SOUTHERN ARC MINERALS INC.

CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

SEPTEMBER 30, 2008

UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited consolidated financial statements for the period ended September 30, 2008.

SOUTHERN ARC MINERALS INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Expressed in Canadian dollars)

	September 30, 2008	June 30, 2008
ASSETS		
Current		
Cash and cash equivalents	$ 4,629,288	$ 9,296,877
Receivables	20,194	16,605
Prepaid expense and deposit	17,498	5,000
	4,666,980	9,318,482
Equipment (Note 5)	16,437	17,302
Exploration advances (Note 6)	57,019	-
Resource properties (Note 6)	22,623,971	13,152,613
Investment (Note 7)	1,200,222	1,200,222
	$ 28,564,629	$ 23,688,619
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 127,905	$ 491,194
Non-controlling interest (Note 4)	4,988,258	-
Shareholders' equity		
Capital stock (Note 8)	26,549,808	26,549,808
Contributed surplus (Note 8)	5,604,310	5,540,446
Deficit	(8,705,652)	(8,892,829)
	23,448,466	23,197,425
	$ 28,564,629	$ 23,688,619

Basis of presentation (Note 1)
Nature and continuance of operations (Note 2)
Commitments (Notes 6 and 12)
Investment in Canada Nickel Corp. (Note 4)

On behalf of the Board:

"John Proust" Director *"David Stone"* Director

The accompanying notes are an integral part of these unaudited consolidated financial statements.

SOUTHERN ARC MINERALS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(Unaudited)
FOR THE THREE MONTHS ENDED SEPTEMBER 30
(Expressed in Canadian dollars)

	2008	2007
EXPENSES		
Amortization	$ 865	$ 1,081
Consulting fees	15,000	15,000
Foreign exchange	(47,729)	-
Investor relations	37,903	22,500
Management fees	107,700	37,500
Office and miscellaneous	70,406	24,148
Professional fees	118,938	18,755
Property investigation costs	2,358	1,780
Rent	9,351	6,200
Stock-based compensation (Note 8)	63,864	4,038,879
Transfer agent and filing fees	17,504	2,311
Travel	9,322	39,199
Loss before other items	(405,482)	(4,207,353)
OTHER ITEMS		
Interest income	11,889	10,394
Non-controlling interest	47,559	-
Gain on diluted interest in subsidiary (Note 4)	533,211	-
Unrealized loss on investment (Note 6)	-	(211,804)
	592,659	(201,410)
Income (loss) for the period	187,177	(4,408,763)
Deficit, beginning of period	(8,892,829)	(3,483,486)
Deficit, end of period	$ (8,705,652)	$ (7,892,249)
Basic and diluted income (loss) per share	$ 0.00	$ (0.08)
Weighted average number of shares outstanding	71,410,906	57,577,187

The accompanying notes are an integral part of these unaudited consolidated financial statements.

SOUTHERN ARC MINERALS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
FOR THE THREE MONTHS ENDED SEPTEMBER 30
(Expressed in Canadian dollars)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	$ 187,177	$ (4,408,763)
Items not affecting cash:		
Stock-based compensation	63,864	4,038,879
Amortization	865	1,081
Gain on diluted interest in subsidiary	(533,211)	-
Fair value adjustment of investment	-	211,804
Non-controlling interest	(47,559)	-
Changes in non-cash working capital items:		
(Increase) decrease in receivables	(3,549)	2,973
(Increase) decrease in prepaid expense and deposit	(12,498)	6,521
(Decrease) increase in accounts payable and accrued liabilities	83,162	(5,429)
Net cash used in operating activities	(261,749)	(152,934)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to resource properties	(8,008,859)	(750,063)
Acquisition of Canada Nickel (Note 4)	(5,355,000)	-
Cash acquired on acquisition of Canada Nickel (Note 4)	3,388,991	(1,412,026)
Acquisition of investment	-	(1,412,026)
Proceeds from investment	-	1,408,258
Net cash used in investing activities	(9,974,868)	(753,831)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	-	1,666,880
Share issue costs	-	900
Issue of equity securities by Canada Nickel to non-controlling interests	5,569,028	-
Proceeds from shareholder loan (Note 10)	1,100,000	-
Repayment of shareholder loan (Note 10)	(1,100,000)	-
Net cash provided by financing activities	5,569,028	1,667,780
Change in cash during period	(4,667,589)	761,015
Cash and cash equivalents, beginning of period	9,296,877	878,988
Cash and cash equivalents, end of period	$ 4,629,288	$ 1,640,003
Cash paid for interest	$ -	$ -
Cash paid for income taxes	$ -	$ -
Cash and cash equivalents consist of:		
Cash on hand	$ 418,453	$ 1,240,003
Term deposits	4,210,835	400,000
	$ 4,629,288	$ 1,640,003

Supplemental disclosure with respect to cash flows (Note 9)

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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1. BASIS OF PRESENTATION

The consolidated interim period financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. All financial summaries included are presented on a comparative and consistent basis showing the figures for the corresponding period in the preceding year. The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of annual financial statements, except as noted below. Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These consolidated interim period statements should be read together with the audited financial statements and the accompanying notes included in the Company's latest annual report. In the opinion of the Company, its unaudited consolidated interim financial statements contain all adjustments necessary in order to present a fair statement of the results of the interim periods presented.

2. NATURE AND CONTINUANCE OF OPERATIONS

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 resource properties in Indonesia. To date, the Company has not generated significant revenues from operations and is considered to be in the exploration stage.

The Company is in the process of exploring and developing its resource properties and has not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for resource properties and related deferred exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, which presume the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company's ability to continue as a going concern is dependent upon achieving profitable operations and upon obtaining additional financing. The outcome of these matters can not be predicted at this time. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

3. CHANGE IN ACCOUNTING POLICIES AND RESTATEMENT

Principles of consolidation

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

3. CHANGE IN ACCOUNTING POLICIES AND RESTATEMENT (cont'd…)

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.

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.

3. CHANGE IN ACCOUNTING POLICIES AND RESTATEMENT (cont'd…)

Restatement

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

- 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).

Recent accounting pronouncements

International financial reporting standards ("IFRS")

In 2006, the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. 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 January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Goodwill and intangible assets

The Canadian Accounting Standards Board ("AcSB") issued CICA Handbook Section 3064 which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill remain unchanged from the standards included in the previous Section 3062. The section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008 and is not expected to have an impact on the Company's financial results.

(Expressed in Canadian dollars)

4. INVESTMENT IN CANADA NICKEL CORP.

On July 7, 2008, the Company acquired 15,300,000 common shares of Canada Nickel Corp ("Canada Nickel"), a related corporation with a common director, for a purchase price of $5,355,000 representing a 59.77% of the outstanding shares of Canada Nickel at the time of acquisition. As a result of the share purchase, the Company acquired control of Canada Nickel and, accordingly, effective July 7, 2008, the Company consolidated the financial results of Canada Nickel.

The acquisition of Canada Nickel has been accounted for using the purchase method. 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

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% resulting in a gain on diluted interest in subsidiary $533,211. The Company maintains control over 66.6% of voting shares of Canada Nickel as a result of a voting agreement with a common director.

5. EQUIPMENT

	September 30, 2008			June 30, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Telephone equipment	$ 26,278	$ 9,841	$ 16,437	$ 26,278	$ 8,976	$ 17,302

6. RESOURCE PROPERTIES

September 30, 2008	Lombok Property, Indonesia	Sumbawa Property, Indonesia	James Bay Project, Canada	Total
Acquisition costs				
Balance, beginning of period	$ 1,051,254	$ 450,537	$ -	$ 1,501,791
Option payment	-	-	5,000,000	5,000,000
Purchase price allocation (Note 4)	-	-	1,966,801	1,966,801
Balance, end of period	1,051,254	450,537	6,966,801	8,468,592

- Continued -

(Expressed in Canadian dollars)

6. RESOURCE PROPERTIES (cont'd…)

September 30, 2008	Lombok Property, Indonesia	Sumbawa Property, Indonesia	James Bay Project, Canada	Total
Continued…				
Deferred exploration costs				
Incurred during the period:				
Assaying, testing, surveying and analysis	38,766	-	-	38,766
Camp construction, supplies and accommodation	427,495	119,026	-	546,521
Drilling	505,128	148	-	505,276
Geological and other consulting	254,727	43,565	-	298,292
Geophysical survey	-	-	1,100,000	1,100,000
Travel	15,425	277	-	15,702
Total deferred exploration costs	1,241,541	163,016	1,100,000	2,504,557
Balance, beginning of period	7,982,732	3,668,090	-	11,650,822
Balance, end of period	9,224,273	3,831,106	1,100,000	14,155,379
Total resource property costs	$ 10,275,527	$ 4,281,643	$ 8,066,801	$ 22,623,971

June 30, 2008	Lombok Property, Indonesia	Sumbawa Property, Indonesia	Total
Acquisition costs			
Balance, beginning and end of year	$ 1,051,254	$ 450,537	$ 1,501,791
Deferred exploration costs			
Incurred during the year:			
Assaying, testing, surveying and analysis	180,769	21,932	202,701
Camp construction, supplies and other	1,130,012	322,857	1,452,869
Drilling	1,778,072	-	1,778,072
Geological and other consulting	894,885	321,990	1,216,875
Travel	38,245	20,064	58,309
Total deferred exploration costs	4,021,983	686,843	4,708,826
Balance, beginning of year	3,960,749	2,981,247	6,941,996
Balance, end of year	7,982,732	3,668,090	11,650,822
Total resource property costs	$ 9,033,986	$ 4,118,627	$ 13,152,613

6. RESOURCE PROPERTIES (cont'd…)

Title to resource properties involves certain inherent risks due to the difficulties of determining the validity of certain resource property interests as well as the potential for problems arising from the frequently ambiguous conveying history characteristic of many resource properties. The Company has investigated titles to all of its resource property interests and, to the best of its knowledge, title to all of its resource property interests are in good standing.

Lombok and Sumbawa Properties, Indonesia

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 property ("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 the option, directly with Indotan, to acquire 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. The Company now has an option, until February, 2010 to acquire 50% of Indotan's 1% net smelter returns royalty ("NSR") on the Properties in consideration for the payment of $500,000. 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.

(Expressed in Canadian dollars)

6. RESOURCE PROPERTIES (cont'd…)

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

Lombok and Sumbawa are currently 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. 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. A 12 month extension on the Lombok SIPP has been filed. The granting of a SIPP is not a guarantee that a COW will be entered into.

The Company 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 by 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*.

The Company has advanced $57,019 towards future mineral property exploration.

James Bay Nickel Project, Canada

During the period ended September 30, 2008, the Company's 43.65% owned subsidiary, Canada Nickel, entered into an option agreement with Diamondex Resources Ltd. (Diamondex") to earn up to 51% interest (10% earned) in the James Bay Nickel Project (the "Project). The Project is located near Ogoki, Ontario, Canada and consists of 724 mineral claims comprising approximately 407,388 acres of mineral rights. In order to earn its interest, Canada Nickel must pay an aggregate $5,000,000 in option payment ($5,000,000 paid) and incur a total of $20,000,000 of exploration expenditures ($1,100,000 incurred), as follows:

Date	Cash Payments $	Exploration Expenditures $	Interest Earned
Execution of the Option Agreement (paid)	5,000,000	-	10%
July 7, 2009	-	5,000,000	12%
July 7, 2010	-	7,000,000	14%
July 7, 2011	-	8,000,000	15%
	5,000,000	20,000,000	51%

6. RESOURCE PROPERTIES (cont'd…)

James Bay Nickel Project, Canada (cont'd…)

The Company also committed to issue to Diamondex 250,000 warrants of Canada Nickel which will entitle Diamondex to purchase up to 250,000 common shares of Canada Nickel for a period of 24 months from the closing of Canada Nickel's Initial Public Offering (the "Offering"). The warrants will be issued on the date that Canada Nickel completes the Offering and will be priced at the same price as Canada Nickel's shares issued in connection with the Offering.

7. LONG-TERM INVESTMENT

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.

On August 16, 2007 it was announced that the Montreal Group representing banks, asset-backed commercial paper providers and major investors had reached a standstill agreement to restructure the ABCP market. This restructuring is expected to replace the existing short-term investments with longer term notes.

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.

(Expressed in Canadian dollars)

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Capital Stock	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Issued			
Balance as at June 30, 2007	56,554,933	$ 12,277,578	$ 1,580,928
Private placement	9,432,836	11,319,403	-
Bonus shares	210,000	266,700	-
Issued for cash	-	-	-
Exercise of warrants	2,988,137	1,812,639	(53,532)
Exercise of options	2,225,000	2,065,218	(956,718)
Stock-based compensation	-	-	4,601,368
Share issuance costs	-	(823,330)	-
Agent warrants	-	(368,400)	368,400
Balance as at June 30, 2008	71,410,906	26,549,808	5,540,446
Stock-based compensation	-	-	63,864
Balance as at September 30, 2008	71,410,906	$ 26,549,808	$ 5,604,310

The Company had nil shares in escrow at September 30, 2008.

During the year ended June 30, 2008, the Company:

a) completed a brokered private placement for 8,960,336 units at a price of $1.20 per unit, with each unit being comprised of one common share and one-half of a transferable share purchase warrant. Each warrant may be exercised to purchase an additional common share of the Company at a purchase price of $1.75 for a period of two years to December 18, 2009. The Company paid an aggregate of $698,906 in cash commissions, $124,424 in share issuance costs and issued an aggregate of 582,422 agent's warrants valued at $368,400. Each agent's warrant is exercisable into one common share at an exercise price of $1.20 per common share for a period of one year to December 18, 2008.

b) completed a non-brokered private placement for 300,000 units at a price of $1.20 per unit, with each unit being comprised of one common share and one-half of a transferable share purchase warrant. Each warrant may be exercised to purchase an additional common share of the Company at a purchase price of $1.75 for a period of two years to December 18, 2009.

c) completed a private placement for 172,500 units at a price of $1.20 per unit. Each unit consists of one common share and one-half of a transferable share purchase warrant exercisable at $1.75 per share until January 8, 2010.

(Expressed in Canadian dollars)

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd…)

d) issued 210,000 common shares with a value of $1.27 per share to consultants, geologists and field personnel for working on the Company's mineral properties. The shares are subject to hold periods whereby one-third of the shares become freely tradable every six months over a period of 18 months.

Stock options

The Company grants stock options in accordance with the policies of the TSX Venture Exchange ("TSXV"). The number of shares reserved for issuance under the plan shall not exceed 10% of the issued and outstanding common shares of the Company. The terms of the option, including the vesting terms and the option price are fixed by the directors at the time of grant subject to the price not being less than the market price of the Company's stock on the date of grant. The stock options granted are exercisable for a period of five years. A summary of the Company's outstanding stock options granted is presented below.

	Number of Options	Weighted Average Exercise Price
Outstanding, June 30, 2007	3,925,000	$ 0.46
Granted (weighted average fair value, $1.46)	3,215,000	1.56
Granted (weighted average fair value, $1.59)	400,000	1.56
Exercised	(2,225,000)	0.50
Outstanding, June 30, 2008	5,315,000	1.19
Granted	250,000	0.30
Outstanding September 30, 2008	5,565,000	$ 1.15
Number of options currently exercisable	5,565,000	$ 1.19

During the period ended September 30, 2008, the Company reported stock-based compensation of $63,864, (2007 - $4,038,879) using the Black-Scholes Option Pricing model, as a result of 250,000 (2007 – 3,215,000) options granted. These amounts were recorded as contributed surplus on the balance sheet. The weighted average fair value of the options granted was $0.26 (2007 - $1.26) per option.

Option pricing models require the use of estimates and assumptions including the expected volatility. Changes in underlying assumptions can materially affect the fair value estimates.

(Expressed in Canadian dollars)

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd…)

Stock options (cont'd…)

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted during the period:

	Three Month Period Ended September 30, 2008	Three Month Period Ended September 30, 2007
Risk-free interest rate	3.24%	4.29%
Expected life of options	5 years	5 years
Annualized volatility	108%	110%
Dividend rate	0.00%	0.00%

Warrants

The Company has granted warrants to purchase common shares. A summary of warrants granted is presented below:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, June 30, 2007	6,388,403	$ 0.60
Granted	5,298,840	1.69
Exercised	(2,988,137)	0.59
Expired	(1,070,786)	0.94
Outstanding, June 30, 2008 and September 30, 2008	7,628,320	$ 1.31

(Expressed in Canadian dollars)

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd…)

Share purchase options and warrants

At September 30, 2008, the Company had share purchase options and warrants outstanding enabling holders to acquire common shares as follows:

	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

9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company has the following significant non-cash transactions:

During the period ended September 30, 2008, the Company:

a) included in accounts payable $Nil (June 30, 2008 - $447,283) of resource property costs.

b) allocated $Nil (September 30, 2007 – $39,144) to capital stock from contributed surplus for agent warrants exercised during the year.

c) allocated $Nil (September 30, 2007 – $716,000) to capital stock from contributed surplus for stock options exercised during the year.

10. 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, recorded in office and miscellaneous expense, to a private company controlled by the Chief Executive Officer and director of the Company.

10. RELATED PARTY TRANSACTIONS (cont'd…)

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

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

f) 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.

11. FINANCIAL INSTRUMENTS AND RISK

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities and long-term investment. 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.

(Expressed in Canadian dollars)

11. FINANCIAL INSTRUMENTS AND RISK (cont'd…)

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 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 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.

12. COMMITMENT

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

2009	$ 12,237

(Expressed in Canadian dollars)

13. SEGMENTED INFORMATION

The Company operates in one industry segment, being the exploration of resource properties. Geographic information is as follows:

	September 30, 2008	June 30, 2008
Resource properties - Indonesia	$ 14,557,170	$ 13,152,613
Resource properties – Canada	8,066,801	-
Equipment – Canada	16,437	17,302
	$ 22,640,408	$ 13,169,915

14. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern.

In the management of capital, the Company monitors its adjusted capital which comprises all components of equity (ie. share capital and retained earnings).

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue common shares through private placements. The Company is not exposed to any externally imposed capital requirements.