SOUTHERN ARC MINERALS INC.
Form 51-102F1
Management Discussion and Analysis
For the Six Month Period Ended December 31, 2010

Introduction

The following discussion, prepared as of February 25, 2011, is management's assessment and analysis of the results and financial condition of Southern Arc Minerals Inc. and its subsidiaries (the "Company" or "Southern Arc") and should be read together with the unaudited financial statements for the six month period ended December 31, 2010 and the audited consolidated financial statements for the year ended June 30, 2010 and related notes attached thereto. The preparation of financial data is in accordance with Canadian generally accepted accounting principles and all figures are reported in Canadian dollars unless otherwise indicated.

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

Forward-Looking Statements

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

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

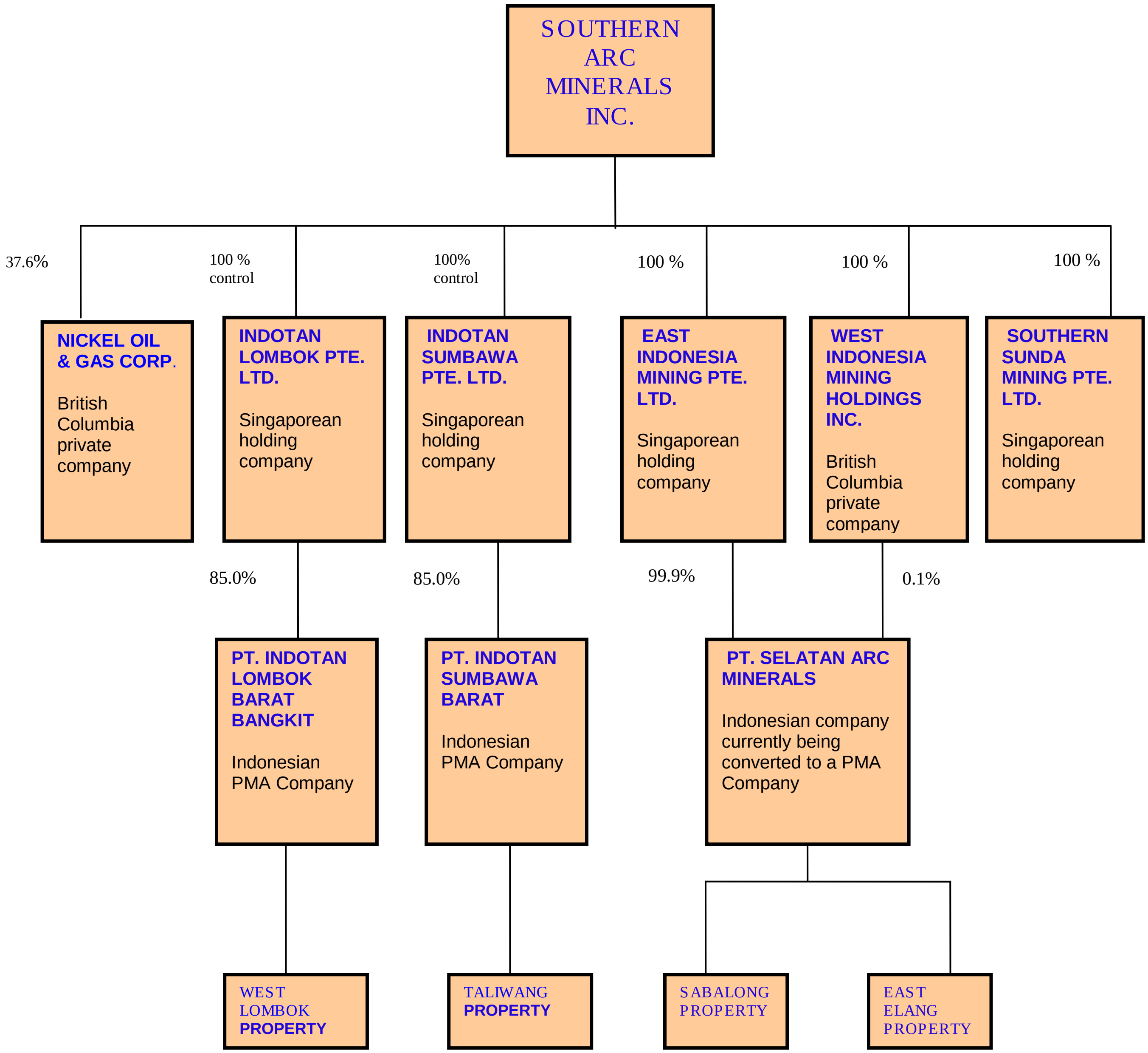
Forward-Looking Statements (cont'd…)

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

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

Description of Business

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


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

Industry

The Company is engaged in the acquisition and exploration of resource properties, an inherently risky business, and there is no assurance that an economic mineral deposit will ever be discovered and subsequently put into production. Most exploration projects do not result in the discovery of economically mineable deposits. The geological focus of the Company is on areas in which the geological setting is well understood by management.

Trends

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

Risks and Uncertainties

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

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

Credit risk

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

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

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2010, the Company had a cash balance of $1,719,638 (June 30, 2010 - $1,604,476) to settle current liabilities of $2,327,303 (June 30, 2010 - $1,997,846). All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal period.

Market risk

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

Risks and Uncertainties (cont'd…)

(a) Interest rate risk

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

(b) Foreign currency risk

The Company's largest non-monetary assets are its resource interests in Indonesia. The Company could accordingly be at risk for foreign currency fluctuations and developing legal and political environments. The Company does not maintain significant cash or monetary assets or liabilities in Indonesia. At December 31, 2010, the Company had US$1,274,057 (approximately CAD$1,267,177) in cash, and US$2,001,457 (CAD$1,990,649) in loans payable. As at December 31, 2010, US$ amounts were converted at a rate of US$1 to CAD$0.9946.

(c) Price risk

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

Gold and Metal Prices

The price of gold is affected by numerous factors beyond the control of the Company including central bank sales, producer hedging activities, the relative exchange rate of the U.S. dollar with other major currencies, demand, political and economic conditions and production levels. In addition, the price of gold has been volatile over short periods of time due to speculative activities. The prices of other metals and mineral products for which the Company may explore all have the same or similar price risk factors.

Resource Properties

The Company's accounting policy is to record its resource properties at cost. Exploration and development expenditures relating to resource properties are deferred until either the properties are brought into production, at which time they are amortized on a unit of production basis, or the properties are sold or abandoned, at which time the deferred costs are written off.

Outlook

The Company's focus of current activities is its property on Lombok Island, including the Selodong Intrusive Complex (SIC), a large, gold-rich copper porphyry prospect and the Pelangan-Mencanggah Epithermal Vein Prospects. The Company has identified 14 porphyry Cu-Au drill target areas within the SIC, along with km's of Au-Ag mineralized breccias structures ("MSB") and is currently preparing for Phase II (Pelangan Prospect) and Phase I (Mencanggah Prospect) drilling of the epithermal Au-Ag targets.

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

The Company is working towards completion of Joint Venture Agreement with Newcrest Mining regarding its Taliwang property on Sumbawa Island, Indonesia and, subject to completion of definitive documentation, exploration activity on Taliwang is expected to continue in calendar Q2, 2011.

Lombok Island and Sumbawa Island Properties, Indonesia

Background

In 2004, 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 property ("Lombok") and the Sumbawa properties ("Sumbawa")(collectively the "Properties") to the Company, which Sunda had obtained from Indotan Inc. ("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 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 has acquired, directly from Indotan, all of its rights to the Properties in consideration for which the Company issued 1,000,000 common shares, valued at $125,000, and paid $180,000. Under the terms of the option agreement and revised agreement, the Company granted a 2% NSR on the Sumbawa property and a 1% NSR on the Lombok Property. In the case of the Lombok Property, the NSR does not apply to the Block 1 property acquired by the Company from Newmont in January 2006.

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 Mining Business License ("IUP"), previously stated as 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 an IUP, previously stated as 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 100% of the ongoing operations to each of the Lombok JV and Sumbawa JV.

The Company has entered into an agreement with PT Newmont Nusa Tenggara ("NNT") regarding a 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 of NNT of Block 1 area. The terms of the agreement include granting NNT a 2% net smelter return ("NSR") on any mineral production from the area covered by Block 1 together with a right of first refusal should the Company wish to introduce a new partner into any development within the area originally covered by Block 1.

During the year ended June 30, 2010, the Company acquired the right to the name Indotan Inc. as well as control over two companies (Indotan Lombok Pte. Ltd. and Indotan Sumbawa Pte. Ltd.) ("Singapore Companies"). As consideration the Company issued 3,500,000 common shares with a value of $2,415,000 subject to two assignable options. The first option will entitle the Company to acquire 500,000 of these shares at a price of $0.50 per common share until August 15, 2010 at a price of $0.50 per common share. The second option will entitle the Company to acquire 1,500,000 of these shares at a price of $0.90 per common share within a period of 18 months. In place of the existing 1% NSR's on both the Sumbawa and Lombok Properties, the Company will grant a 2% NSR on the Sumbawa property and a 1% NSR on the portion of Lombok Property. In the case of the Lombok Property, the NSR does not apply to the Block 1 property (which encompasses all of Selodong, Mencanggah, and Pelangan prospects).

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

Prior to the enactment of the new Mining Law No. 04/2009, the Lombok and Sumbawa properties comprised two separate applications to the Indonesian Government for CoWs 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 permit allowed the Company to conduct preliminary general survey work over the CoW application areas. The new Mining Law enacted by the President of Indonesia on January 12, 2009 effectively put an end to the CoW plan under which the Company had been operating since 2004. Based on clause 172 of this law the sanctity of CoW applications will be honoured by the Government, but must be transitioned into the new permit licensing system. For the law to take effect, the government will have to issue at least 20 implementing regulations. A number of these have been issued by the Department of Energy & Mineral Resources, with the remainder in progress.

The Lombok SIPP was granted on December 4, 2002. Relevant SIPP extensions and expansions to the property area were granted until February 15, 2006, when the CoW application came into conflict with an unconstitutional provincial land utilization regulation. Because of both central and regency government support in the form of endorsement letters and instructions to the Governor to revise the conflicting regulation, the Company continued exploration activities unabated through to Q4 2008 when field operations were suspended because of the global economic downturn. The revision of the contentious land utilization regulation was completed on July 1, 2010 with enactment into law by the Governor of West Nusa Tenggara Province. With implementation of the revised regulation, the West Lombok Project lies within areas zoned for mining activities. Following a concerted effort by Company personnel, the West Lombok Regent (the IUP issuing authority) issued on January 5, 2011, the relevant IUP license to SA's newly formed Indonesian subsidiary PT Indotan Lombok Barat Bangkit ("PT ILBB").

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

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

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

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

The Sumbawa SIPP (Taliwang property), was granted on January 2, 2004 for an initial 12 month period. A succession of SIPP and in-principle CoW approvals culminated in the successful negotiation of the terms and conditions of the CoW manuscript. With the introduction of the new mining law, the CoW manuscript failed to complete the final central government administrative hurdle and was transitioned into an Exploration IUP license, issued by the Regent of West Sumbawa on July 9, 2010. The Exploration IUP covers the period from General Survey through to Feasibility Study. The Company has the automatic right to conduct commercial production for 20 years and a further two 10 year extension periods if warranted.

The Company has entered into a Heads of Agreement with Newcrest Mining Limited ("Newcrest") regarding a joint venture investment in the Taliwang property and has entered into a Joint Venture Agreement with Vale S.A. ("Vale") regarding exploration of the Company's East Elang and Sabalong properties.

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

Selodong Prospect

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

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

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

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

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

Mencanggah Prospect (West Lombok)

Limited surface evaluation was undertaken this period with the collection of hydrothermally altered outcrop samples from the Bising-Tibu Serai target areas. These samples like those from Pelangan have been submitted for spectral analysis by AusSpec Australia, with the aim of establishing a thermal vectoring towards near-surface porphyry mineralization.

On-going CSR responsibilities this period included upgrading and maintenance of public roads, along with logistical assistance to regional government officials.

Sumbawa Island Properties

Taliwang Project (West Sumbawa)

The Company's branch office within the West Sumbawa Regency is fully active and staffed, as per conditions of the Mining Business License ("IUP"). The Company's 2010-2011 exploration work program and budget is still pending by relevant Regency authorities, waiting on resolution of the Joint Venture Agreement between the shareholders of the Indonesian holding Company, PT. Indotan Sumbawa Barat ("PT ISB"). Southern Arc holds 85% of the shares of PT ISB, with 10% being held by the local government (the West Sumbawa Regency) and the remaining 5% held by the Company's original Indonesian partner, PT Puri Permata Mega. Two rounds of Joint Venture negotiations have been held to date, with a third meeting to take place before the end of February 2011.

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

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

If Newcrest fully complies with the funding terms of the Agreement, it will earn an effective 63.75% interest in the Taliwang project, leaving Southern Arc with an effective 21.25% interest. The remaining interest is held by the West Sumbawa Regency government (10%) and PT. Puri Permata Mega (5%). Newcrest and the Company intend to enter into definitive agreements in relation to the joint venture investment by March 31, 2011.

Lemonga Gold Prospect (West Sumbawa)
Field activities this period were restricted to routine Company site visits, sometimes in the presence of Provincial/ Regency authorities, or with external technical consultants. The forestry permit extension process is still on-going with resolution expected in early 2011.

Semoan- - Ramit – Raboya Prospects (West Sumbawa)
Field activities this period were restricted to routine Company site visits, sometimes in the presence of Provincial/ Regency authorities, or with external technical consultants.. The forestry permit extension process is still on-going with resolution expected in early 2011. A low level program of detailed geologic mapping, geochemical/petrological sampling commenced this period under the guidance of senior technical advisor Dr. Steve Garwin. Areas of interest all lie outside of designated forestry areas. It is hoped that results from geo-mapping and spectral studies will evidence a vectoring to areas with lithocap-related porphyry Cu-Au mineralization.

Sabalong KP and East Elang KP (West Sumbawa)

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

> Phase 1 – Vale will fund US$1,000,000 (Sabalong) and US$1,200,000 (East Elang) of exploration expenditures within one year from the date the Company receives an exploration activities permit from the Ministry of Forestry for the that property; If Vale elects, they could proceed to;
>
> Phase 2 minimum program – Vale could fund at least US$2,000,000 (Sabalong) and/or US$2,500,000 (East Elang) of additional exploration expenditures within 2 years of commencing Phase 2;
>
> Phase 2 full program – Vale may proceed to completion of a pre-feasibility study or fund further exploration expenditures of at least US$10,000,000 (on either property) within 4 years of commencing Phase 2;
>
> Upon completing the Phase 2 full program, Vale may elect to solely fund the completion of a bankable feasibility study within 7 years of commencing Phase 2.

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

The processing of the mandatory Ministry of Forestry ("MoF") permit continue throughout the reporting period, with delays relating to major personnel reshuffles in the MoF and associated changes in internal department policies. Company personnel continue on a daily basis to push for resolution on the matter, with the current view being that the MoF permit should be issued by the Ministry by the end of calendar Q1, 2011.

Sabalong

Field exploration activities commenced in mid December 2010, with the establishment of a regional office in the Sumbawa Regency, socialization programs at village and sub-district levels, hiring of local staff and initiation of the Vale-SA approved exploration program.

Approximately 75% of a 4.7 km x 3.2 km, N-S oriented survey grid located over the Lito and Toyang Prospects has been completed this period. A ground magnetic geophysical survey contracted to Geoservices Limited commenced in February, with two operating survey teams currently on the property. Expansions to the grid or infill requirements will be based on real-time data observations as the program progresses. David Burt, Geophysicist and Vale's Country Manager in Indonesia will provide this real-time processing facility for the program.

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

East Elang

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

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

Other Properties, Indonesia

The Company's activity at the Karangtengah and Tirtomoyo properties in central Java has ceased as initial exploration activities lead the Company to conclude that the properties have limited potential and do not meet the Company's threshold for inclusion in its portfolio. Based on receipt of the official Regency decree, the properties were relinquished in November 2010.

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

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

Southern Arc owns 37.59% or 15.3 million shares in Nickel Oil & Gas Corp. ("Nickel Oil & Gas" or "Nickel"), a private company. During the year ended June 30, 2010, the Company's 38% owned subsidiary, Nickel Oil & Gas, entered into a farmout and option agreement granting Nickel Oil & Gas the option to earn certain oil and gas rights with respect to property in the Brewster and Pine Creek areas, Alberta, Canada.

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

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

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

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

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

In early December 2009, the previously drilled well on Section 22 was completed, earning Nickel Oil & Gas the interest in Section 22 described above. The Section 22 well is currently shut in. Nickel Oil & Gas also successfully drilled the well on Section 26 and completed it in two intervals of the Belly River formation, earning Nickel Oil & Gas the interests in Section 26 described above. Nickel's joint venture partner solely funded the completion, equipping and tie-in costs of the well and will receive 100% of all revenue from the well until it recoups 125% of the payout costs incurred.

During the year ended June 30, 2010, Nickel Oil & Gas, entered into a farmout and option agreement granting Nickel Oil & Gas the option to earn certain oil and gas rights with respect to property located at 55-18-W5M, Section 9 in the Pine Creek area, Alberta. There is good well control in the Pine Creek area with recent success by other oil and gas companies and close proximity to infrastructure. During the period ended September 30, 2010, Nickel Oil & Gas entered into an Amending Agreement with its joint venture partner on the Pine Creek Property. Under the amending agreement, Nickel Oil & Gas earned a 60% working interest in two sections by funding 100% of the costs of drilling of the horizontal well. Nickel Oil & Gas had an obligation to pay 100% of the completion, equipping and tie-in costs. The horizontal well has been drilled by Nickel and Nickel's joint venture partner solely funded the completion, equipping and tie-in costs of the well. According to the Amending Agreement, the joint venture partner shall receive 100% of all revenue from the well until it recoups 125% of the payout costs incurred.

Nickel Oil & Gas holds a royalty equal to 1.5% of Net Smelter Returns ("NSR") in the Nickel Bay Project, Ontario. Nickel Oil & Gas has granted an exclusive option to purchase two-thirds of this 1.5% NSR (namely, 1%), as follows: 0.33% for $833,333 before November 26, 2014, an additional 0.33% for $833,333 before November 26, 2014, and a further 0.34% for $833,334 before the second anniversary of commercial production. In the event that the three parts of this option are exercised, Nickel will receive $2,500,000, and the NSR will be reduced to 0.5%.

Financing

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

During the six months ended December 31, 2010:

a) the Company's 37.59% owned subsidiary, Nickel Oil and Gas issued 1,000,000 shares to an officer for total gross proceeds of $200,000;
b) the Company extended the repayments of its US$1,000,000 loan from a director of the Company. The loan may now be repaid by the Company prior to June 30, 2011 and remains non-interest bearing;
c) the Company disposed of all its holdings in the MAVII notes (refer to financial statements Note 7) and received $890,277. Concurrently, the Company repaid the bank bridge loan of $550,000 (refer to financial statements Note 8);
d) the Company's subsidiary borrowed US$1,000,000 from a director of the Company. The loan is non-interest bearing and repayable upon demand; and
e) the Company issued 975,000 common shares at $0.30 to $0.80 per share for total proceeds of $463,000 pursuant to the exercise of stock options previously granted.

Subsequent to December 31, 2010, the Company completed an equity offering of 17,738,750 common shares of the Company at a price of $1.60 per common share for gross proceeds of $28,382,000.

Results of Operations for the three months ended December 31, 2010

During the three month period ended December 31, 2010, the Company had a loss of $444,126 compared to an income of $17,450 for the comparable period ended December 31, 2009. Significant fluctuations incurred in the following categories:

a) Consulting fees of $53,753 (2009 – $3,000) increased as a result of increased activity during the period.

b) Foreign exchange gain of $4,408 was realized during the period ended December 31, 2010 (2009 –$nil) due to the effect the fluctuation of the $US/$CAD exchange rate had on the Canadian equivalent of the Company's holdings and transactions in its $US bank balance and $US loan balance.

c) Management fees were unchanged compared to 2009 and are discussed in detail in the related parties section.

d) Office and miscellaneous expense increased to $69,413 (2009 - $34,311) as higher levels of activity resulted in increased administrative charges from a related party.

e) Professional fees of $151,601 (2009 - $76,680) increased as a result of increased exploration activity during the period.

f) Property investigation costs of $20,198 was expensed during the three month period ended December 31, 2010 (2009 - $2,669).

g) Travel expenses of $80,544 (2009 – credit of $742) increased as a result of increased activity during the period.

h) Other items included $54,852 gain on the sale of the Company's MAV II notes (2009 - $250,000 gain on settlement of a lawsuit).

i) During the three month period ended December 31, 2010, the Company spent $454,016 cash (2009 - $2,244,185) on resource properties.

Results of Operations for the six months ended December 31, 2010

During the six month period ended December 31, 2010, the Company had a loss of $3,543,890 compared to loss of $570,616 for the comparable period ended December 31, 2009. Significant fluctuations incurred in the following categories:

a) Stock-based compensation of $2,665,816 (2009 - $333,661) increased as a result of stock options granted during the period. Stock-based compensation expense is accounted for at fair value as determined by the Black-Scholes Option Pricing Model using estimates that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of stock-based compensation, the fair value of the Company's stock and risk-free interest rate.

b) Consulting fees of $89,291 (2009 – $9,000) increased as a result of increased activity during the period.

c) Foreign exchange gain of $10,963 was realized during the period ended December 31, 2010 (2009 – loss $1,993) due to the effect the fluctuation of the $US/$CAD exchange rate had on the Canadian equivalent of the Company's holdings and transactions in its $US bank balance and $US loan balance.

d) Management fees were unchanged compared to 2009 and are discussed in detail in the related parties section.

e) Office and miscellaneous expense increased to $129,753 (2009 - $67,081) as higher levels of activity resulted in increased administrative charges from a related party.

f) Professional fees of $310,915 (2009 - $173,411) increased as a result of increased exploration activity during the period.

g) Property investigation costs of $94,500 was expensed during period ended December 31, 2010 (2009 - $2,669).

h) Travel expenses of $93,357 (2009 - $3,037) increased as a result of increased activity during the period.

i) Other items included $54,852 gain on the sale of the Company's MAV II notes (2009 - $250,000 gain on settlement of a lawsuit).

j) During the six month period ended December 31, 2010, the Company spent $884,822 cash (2009 - $2,440,001) on resource properties.

Summary of Quarterly Results

	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
Total assets	$ 25,002,393	$ 24,538,433	$ 24,898,967	$ 22,910,770
Resource properties and deferred costs	23,195,375	22,769,384	22,410,416	20,626,421
Working capital (deficit)	(530,251)	(323,958)	479,631	758,642
Accumulated deficit	(19,106,471)	(18,727,289)	(15,692,612)	(15,134,938)
Net loss	(379,182)	(3,034,677)	(557,674)	(382,406)
Basic and diluted loss per share	(0.01)	(0.04)	(0.01)	(0.01)

	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Total assets	$ 23,434,431	$ 19,243,326	$ 19,496,869	$ 28,116,927
Resource properties and deferred costs	20,318,136	15,691,274	15,483,236	23,348,353
Working capital	1,652,957	2,632,708	3,091,375	2,728,992
Accumulated deficit	(14,752,532)	(14,679,954)	(14,133,385)	(9,157,886)
Net loss	(72,578)	(546,569)	(4,975,499)	(346,021)
Basic and diluted loss per share	(0.00)	(0.01)	(0.07)	(0.00)

Liquidity

The Company's cash position at December 31, 2010 was $1,719,638, an increase of $115,162 from June 30, 2010. The increase is primarily due to an additional loan and issuance of common shares by the Company and one of its subsidiaries.

As at December 31, 2010, the Company's working capital deficit was $530,251. The Company has financed its operations during the period primarily with loans from a director; from the sale of investment in MAV II notes (partially used to repay the bank loan during the most recent quarter) and from the issuance of equity.

Net cash used in operating activities for the six month period ended December 31, 2010 was $928,273 compared to net cash provided of $513,439 during the same period ended December 31, 2009. The cash used in operating activities reflects the higher level of operations during the period, while in the comparable period for 2009 there was a lower level of operating activity and a significant draw down (source of funds) from use of prepaids and deposits.

Net cash provided by investing activities for the six month period ended December 31, 2010 was $5,829 compared to cash used of $2,428,307 during the period ended December 31, 2009. The cash provided by investing activities for the period consists primarily of proceeds of a sale of investment almost equally offset by additions to resource properties. In 2009, investment in resource properties was significantly higher and there was no sale of investment.

Net cash provided by financing activities for the period ended December 31, 2010 was $1,096,643 compared to $1,755,359 during the period ended December 31, 2009. In 2010, equity issuance and proceeds from a loan were partially offset by repayment of the bank loan. In 2009, source of funds were the bank loan and issuance of equity.

Investment

	December 31, 2010	June 30, 2010
Plan Notes	$ -	$ 835,799

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

During the period ended December 31, 2010, the Company:

i) received repayments of investment of $374 (2009 - $11,694); and

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

Investment in Nickel Oil & Gas

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

During the period ended December 31, 2010, Nickel Oil & Gas issued additional common stock to an officer which further diluted the Company's ownership percentage of Nickel Oil & Gas to 37.59% (June 30, 2010 – 38.54%) resulting in a gain on diluted interest in subsidiary of $42,692 (year ended June 30, 2010 - $221,008). The Company maintains control as a result of a common director.

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

Related Party Transactions

During the period ended December 31, 2010, the Company entered into transactions with related parties as follows:

a) paid $201,000 (2009 - $201,000) for management fees and $60,000 (2009 - $21,000) for administration, recorded in office and miscellaneous expense, to a private company controlled by the Chief Executive Officer and director of the Company;

Related Party Transactions (cont'd…)

b) paid $142,044 (2009 - $Nil) for geological consulting services included in resource properties to an officer of the Company and a company controlled by an officer of the Company;

c) paid $120,854 (2009 - $Nil) for geological consulting services included in resource properties to an officer of the Company;

d) paid $Nil (2009 - $2,283) for legal fees, included in professional fees, to a firm in which a director of Nickel Oil & Gas is a partner;

e) related party transactions also include US$2,000,000 (CDN$1,989,200) (2009- $Nil) in loans from a director of the Company (Note 8 (ii) and (iii));

f) issued 1,000,000 common shares of Nickel Oil & Gas for proceeds $200,000 (2009 - $Nil) of Nickel Oil & Gas to an officer of Nickel Oil & Gas;

g) paid $2,021 (2009 - $Nil) for directors fees to an officer of a subsidiary.

These transactions were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

Off-balance Sheet Arrangements

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

Stock-based compensation

The Company uses the Black-Scholes Option Pricing Model in determining the fair value of options and agent warrants granted for stock-based compensation. Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective price assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options granted/vested during the period.

Commitment

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

Current Share Data

As at the date of this MD&A, the Company has 96,043,740 common shares issued and outstanding and has the following stock options:

	Number of Shares	Exercise Price	Expiry Date
Options	3,150,000	$ 0.40	September 16, 2014
	3,600,000	$ 0.80	July 19, 2015
	400,000	$ 2.00	January 18, 2016
	300,000	$ 1.85	February 11, 2016

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

Financing

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

Investor Relations

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

Recent accounting pronouncements

International financial reporting standards ("IFRS")

In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of July 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011. The Company is currently engaged in the scoping phase of its conversion which involves a high level review of major differences between Canadian GAAP and IFRS, setting a timeline for resources and developing a project plan. This scoping phase is intended to provide direction to the Company's management for the second phase of conversion project.

IFRS Changeover Plan Disclosure

The Company is currently examining the transition options and policy choices presented under IFRS and evaluating the impact on the future financial statements of the Company. Many of the differences identified between IFRS and Canadian GAAP are not expected to have material impact on the reported results and financial position. However, there may be changes as a result of IFRS' accounting principles and provisions for first time adoptions. The Company has not yet determined the full accounting effects of adopting IFRS, since some key accounting policy alternatives and implementation decisions are still being evaluated.

First-time adoption of IFRS

IFRS 1, "First-Time Adoption of International Financial Reporting Standards" ("IFRS 1"), provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. The Company will need to analyze the various accounting policy choices available and will implement those determined to be most appropriate in the circumstances. The Company expects that key IFRS 1 exemption decisions will be approved by senior management during 2011.

Accounting policies

Below are some of the significant areas that were discussed:

i) Property, plant and equipment - the Company is not expecting to apply the fair value method to determine the deemed opening cost under IFRS which is one of the significant IFRS1 exemptions.

ii) Financial instruments - The accounting policy of the Company will be amended to:
- Include changes to impairments of financial assets and their possible reversal.
- Detail the conditions that need to be met for the designation of financial instrument as "fair value through profit and loss".

iii) Share based payments – The accounting policy of the Company will be amended to:
- Change from 'straight-line' to 'graded" vesting for the recognition of stock-based compensation expense.
- A greater portion of expense is recorded in the first and second vesting periods compared to distributing the expense equally over all vesting periods.

iv) Impairment of assets – The accounting policy of the Company will be amended to:
- Change the assessment method of whether impairment exists: instead of the two step approach under Canadian GAAP, the discounted cash flows are taken as an indication to determine impairment.

Systems and disclosure

IFRS will require more in depth disclosure. The Company is taking the necessary steps to adjust the systems requirements to ensure proper data collection for IFRS disclosure purposes.

The Company will stay informed on the upcoming changes to the IFRS and will continue to adjust its plan way to include all key elements and ensure compliance by 2011.

Adoption of Shareholder Rights Plan

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

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

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

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

Change in Management

Subsequent to the period ended December 31, 2010, the Company announced the addition of Mr. Malcolm Baillie and Mr. Robert Parsons to its Board of Advisors and appointment of Mr. Brian Richardson as Chief Financial Officer. Mr. Cyrus Driver resigned as interim Chief Financial Officer.