

SOUTHERN ARC MINERALS INC.

CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE NINE MONTHS
ENDED MARCH 31, 2010
(Unaudited – Prepared by Management)**

(Expressed in Canadian Dollars)

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 March 31, 2010.

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

	March 31, 2010	June 30, 2009
ASSETS		
Current		
Cash	\$ 1,316,886	\$ 2,431,412
Receivables	18,995	13,246
Deposits, retainers and prepaids	<u>37,361</u>	<u>738,430</u>
	1,373,242	3,183,088
Equipment (Note 6)	11,766	13,842
Exploration advances (Note 7)	94,596	-
Resource properties (Note 7)	20,626,421	15,483,236
Long-term investment (Note 8)	<u>804,745</u>	<u>816,703</u>
	\$ 22,910,770	\$ 19,496,869

LIABILITIES AND SHAREHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities	\$ 64,600	\$ 91,713
Loan payable (Note 9)	<u>550,000</u>	<u>-</u>
	614,600	91,713
Non-controlling interest (Note 4)	<u>1,307,711</u>	<u>1,369,164</u>
Shareholders' equity		
Capital stock (Note 10)	30,210,972	26,565,067
Contributed surplus (Note 10)	5,912,425	5,604,310
Deficit	<u>(15,134,938)</u>	<u>(14,133,385)</u>
	20,988,459	18,035,992
	\$ 22,910,770	\$ 19,496,869

Basis of presentation (Note 1)

Nature and continuance of operations (Note 2)

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)
(Expressed in Canadian dollars)

	For the Three Months Ended March 31, 2010	For the Three Months Ended March 31, 2009	For the Nine Months Ended March 31, 2010	For the Nine Months Ended March 31, 2009
EXPENSES				
Amortization	\$ 692	\$ 865	\$ 2,076	\$ 2,595
Consulting fees	13,695	18,000	22,695	54,000
Foreign exchange	3,852	(505)	5,845	(94,897)
Investor relations	29,344	7,000	29,344	59,929
Management fees	100,500	100,500	301,500	308,700
Office and miscellaneous	70,216	22,474	137,297	112,056
Professional fees	97,187	49,103	270,598	283,081
Property investigation costs	35,001	-	37,670	2,358
Rent	1,449	4,185	12,562	17,360
Stock-based compensation (Note 10)	-	-	333,661	63,864
Transfer agent and filing fees	17,250	6,750	36,721	49,066
Travel	22,186	5,089	25,223	17,166
Loss before other items and non-controlling interest	(391,372)	(213,461)	(1,215,192)	(875,278)
OTHER ITEMS				
Interest income (expense)	(804)	5,281	2,400	80,435
Gain on settlement of lawsuit	-	-	250,000	-
Gain (loss) on diluted interest in subsidiary	-	(331,191)	-	203,545
	(804)	(325,910)	252,400	283,980
Loss before non-controlling interest	(392,176)	(539,371)	(962,792)	(591,298)
Non-controlling interest	9,770	(148,298)	(38,761)	(15,407)
Loss and comprehensive loss for the period	(382,406)	(687,669)	(1,001,553)	(606,705)
Future income tax recovery	-	356,400	-	356,400
Income tax expense	-	(13,070)	-	(13,070)
Net comprehensive loss for the period	(382,406)	(344,339)	(1,001,553)	(263,375)
Deficit, beginning of period	(14,752,532)	(8,811,865)	(14,133,385)	(8,892,829)
Deficit, end of period	\$ (15,134,938)	\$ (9,156,204)	\$ (15,134,938)	\$ (9,156,204)
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.00)
Weighted average number of shares outstanding	77,699,853	41,410,906	73,484,185	71,410,906

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

SOUTHERN ARC MINERALS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Expressed in Canadian dollars)

	For the Three Months Ended March 31, 2010	For the Three Months Ended March 31, 2009	For the Nine Months Ended March 31, 2010	For the Nine Months Ended March 31, 2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss for the period	\$ (382,406)	\$ (344,339)	\$ (1,001,553)	\$ (263,375)
Items not affecting cash:				
Stock-based compensation	-	-	333,661	63,864
Amortization	692	865	2,076	2,595
Gain/(loss) on diluted interest in subsidiary	-	331,191	-	(203,545)
Future income tax recovery	-	(356,400)	-	(356,400)
Non-controlling interest	(109,984)	148,298	(61,453)	15,407
Changes in non-cash working capital items:				
Increase (decrease) in receivables	(10,662)	39,551	(5,749)	(18,822)
Increase (decrease) in exploration advances	(94,596)	-	(94,596)	-
Increase (decrease) in prepaids and retainer	(16,776)	-	701,069	5,000
Increase in income tax recovery	-	13,070	-	13,070
Decrease (increase) in accounts payable and accrued liabilities	(28,700)	(600)	(4,441)	(515)
Net cash used in operating activities	(642,432)	(168,364)	(130,986)	(742,721)
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to resource properties	(310,856)	(251,321)	(2,750,857)	(8,657,756)
Acquisition of Nickel Oil & Gas (Note 4)	-	-	-	(5,355,000)
Cash acquired on acquisition of Nickel Oil & Gas	-	-	-	3,388,991
Repayment of investment	264	-	11,958	-
Retainer for legal	-	9,672	-	(748,889)
Net cash used in investing activities	(310,592)	(241,649)	(2,738,899)	(11,372,654)
CASH FLOWS FROM FINANCING ACTIVITIES				
Share issue costs recovery	-	15,259	-	15,259
Issue of equity securities by Nickel Oil & Gas to non-controlling interests	-	-	-	5,572,528
Proceeds from loan	-	-	550,000	-
Proceeds from issuance of shares	-	-	1,205,359	-
Proceeds from shareholder loan	-	-	-	1,100,000
Repayment of shareholder loan	-	-	-	(1,100,000)
Net cash provided by financing activities	-	15,259	1,755,359	5,587,787
Change in cash during period	(953,024)	(394,754)	(1,114,526)	(6,527,588)
Cash and cash equivalents, beginning of period	2,269,910	3,164,043	2,431,412	9,296,877
Cash and cash equivalents, end of period	\$ 1,316,886	\$ 2,769,289	\$ 1,316,886	\$ 2,769,289
Cash paid for interest	\$ 245	\$ -	\$ 4,650	\$ -
Cash paid for income taxes	\$ -	\$ -	\$ -	\$ -

Supplemental disclosure with respect to cash flows (Note 11)

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

SOUTHERN ARC MINERALS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
FOR THE NINE MONTH PERIOD ENDED MARCH 31, 2010
(Expressed in Canadian dollars)

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 and Canada. 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. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

These consolidated financial statements include:

- i) the accounts of the Company;
- ii) its 43.56% owned Canadian subsidiary, Nickel Oil & Gas Corp. ("Nickel Oil & Gas"), formerly Canada Nickel Corp., from the date of acquisition; and
- iii) its wholly owned Singapore subsidiaries, Indotan Lombok Pte. Ltd. and Indotan Sumbawa Pte. Ltd.

Significant inter-company balances and transactions have been eliminated upon consolidation.

SOUTHERN ARC MINERALS INC.
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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

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 did not have an impact on the Company's financial results.

Recent accounting pronouncements

The new primary sources of generally accepted accounting principles that have been issued that the Company has not adopted because there are not yet in effect are as follows:

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 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 and will be disclosed in the Company's annual financial statements and management's discussion and analysis.

Business combinations

In January 2009, the AcSB released Section 1582, which replaces Section 1581 "Business Combinations". It provides the Canadian equivalent to IFRS 3 "Business Combinations". For the Company, this section applies prospectively to business combinations for which the acquisition is subsequent to fiscal year 2011. Earlier application is permitted. Section 1582 must be applied together with Section 1601 and Section 1602 if it is implemented for a fiscal year beginning before February 1, 2011. The Company will consider the impact of adopting these pronouncements on its financial statements if future acquisitions are completed.

Consolidated financial statements and non-controlling interests

In January 2009, the AcSB also released Section 1601 "Consolidated financial statements" and Section 1602 "Non-controlling interest", which replace Section 1600 "Consolidated Financial statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the consolidated financial statements of the parent, subsequent to a business combination. Section 1602 is equivalent to the corresponding provisions of IAS 27, "Consolidated and Separate Financial Statements". For the Company, these sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after February 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. These sections must be applied together with Section 1582 "Business Combinations" if they are implemented for a fiscal year beginning before February 1, 2011.

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4. INVESTMENT IN NICKEL OIL & GAS CORP.

On July 7, 2008, the Company acquired 15,300,000 common shares of Nickel Oil & Gas, a related corporation by way of a common director, for a purchase price of \$5,355,000 representing 59.77% of the outstanding shares of Nickel Oil & Gas at the time of acquisition. As a result of the share purchase, the Company acquired control of Nickel Oil & Gas and, accordingly, effective July 7, 2008, the Company consolidated the financial results of Nickel Oil & Gas.

The acquisition of Nickel Oil & Gas has been accounted for using the purchase method. The total purchase price of \$5,355,000 has been allocated as follows:

Cash	\$ 5,669,935
Receivables	40
Resource property	1,966,801
Accounts payable and accrued liabilities	(792)
Non-controlling interest	<u>(2,280,984)</u>
	<u>\$ 5,355,000</u>

During the year ended June 30, 2009, Nickel Oil & Gas issued additional common stock to third parties which diluted the Company's ownership percentage of Nickel Oil & Gas to 43.56%, and renounced flow-through shares, resulting in a gain on diluted interest in subsidiary of \$201,920.

5. INVESTMENT IN INDOTAN LOMBOK PTE. LTD. AND INDOTAN SUMBAWA PTE. LTD.

During the period ended March 31, 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.) ("The 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 within a period of 8 months. 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 Lombok Property, as those applications were originally described in March, 2005. In the case of the Lombok Property, the NSR does not apply to the Block 1 property (which encompasses all of Selodong, Mencangah, and Pelangan prospects) acquired by the Company from Newmont in January, 2006.

The shares of the Singapore Companies will be transferred to the Company once required permits have been granted to the Singapore Companies pursuant to the mining laws of Indonesia. Effective December 24, 2009, the Company consolidated the financial results of Singapore Companies.

The acquisition of Singapore Companies has been accounted for using the purchase method. The total purchase price of \$2,415,000 has been allocated to resource properties.

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6. EQUIPMENT

	March 31, 2010			June 30, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Telephone equipment	\$ 26,278	\$ 14,512	\$ 11,766	\$ 26,278	\$ 12,436	\$ 13,842

7. RESOURCE PROPERTIES

For the nine months ended March 31, 2010	Brewster Area, Canada	Lombok Property, Indonesia	Sumbawa Property, Indonesia	Total
Acquisition costs				
Balance, beginning of period	\$ -	\$ 1,051,254	\$ 450,537	\$ 1,501,791
Cash	-	168,545	94,261	262,806
Shares	-	1,207,500	1,207,500	2,415,000
Balance, end of period	-	2,427,299	1,752,298	4,179,597
Deferred exploration costs				
Incurred during the period:				
Assaying, testing, surveying and analysis	-	25,532	-	25,532
Camp construction, supplies and other	-	151,201	54,527	205,728
Completion	968,367	-	-	968,367
Drilling	791,577	6,906	-	798,483
Geological and other consulting	47,938	307,823	93,304	449,065
Travel	-	16,255	1,949	18,204
Total deferred exploration costs	1,807,882	507,717	149,780	2,465,379
Balance, beginning of period	-	10,017,489	3,963,956	13,981,445
Balance, end of period	1,807,882	10,525,206	4,113,736	16,446,824
Total resource properties costs	\$ 1,807,882	\$ 12,952,505	\$ 5,866,034	\$ 20,626,421

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(Expressed in Canadian dollars)

7. RESOURCE PROPERTIES (cont'd...)

For the year ended June 30, 2009	Lombok Property, Indonesia	Sumbawa Property, Indonesia	James Bay Project, Canada	Total
Acquisition costs				
Balance, beginning of year	\$ 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
Written-off during the year	-	-	(6,966,801)	(6,966,801)
Balance, end of year	<u>1,051,254</u>	<u>450,537</u>	<u>-</u>	<u>1,501,791</u>
Deferred exploration costs				
Incurred during the year:				
Assaying, testing, surveying and analysis	63,876	9,836	-	73,712
Camp construction, supplies and accommodation	704,434	192,971	-	897,405
Drilling	558,805	1,879	-	560,684
Geological and other consulting	679,779	89,633	-	769,412
Geophysical survey	-	-	1,100,000	1,100,000
Travel	27,863	1,547	-	29,410
Written-off during the year	-	-	(1,100,000)	(1,100,000)
Total deferred exploration costs	2,034,757	295,866	-	2,330,623
Balance, beginning of year	<u>7,982,732</u>	<u>3,668,090</u>	<u>-</u>	<u>11,650,822</u>
Balance, end of year	<u>10,017,489</u>	<u>3,963,956</u>	<u>-</u>	<u>13,981,445</u>
Total resource properties costs	<u>\$11,068,743</u>	<u>\$ 4,414,493</u>	<u>\$ -</u>	<u>\$15,483,236</u>

Brewster Area, Canada

During the period ended March 31, 2010, the Company's 43.56% owned subsidiary, Nickel Oil & Gas, entered into a joint venture agreement (the "Joint Venture"). The Joint Venture makes available to Nickel Oil & Gas a liquids rich gas prospect within established gas producing fairways in the Brewster Area of Alberta. According to the Joint Venture agreement, Nickel Oil & Gas earned a 20% working interest in one section of land (640 acres) by paying 100% of the costs of completing a previously drilled well and a 48% working interest in a second section by paying 100% of the costs of drilling and completing a well. A party holding a 20% interest in both sections elected not to participate in the operations and consequently has forfeited its 20% interest in production until such time as the parties participating in the operation have collectively recovered a penalty equal to 400% of the operation costs associated with the drilling and completion of these Wells. As result, Nickel Oil & Gas effectively holds a 40% interest in one section and a 68% interest in the second section until such time as the 400% penalty has been recovered.

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(Expressed in Canadian dollars)

7. RESOURCE PROPERTIES (cont'd...)

Lombok and Sumbawa Properties, Indonesia

During the year ended June 30, 2005, 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 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. 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 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 the respective amounts to each of the Lombok JV and Sumbawa JV.

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*.

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7. RESOURCE PROPERTIES (cont'd...)

James Bay Nickel Project, Canada

During the year ended June 30, 2009, the Company's 43.56% owned subsidiary, Nickel Oil & Gas, 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 "Property"). The Property is located near Ogoki, Ontario, Canada and consists of 724 mineral claims comprising approximately 407,388 acres of mineral rights. Nickel Oil & Gas did not continue with the option agreement and recognized an impairment loss of \$8,066,801. Nickel Oil & Gas also commenced a legal action against Diamondex in connection with its option agreement.

During the period ended March 31, 2010, the Company announced the settlement of legal action against Diamondex. According to the settlement, Diamondex has paid to Nickel Oil & Gas the sum of \$250,000; Nickel Oil & Gas has transferred to Diamondex its 10% interest in the James Bay Lowlands Property; Diamondex has granted to Nickel Oil & Gas a royalty equal to 1.5% of Net Smelter Returns ("NSR") if the Property is put into commercial production; Nickel Oil & Gas has granted to Diamondex 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 Diamondex fully exercises the three parts of this option by paying \$2,500,000 to Nickel Oil & Gas, the NSR will be reduced to 0.5%.

8. LONG-TERM INVESTMENT

At March 31, 2010, long-term investments included Master Asset Vehicle II notes received in exchange for Canadian third-party asset backed commercial paper ("ABCP") that was held by the Company. These investments were designated as held-for-trading and are accounted for at their fair values.

The notes held by the Company are referred to as MAVII, including senior notes Class A-1, subordinated notes Class C, and ineligible tracking notes Class 13:

Notes	Maturity Date (1)	Interest Rate (2)	Face Value	Fair Value Estimate
MAV II Class A-1	December 2056	BA - 0.5%	\$ 1,187,185	\$ 794,402
MAV II Class C	December 2056	BA + 20%	36,717	3,671
MAV II Class 13 (Ineligible Asset Tracking Notes)			186,296	18,630
Total			\$ 1,410,198	\$ 816,703

(1) Maturity date reflects legal maturity date. Latest maturity date of underlying assets is December 2016.

(2) BA rate is Canadian dollar Bankers Acceptance interest rate with a maturity of 90 days.

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8. LONG-TERM INVESTMENT (cont'd...)

The notes are classified as held-for-trading under the Company's Financial Instruments Policy which requires them to be fair valued at each period end with changes in fair value included in the statement of operations in the period in which they arise. The fair value is determined using a discounted cash flow approach based on the maximum use of inputs observed from the market on reporting dates. There has been no change in the estimated fair value of the notes during the nine months period ended March 31, 2010.

The fair value of the Class A-1 notes was established using a discounted cash flow approach based on the following inputs: the notes will pay interest at a rate 0.5% less than the bankers' acceptance ("BA") rate, prospective buyers of these notes were estimated to require premium yields 5% over the BA rate, average maturity of Class A -1 Notes were estimated to be 7.5 years. The Class C Notes are subordinated to the Class A and Class B Notes with respect to payment of interest and principal, and no amounts will be paid with respect to the Class C Notes until the Class A and Class B Notes are repaid in full. The Class C notes are viewed as highly speculative with regard to ultimate payment of principal at maturity in 2016. Accordingly, it is expected that Class C notes will trade at approximately 10% of face par value. The fair value of the sub-prime backed Class 13 Notes was calculated as 10% of par value.

In conjunction with the note exchange, the Company received a payment of \$60,460 which was its share of the accumulated interest to June 30, 2009. The interest received to June 30, 2009 was accounted for as a reduction of the Company's investment. The Company recorded the fair value of its notes as \$816,703 and a provision for impairment of \$323,059 during the year ended June 30, 2009 (\$211,804 impairment charge recognized in the fiscal 2008).

There is significant amount of uncertainty in estimating the amount and timing of cash flows associated with these notes. Until an active market develops for the MAV II notes, the fair value will be determined using a discounted cash flow approach based on the maximum use of inputs observed from market conditions on subsequent reporting dates. Therefore, the fair values may change materially in subsequent periods.

During the nine months ended March 31, 2010, the Company received \$11,958 in interest on the notes and recorded it as a return of capital.

9. LOAN PAYABLE

During the period ended March 31, 2010, the Company secured a \$550,000 demand non-revolving bridge loan from its bank pending any possible long-term solution to the current liquidity issues affecting the Company's investment in ABCP. The bridge loan is secured by the Company's investment in ABCP. Interest on direct advances is paid at the Bank's prime rate plus 1% per annum to be repaid by September 30, 2010.

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10. 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, 2008	71,410,906	\$ 26,549,808	\$ 5,540,446
Stock-based compensation	-	-	63,864
Share issuance cost recovery from December 2007 private placement	<u>-</u>	<u>15,259</u>	<u>-</u>
Balance as at June 30, 2009	71,410,906	26,565,067	5,604,310
Stock-based compensation	-	-	333,661
Exercise of warrants	1,679,084	1,175,359	-
Exercise of options	100,000	55,546	(25,546)
Issued for acquisition of subsidiaries	<u>3,500,000</u>	<u>2,415,000</u>	<u>-</u>
Balance as at March 31, 2010	<u>76,689,990</u>	<u>\$ 30,210,972</u>	<u>\$ 5,912,425</u>

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

- a) issued 100,000 common shares at \$0.30 per share for total proceeds of \$30,000 pursuant to the exercise of stock options previously granted.
- b) issued 1,679,084 common shares at \$0.70 per share for total proceeds of \$1,175,369 pursuant to the exercise of warrants previously granted.

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.

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10. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Stock options (cont'd...)

	Number of Options	Weighted Average Exercise Price
Outstanding, June 30, 2008	5,315,000	\$ 1.19
Granted	250,000	0.30
Cancelled	<u>(790,000)</u>	0.69
Outstanding, June 30, 2009	4,775,000	1.23
Exercised	(100,000)	0.30
Granted	3,500,000	0.40
Cancelled	<u>(3,450,000)</u>	1.56
Outstanding, March 31, 2010	4,725,000	\$ 0.39
Number of options currently exercisable	4,725,000	\$ 0.39

During the period ended March 31, 2010, the Company recorded stock-based compensation of \$333,661 (2009 - \$63,864) using the Black-Scholes Option Pricing model, as a result of 50,000 (2009 - 250,000) options granted and 3,450,000 options repriced. These amounts were recorded as contributed surplus on the balance sheet. The weighted average fair value of the options granted and repriced was \$0.10 (2009 - \$0.26) 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.

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

	Nine Month Period Ended March 31, 2010	Nine Month Period Ended March 31, 2009
Risk-free interest rate	0.62%	3.24%
Expected life of options	5 years	5 years
Annualized volatility	121.25%	108%
Dividend rate	0.00%	0.00%

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10. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Stock options (cont'd...)

At March 31, 2010, 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	650,000	\$ 0.25	June 30, 2010
	425,000	0.56	January 13, 2011
	3,500,000	0.40	September 16, 2014
	<u>150,000</u>	0.30	July 31, 2013
	4,725,000		

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, 2008	7,628,320	\$ 1.31
Expired	<u>(2,911,902)</u>	0.60
Outstanding, June 30, 2009	4,716,418	1.75
Repriced	(4,630,168)	1.75
Repriced	4,630,168	0.70
Exercised	(1,679,084)	0.70
Expired	<u>(3,037,334)</u>	0.70
Outstanding, March 31, 2010	-	\$ -

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company had the following significant non-cash transactions:

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

- i) had included in accounts payable \$Nil (June 30, 2009 - \$22,672) of resource property costs.
- ii) issued 3,500,000 common shares with a value of \$2,415,000 as an investment (Note 5).

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12. RELATED PARTY TRANSACTIONS

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

- a) paid \$301,500 (2009 - \$308,700) for management fees and \$50,700 (2009 - \$32,300) for administration, recorded in office and miscellaneous expense, to a private company controlled by the Chief Executive Officer and director of the Company;
- b) paid \$4,744 (2009 - \$71,588) for legal fees, included in professional fees, to a firm in which a director of Nickel Oil & Gas is a partner.

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

13. FINANCIAL INSTRUMENTS AND RISK

The Company's financial instruments consist of cash, receivables, deposits, retainers and prepaids, long term investments, accounts payable and accrued liabilities and loan 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 is holding asset backed commercial paper with a fair value at March 31, 2010 of \$804,745. The credit risk associated with this investment is discussed in Note 8.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at March 31, 2010, the Company had a cash balance of \$1,316,886 (June 30, 2009 - \$2,431,412) to settle current liabilities of \$64,600 (June 30, 2009 - \$91,713). 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 and a loan payable maintained at a Canadian financial institution are subject to a floating rate of interest. The interest rate risks on cash and on the Company's obligations are not considered significant.

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13. FINANCIAL INSTRUMENTS AND RISK (cont'd...)

Market risk (cont'd...)

(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 foreign currency denominated cash or monetary assets or liabilities in Indonesia.

(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.

14. COMMITMENT

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

2010	\$ 4,096
2011	\$ 10,896

15. SEGMENTED INFORMATION

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

	March 31, 2010	June 30, 2009
Resource properties – Indonesia	\$ 18,818,539	\$ 15,483,236
Resource properties – Canada	1,807,882	-
Equipment – Canada	<u>11,766</u>	<u>13,842</u>
	<u>\$ 20,638,187</u>	<u>\$ 15,497,078</u>

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16. 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 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.

There were no changes in the Company's approach to capital management during the period ended March 31, 2010.