No significant mineralisation was intersected in the drill hole.

The hole drilled westward at an inclination of -65 degrees to a depth of 567.7 m. Intensely phyllic altered diorite was intersected from surface to a depth of 49.0 m. From 46.0 to 413.0 m phyllic altered brecciated-diorite was logged with narrow diorite dykes intersected at 334.0 and 411.0 m. From 413.0 m altered volcanic and volcanic-derived sediments were cored to the end of the hole.

SLD026, located at Blongas II mid-way between SGD002 and SLD005, intersected mineralization analogous to that seen in hole SLD004. SLD026 (334.35 m @ 0.17 % Cu/0.31 g/t Au) confirms continuity of Cu-Au mineralization previously intercepted in SLD004 (407.25 m @ 0.25 % Cu and 0.45 g/t Au, including 192.25 m @ 0.36 % Cu and 0.74 g/t Au) on the eastern side of a N-S trending post-mineral diorite dyke. Mineralization on the western side of the dyke was not tested as bad ground conditions necessitated abandoning the hole at 756.0 m, short of the 1000.0 m planned target depth.

SLD026 was drilled westward at an inclination of -72 degrees to a depth of 756.0 m. From surface to a depth of 415.0 m variably phyllic overprinted and mineralized quartz diorite was cored, with a fault-bounded wedge of post-mineral diorite dyke and meta-sediment intersected between 155.7 and 222.35 m. From 415.0 m to the end of the hole, a number of post-mineral diorite dykes with locally developed sheared fault-zones increasing to the bottom of the hole were intersected.

SLD030 was designed to test continuity of moderate to high grade Cu-Au mineralization between previous holes SLD004 and SLD006, together with a coincident 3D magnetic anomaly modeled at moderate depths.

The drill hole located midway along the 200 m interval between SLD004 and SLD006 was drilled west at an inclination of -65 degrees to a depth of 585.3 m (Figure 1). From surface to the hole end several phases of variably mineralized intermediate argillic to potassic altered diorites were intersected. A structural zone within the mineralized diorites between 234.7 and 278.6 m comprises localized shear zones with overprinting lower temperature assemblages, along with two narrow wedges of meta-volcanic rock (234.7 to 237.3 m and 258.5 to 278.6 m). From 570.9 m to the end of the hole a weakly altered hornblende-diorite dyke was intersected.

Results from SLD030 (472.6 m @ 0.16% Cu / 0.28 g/t Au) confirm the continuity of moderate to high grade mineralization between SLD004 and SLD006 and will assist in geological and mineralization modeling.

Kedaro

The Kedaro target remains compelling as mineralization remains largely unexposed at surface and localized zones of elevated surface geochemistry with supporting magnetic anomalism occur along an 800 m plus NW trend. The Kedaro area may therefore be analogous to the structure-controlled Blongas I – Blongas II trend and remains only partially drill tested.

SLD027 was drilled 115 m south of the previous drill hole at Kedaro, SLD019, which intersected 126.45 m @ 0.16 % Cu and 0.23 g/t Au, including 44.0 m @ 0.22 % Cu and 0.34 g/t Au. The drill hole was positioned to test for potentially higher-grade mineralized extensions of SLD019 and to see if significant mineralization was associated with the large irregular 400 m by 200 m magnetic anomaly located immediately west of the drill collar.

SLD027 was drilled westward at an inclination of -65 degrees to a depth of 523.6 m. Variably altered and mineralized quartz micro-diorite was cored from surface to a depth of 190.4 m, with narrow post-mineral dykes at 35.4 m and 70.0 m. From 190.4 m to the end of the hole, logged core was predominantly non-mineralized medium-grained diorite, with locally abundant primary magnetite. Fault-bounded meta-sediment wedges were noted between 301.35 to 373.10 m. The local abundance of primary disseminated magnetite in the non-mineralized diorite causes the magnetic anomaly at least in this part of the Kedaro anomaly.

Lapangan Geres

Lepangan Geres the most northerly porphyry target within the Selodong Prospect, lies approximately 7.5 km along strike of the same N-NW structure that hosts the Montong Botek and Blongas I-II porphyry targets. It comprises a north trending, open-ended 600+ m long, by up to 300 m wide zone of discontinuously exposed porphyry stockwork and sheeted vein zones hosted within altered diorite porphyry intrusives and altered volcanics. The area is on the edge of a large circular magnetic “high” and at the intersection of regional N-S and E-W fault structures. Surface sampling has returned intersections including 80 m @ 0.22 g/t Au (incl. 20 m @ 0.11% Cu/0.30 g/t Au), 55 m @ 0.31 g/t Au and 20 m @ 0.33 g/t Au respectively.

SLD021 was sited in the centre of the main diorite porphyry body to test shallow to moderate depth extensions of surface porphyry Cu-Au mineralization within the inferred north-south structural corridor.

SLD021 was drilled eastward at an inclination of -70 degrees to a depth of 521.00 m. From surface to 198.0 m intensely sheared, phyllic altered diorite porphyry intrusive hosting weak to moderate amounts of quartz-sulfide stockworking (QD2 phase) were logged. For the remainder of the hole (198.0-521.0 m) sheared volcanics and volcanic sediments were intersected. A late-stage diorite porphyry dyke was noted in core from 466.5-478.2 m. Overall drill core is highly sheared and fractured, typical of drilling across the structural grain of a major fault or fracture zone.

SLD025 and SLD028 were the second and third holes drilled to test the 600 m by 300 m north trending zone of anomalous quartz stockworks at Lepangan Geres.

SLD025, located 160 m north of SLD021, was drilled westward at an inclination of -70 degrees to a depth of 550.1 m, Surface sampling of quartz stockworks in the target area had previously reported significantly anomalous results, including 35.0 m @ 0.12 g/t Au. From surface to a depth of 196.1 m variably phyllic over-printed and weakly mineralized micro-diorite was cored. This zone returned the only significant mineralization (132.60 m @ 0.08 % Cu/0.14 g/t Au) within the hole. From 196.1 m to the bottom of the hole, non-mineralized and intensely phyllic over-printed micro-diorite with low density quartz-stockwork is cross-cut by a series of later diorite intrusives and localized monomictic breccia.

SLD028 was located a further 200 m north of SLD025 to test the northern extension of the target area. Surface sampling at this locality indicated significant anomalism along a north trending zone of quartz stockworks which returned 55.0 m @ 0.31 g/t Au.

SLD028 was drilled westward at an inclination of -65 degrees to a depth of 429.6 m. From surface to a depth of 214.0 m micro-diorite with localized zones of moderately developed quartz stockwork were intersected. Stockworking within the micro-diorite showed little indication of copper mineralization, probably due to later destructive phyllic overprinting. From 214.0 m to the end of the hole altered volcanics are variably intruded by younger diorite dykes. No significant results were reported.

Extensive zones of quartz-stockwork with corresponding strong gold anomalism from surface sampling indicated the potential presence of a significant porphyry system at Lepangan Geres. Drilling has confirmed the presence of a structurally-controlled porphyry alteration system, but Cu-Au grades are of low tenor, most likely attributable to later phyllic overprinting.

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

In the West Lombok Project, the Company's field crews have also 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:

6.8 m @ 22.43 g/t Au
0.9 m @ 34.60 g/t Au
2.7 m @ 7.1 g/t Au and 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
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 comprising a series of deeper holes to test both vertical and lateral extensions of significant Au-Ag drill intercepts commenced in August 2008, but operations were curtailed in late September because of the financial market meltdown. Two drill holes (PLD001-002) totaling 371.8 metres were completed during this period.

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);
Drill hole JDG03		9.2 m @ 5.9 g/t Au & 11 g/t Ag;
	(including	1.25 m @ 24.9 g/t Au & 7 g/t Ag);
		9.05 m @ 1.6 g/t Au & 10 g/t Ag;
	(including	1.75 m @ 6.1 g/t Au & 28 g/t Ag).

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

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

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

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

Kayu Putih Mineralized Structural Breccias

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

Highlights of drill hole intervals include:

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

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

Southern Arc has completed 17 shallow drill holes drilled on a north-south grid orientation at angles between 55° to 60° dip with variable spacing between holes. The deepest mineralized intercept occurs at 59 metres vertically below surface and most intersections occur below the base of complete oxidation. Dips of the structures vary between 60° to 80°. The majority of drill holes are drilled perpendicular to the mineralized structures, with holes 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 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 Intrusive Porphyry prospects. Eleven targets displaying epithermal vein/breccia and/or porphyry Cu-Au mineralization styles were evaluated. Five anomalies have been selected for further detailed prospect-scale work, including scout diamond drilling where warranted.

The first-pass evaluation program comprised geologic mapping and the collection of 2,189 channel and rock chip samples over a 50 km² area. The five selected targets scheduled for follow-up include Tibu Serai and Bising, which host gold-mineralized structural breccias ("MSBs"), along with Mahoni, Kedaro and Lepangan 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.

The Bising MSB target is located centrally within the Mencanggah Prospect and comprises two major east-west trending MSB zones (B1 and 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 MSB targets exhibit significant mineralization and alteration based on first-pass investigations. On-going fieldwork is currently seeking to quantify and clarify the mineralization styles to identify potential drill targets. This has been aided by a two week structural analysis of the Mencanggah-Pelangan areas by consultant Steve Garwin to try and establish the main structural elements that control Au-Ag mineralization within the high and low sulfidation epithermal vein systems. Drill target definition is expected to be completed by the end of the 4th quarter.

East Lombok Project

Awang Prospect

Surface mapping and sampling, accompanied by ground CSAMT surveying at the Awang Prospect, 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^{o} C) quartz forms, which are subordinate to higher temperature (250-260^{o} C) forms and higher Au:Ag ratios. At least 4 to 5 drill holes are warranted to test these vein targets.

Sumbawa Island Properties

Taliwang Prospect (West Sumbawa)

Contract of Work ("CoW") negotiations on its Taliwang, West Sumbawa, property commenced on April 28, 2008. The joint government negotiating team comprises representatives from the central, provincial and regency levels of government. A draft CoW document was submitted previously by the Company to both the central and local regulating authorities.

As of October 2008 terms and conditions had been agreed upon by the negotiating parties and only final input from central Government Departments and agencies was required to finalize the CoW document Exploration companies that have recently completed or are currently negotiating their CoW agreements include Barrick Gold Corporation, Rio Tinto, East Asia Minerals and Indomines Ltd.

Under the Indonesian Mining Law, the conduct of foreign companies involved in mineral exploration, development and production in Indonesia is regulated by the Contract of Work (CoW), which is a comprehensive contract between the Government of Indonesia and an Indonesian-foreign mining company.

The CoW system for regulating mining operations has played a key role in the success of Indonesia's contemporary mining industry. The CoW system, which was introduced in 1967, has been gradually refined and modernized over the past forty years to reflect changing conditions in Indonesia and abroad. Southern Arc Minerals and the Government of Indonesia have entered into negotiations for the 7+ generation of CoW for mining operations. The CoW sets out the company's rights and obligations with respect to all phases of a mining operation, including exploration, pre-production development, production, and mine closure. A CoW applies to a specifically defined geographic area known as the "Contract Area", which for these current negotiations is the Company's Taliwang Property.

The Taliwang Property is a 31,204 Ha mineral concession granted to the Company under a Contract of Work application. It is located on west Sumbawa Island, immediately north of the CoW that hosts Newmont's world-class Batu Hijau porphyry copper-gold mine. The Taliwang property holds a number of prospects, including the Lemonga epithermal vein complex on which a two-phase, 56-hole diamond drilling program has been completed by the Company.

Lemonga Gold Prospect (West Sumbawa)

Exploration on the Lemonga Prospect has 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 m.

The phase two drilling program was completed in July 2006, with a total of 5,655.5 m 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 -45º and -60º inclinations. Drill hole rationale and results have been detailed in the 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 developed and subsequently 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 have been evaluated by SA 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 flat-lying silicified limestone and an altered volcaniclastic 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.

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.

The Company in 2007 undertook a program of initial prospect verification, followed by grid establishment, detailed mapping, trenching, outcrop channel sampling and limited ground IP-resistivity surveys. Based on encouraging surface results complimented by geophysical models a seven hole scout diamond drilling program (totaling 413.6 m) was undertaken. Holes were drilled at inclinations of -45º to -75º, to a maximum depth of 79.40 m. The holes were targeted to test subsurface extensions of the 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 volcaniclastic 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. A 12 month extension to the KP license was granted by the Sumbawa Regent on April 24, 2008.

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 formed 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 follow-up surface prospect evaluation programs. A number of low to moderate drill targets have been defined.

East Elang KP (West 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-gold porphyry discovery. The license was renewed for a further 12 month period commencing on March 13, 2007. A subsequent 12 month extension period to the General Survey Period was granted on March 29, 2008.

The Company commissioned lithostructural consultant Peter Pieters to undertake a remote sensing/photo-geological 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 explorers' 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 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 square kilometre commenced in mid-May 2008. Field programs are currently suspended awaiting resolution of the outstanding Forestry permit.

Central Java Island Properties

Wonogiri KP Property (Central Java)

The Company, through its locally controlled Indonesian entity was issued on July 21, 2008 an exploration license (Kuasa Pertambangan "KP of 2,399 Ha over parts of the Wonogiri Regency, Central Java Province. The KP area Karangtengah was previously explored by the state-owned company Timak Tbk (1998-2002) under a large super KP license. The KP license issued by the Wonogiri regency is valid for twelve months and can be extended for a further 12 months as part of the General Survey conditions of the license. Another two contiguous KP applications are in process.

Historical Dutch literature (Van Bemmelen, 1949) reports evidence of skarn mineralization, along with inferred porphyry style veining in the area. Previous site visits by Southern Arc personnel noted the presence of high sulfidation veining overprinting earlier porphyry mineralizing events, somewhat analogous to the Selodong Prospect.

Company geologists have completed preliminary socialization meetings with local government and community leaders, whom overwhelmingly approved the Company's exploration program. Subsequently a reconnaissance drainage sampling program over the entire property has just been completed, along with some evaluation work of third party owned KP properties.

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 during the year ended June 30, 2007.

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 greenfield through to more advanced projects.

Financing

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

Results of Operations

During the period ended September 30, 2008, the Company had income of $187,177 compared to a loss of $4,038,879 for the period ended September 30, 2007. Significant fluctuations incurred in the following categories:

a) Stock-based compensation of $63,864 (September 30, 2007 - $4,038,879) decreased 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) Travel of $9,322 (September 30, 2007 - $39,199) decreased due to less travel to Indonesia by the Company's management, directors and consultants.

c) Office and miscellaneous of $70,406 (September 30, 2007 - $24,148), management fees of $107,700 (September 30, 2007 - $237,500) and professional fees of $118,938 (September 30, 2007 - $18,755) increased mainly due to consolidation of Canada Nickel operational results during the 2008 period.

d) Foreign exchange gain of $47,729 was realized during the period ended September 30, 2008 (September 30, 2007 - $Nil) due to the Company holding US$ accounts payable for expenditures on mineral properties in Indonesia and fluctuations in US$ foreign exchange rate.

e) Gain on diluted interest in subsidiary of $533,211 and non-controlling interest gain of $47,559 were realized in the period ended September 30, 2008 due to the Company's investment in Canada Nickel.

f) The Company spent $8,008,859 of cash on resource properties.

Summary of Quarterly Results

	September 30, 2008	June 30, 2008	March 31, 2008 (restated to conform with June 30, 2008 adjustment to stock-based compensation)	December 31, 2007 (restated to conform with June 30, 2008 adjustment to stock-based compensation)
Total assets	$ 28,564,629	$ 23,688,619	$ 23,352,866	$ 23,069,567
Resource properties and deferred costs	22,623,971	13,152,613	11,454,542	9,903,666
Working capital	4,539,075	8,827,288	10,607,080	11,731,794
Accumulated deficit	(8,705,652)	(8,892,829)	*(8,810,026)	*(8,667,876)
Net Income (loss)	187,177	(82,803)	(142,150)	*(783,627)
Basic and diluted income (loss) per share	0.00	(0.00)	(0.00)	(0.01)

	September 30, 2007 (Restated to conform with June 30, 2008 adjustment to stock-based compensation)	June 30, 2007	March 31, 2007	December 31, 2006
Total assets	$ 12,105,094	$ 10,794,600	$ 9,870,209	$ 7,776,487
Resource properties and deferred costs	9,211,877	8,443,787	7,930,215	6,965,583
Working capital	1,284,020	1,953,355	1,538,469	630,945
Accumulated deficit	*(7,892,249)	(3,483,486)	(2,949,809)	(2,803,136)
Net Loss	*(4,408,763)	(533,677)	(146,673)	(174,099)
Basic and diluted loss per share	(0.08)	(0.01)	(0.00)	(0.00)

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.

*As at June 30, 2008, the Company adjusted the non-cash fair value of stock options granted in the previous quarters of the 2008 financial year. The change resulted from an adjustment to volatility used in Black-Sholes Model calculation of the fair value of the stock options granted.

September 30, 2008 quarterly results include consolidation of Canada Nickel Corp. acquired on July 7, 2008.

- Change to the September 30, 2007 quarterly figures
  - Volatility was changed to 110% (originally the Company used 162%)
  - Stock based compensation expense was adjusted to $4,038,879 (previously stated as $4,700,522)

- Change to the December 31, 2007 quarterly figures
  - Volatility was changed to 110% (originally the Company used 144%)
  - Stock based compensation expense was adjusted to $570,489 (previously stated as $636,193)

Liquidity

The Company's cash position at September 30, 2008 was $4,629,288, a decrease of $4,667,589 from June 30, 2008. The decrease is primarily due to the acquisition of Canada Nickel Corp., resource property acquisition and exploration expenditures.

As at September 30, 2008, the Company's working capital is approximately $4,539,075. The Company has financed its operations to date primarily through the issuance of common shares.

Net cash used in operating activities for the period ended September 30, 2008 was $261,749 compared to net cash used of $152,934 during the period ended September 30, 2007. The cash used in operating activities for the

period 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 period ended September 30, 2008 was $9,974,868 compared to cash used of $753,831 during the period ended September 30, 2007. The cash used in investing activities for the period consists primarily of the acquisition and exploration of resource properties and the acquisition of Canada Nickel.

Net cash provided by financing activities for the period ended September 30, 2008 was $5,569,028 compared to $1,667,780 during the period ended September 30, 2007. The cash provided by financing activities consists primarily of the issue of equity securities by Canada Nickel to non-controlling interests.

Asset-backed Commercial Paper

As at September 30, 2008, the Company held an investment of $1,200,222 (June 30, 2008 - $1,200,222) consisting of Canadian Asset-Backed Commercial Paper ("ABCP") invested in Rocket Trust A, net of a $211,804 fair value adjustment. The ABCP investment matured on August 17, 2007, but was not repaid and remains outstanding.

A group of participants in the ABCP market, including banks, liquidity providers and major investors (the "Consortium") have agreed to a standstill period with respect to ABCP to permit time for the issuers of the ABCP to be restructured. The Consortium has reached an agreement to restructure the ABCP market. This restructuring, which is expected to be completed in the winter of 2008/2009, 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, the Notes will be interest bearing at 4.59%, the weighted average discount rate is 6% and maturity of 7 years. 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.

Investment in Canada Nickel

On July 7, 2008, the Company acquired 15,300,000 common shares of Canada Nickel Corp ("Canada Nickel"), a related corporation through one common director, for a purchase price of $5,355,000 representing a 59.77% of the outstanding shares of Canada Nickel. As a result of the share purchase, the Company acquired control of Canada Nickel. The acquisition of Canada Nickel has been accounted for using the purchase method.

During the period ended September 30, 2008, Canada Nickel issued additional common stock to third parties which diluted the Company's ownership percentage of Canada Nickel to 43.57%, causing a gain of $533,211. The Company maintains control over 66.6% of Canada Nickel shares as a result of a voting agreement with a common director.

These consolidated financial statements include the results of operations of Canada Nickel from the date of acquisition.

The total purchase price of $5,355,000 has been allocated as follows:

Cash	$ 3,388,991
Receivables	40
Resource property	1,966,801
Accounts payable and accrued liabilities	(832)
	$ 5,355,000

Investor Relations

The Company engages an arms-length investor relations consultant in order to raise its profile with the investment community. During the period ended September 30, 2008, the Company paid $22,500 to this consultant.

Related Party Transactions

During the period ended September 30, 2008 the Company entered into transactions with related parties as follows:

a) Paid $107,700 (September 30, 2007- $37,500) for management fees and $11,300 (September 30, 2007- $4,500) for administration fees, recorded in office and miscellaneous expense, to a private company controlled by Chief Executive Officer and director of the Company.

b) Paid $64,876 (September 30, 2007- $53,229) 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 $15,000 (September 30, 2007- $15,000) for consulting fees to an officer of the Company.

d) Paid or accrued $55,608 (September 30, 2007 - $NIL) for legal fees, included in share issue costs, to a law firm where a director of Canada Nickel is a partner.

g) Paid $7,287 (September 30, 2007 - $NIL) for legal fees to a firm in which a director of Canada is a partner.

h) Repaid a $1,100,000 loan to a private company controlled by the Chief Executive Officer, and director, of the Company for funds advanced to Diamondex pursuant to the James Bay Nickel Option Agreement (Note 6).

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 And Risk

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities and long-term investment s. 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 counterparty's inability to fulfill its payment obligations. The Company's believes it has no significant credit risk.

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 September 30, 2008, the Company had a cash balance of $4,629,288 (September 30, 2007 - $9,296,877) to settle current liabilities of $127,905 (September 30, 2007 - $491,194). All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal period. The Company intends to settle these with funds from its positive working capital position.

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.

(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 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. At September 30, 2008, the Company had US$53,797 (approximately CAD$57,019) in exploration advances and US$234,331 (approximately CAD$238,367) in short term $US term deposits.

(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.

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.

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 2009
1522	1-Oct-07	31-Dec-08	$1,145	$3,435
1521	1-Feb-08	31-Dec-08	$1,246	$3,738
1518	1-Oct-07	31-Dec-08	$1,688	$5,064
				$12,237

Current Share Data

As at the date of this MD&A, the Company has 71,410,906 common shares issued and outstanding and has the following stock options and warrants outstanding:

	Number of Shares	Exercise Price	Expiry Date
Options	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
	250,000	0.30	July 31, 2013
Warrants	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

During the three month period ended September 30, 2008, the Company granted 250,000 stock options to a director exercisable at $0.30 per common share for a term of 5 years.

Outlook

The Company's focus of current 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 is currently evaluating the results of the recently completed drilling program. The Company will also continue its effort in finalizing the Contract of Work negotiation on its Taliwang Property.

Change in accounting policies

Financial instruments

Effective July 1, 2008, the Company adopted CICA Handbook Section 3862, *Financial Instruments – Disclosures,* which requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

The principles in this section complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in Section 3855, *Financial Instruments – Recognition and Measurement,* Section 3863, *Financial Instruments – Presentation,* and Section 3865, *Hedges.* This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company does not expect Section 3862 to have an impact on the Company's financial results.

Effective July 1, 2008, the Company adopted CICA Handbook Section 3863, *Financial Instruments – Presentation,* which is to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This section carries forward standards that were previously established in Section 3861 relating to the presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The adoption of Section 3863 did not have an impact on the Company's financial results.

Assessing going concern

Effective July 1, 2008, the Company adopted the amended CICA Handbook Section 1400, to include requirements for management to assess and disclose an entity's ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. This section relates to disclosures and will not have an impact on the Company's financial results.

Capital disclosures

Effective July 1, 2008, the Company adopted CICA Handbook Section 1535 "Capital disclosures" The section specifies the disclosure of (i) an entity's objectives, policies, and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. This section relates to disclosures and will not have an impact on the Company's financial results.

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its 43.56% Canadian subsidiary, Canada Nickel Corp. Significant inter-company balances and transactions have been eliminated upon consolidation.

Deferred share issue costs

Costs incurred relating to the Company's equity offerings are recorded as deferred share issue costs until completion of the offering at which time costs related to the offerings are offset against share capital.