SOUTHERN ARC MINERALS INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED
March 31, 2011
(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, 2011.

SOUTHERN ARC MINERALS INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

	March 31, 2011 (Unaudited)	June 30, 2010 (Audited)
ASSETS		
Current		
Cash	$ 25,774,261	$ 1,604,476
Receivables	115,416	29,668
Prepaid expense and deposit	84,847	7,534
Investment (Note 7)	-	835,799
	25,974,524	2,477,477
Property, plant and equipment (Note 5)	108,688	11,074
Loans receivable (Note 6)	318,180	-
Resource properties (Note 6)	24,216,140	22,410,416
	$ 50,617,532	$ 24,898,967
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 6)	$ 983,929	$ 383,246
Loans payable (Note 8)	971,800	1,614,600
	1,955,729	1,997,846
Shareholders' equity		
Capital stock (Note 9)	57,118,614	30,474,172
Contributed surplus (Note 9)	9,895,945	5,926,928
Reserve	264,474	221,008
Deficit	(20,853,141)	(15,692,612)
Capital and reserve attributable to shareholders of Southern Arc Minerals Inc.	46,425,892	20,929,496
Non-controlling interest (Note 4)	2,235,911	1,971,625
Total equity	48,661,803	22,901,121
	$ 50,617,532	$ 24,898,967

Nature and continuance of operations (Note 2)
Subsequent event (Note 16)

On behalf of the Board:

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

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

SOUTHERN ARC MINERALS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT
(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

	For the Three Months Ended March 31, 2011	For the Three Months Ended March 31, 2010	For the Nine Months Ended March 31, 2011	For the Nine Months Ended March 31, 2010
EXPENSES				
Amortization	$ 5,579	$ 692	$ 6,687	$ 2,076
Consulting fees	191,822	13,695	281,113	22,695
Foreign exchange (gain) loss	(6,620)	3,852	(17,583)	5,845
Investor relations	-	29,344	-	29,344
Management fees (Note 11)	100,500	100,500	301,500	301,500
Office and miscellaneous (Note 11)	275,995	70,216	405,748	137,297
Professional fees	137,381	97,187	448,296	270,598
Property investigation costs	(94,500)	35,001	-	37,670
Rent	7,894	1,449	16,066	12,562
Stock-based compensation (Note 9)	1,014,090	-	3,679,906	333,661
Transfer agent and filing fees	83,968	17,250	99,779	36,721
Travel	140,305	22,186	233,662	25,223
Loss before other items	(1,856,414)	(391,372)	(5,455,174)	(1,215,192)
OTHER ITEMS				
Interest income (expense)	3,693	(804)	3,711	2,400
Other income	37,480	-	37,480	-
Gain on sale of investments	-	-	54,852	-
Gain on settlement of lawsuit	-	-	-	250,000
	41,173	(804)	96,043	252,400
Net comprehensive loss for the period	$ (1,815,241)	$ (392,176)	$ (5,359,131)	$ (962,792)
Net comprehensive income (loss) attributable to:				
Shareholders of Southern Arc Minerals Inc.	$ (1,746,670)	$ (382,406)	$ (5,160,529)	$ (1,001,553)
Non-controlling interests	(68,571)	(9,770)	(198,602)	38,761
	$ (1,815,241)	$ (392,176)	$ (5,359,131)	$ (962,792)
Basic and diluted loss per share	$ (0.02)	$ (0.01)	$ (0.07)	$ (0.01)
Weighted average number of shares outstanding	84,823,393	77,699,853	77,090,574	73,484,185

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

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Nine Months Ended March 31, 2011	Nine Months Ended March 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Net comprehensive loss for the period	$ (1,815,241)	$ (392,176)	$ (5,359,131)	$ (962,792)
Items not affecting cash:				
Stock-based compensation	1,014,090	-	3,679,906	333,661
Amortization	5,579	692	6,687	2,076
Foreign exchange	(6,620)	3,852	(17,583)	5,845
Gain on sale of investments	-	-	(54,852)	-
Changes in non-cash working capital items:				
Increase in receivables	(56,678)	(10,662)	(85,748)	(5,749)
(Increase)/decrease in prepaid expense and deposit	(66,171)	(16,776)	(77,313)	701,069
Increase (decrease) in accounts payable and accrued liabilities	118,670	(28,700)	176,288	(4,441)
Net cash provided by (used in) operating activities	(806,371)	(443,770)	(1,731,746)	69,669
CASH FLOWS FROM INVESTING ACTIVITIES				
Property, plant, equipment	(104,301)	-	(104,301)	-
Additions to resource properties	(943,709)	(505,666)	(1,831,429)	(2,851,071)
Exploration advances (Prepayment)	453,146	-	453,146	(94,596)
Repayment of investment	-	264	374	11,958
Sale of investment	-	-	890,277	-
Net cash used in investing activities	(594,864)	(505,402)	(591,933)	(2,933,709)
CASH FLOWS FROM FINANCING ACTIVITIES				
Share issuance (net of cost) by Nickel Oil & Gas	-	-	189,042	-
Proceeds from loans	971,800	-	1,966,400	550,000
Loan repayments	(1,989,200)	-	(2,539,200)	-
Proceeds from issuance of shares	26,470,553	-	26,933,553	1,205,359
Net cash provided by financing activities	25,473,153	-	26,549,795	1,755,359
FOREIGN EXCHANGE ON CASH	2,705	(3,852)	(56,331)	(5,845)
Change in cash during period	24,074,623	(953,024)	24,169,785	(1,114,526)
Cash, beginning of period	1,719,638	2,269,910	1,604,476	2,431,412
Cash, end of period	$ 25,774,261	$ 1,316,886	$ 25,774,261	$ 1,316,886
Cash paid for interest	$ -	$ 245	$ 5,200	$ 4,650

Cash paid for income taxes - $ nil

Supplemental disclosure with respect to cash flows (Note 10)

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

SOUTHERN ARC MINERALS INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

	Capital Stock	Contributed Surplus	Non-controlling interest reserve	Deficit	Total	Non-controlling interest	Total Equity
Balance at June 30, 2009	**$ 26,565,067**	**$ 5,604,310**	**$ -**	**$ (14,133,385)**	**$ 18,035,992**	**$ 1,369,164**	**$ 19,405,156**
Comprehensive loss for the year	-	-	-	(1,559,227)	(1,559,227)	(53,859)	(1,613,086)
Private placement, net of transaction costs	-	-	-	-	-	977,703	977,703
Reimbursement of income taxes paid to flow-through share subscribers	-	-	-	-	-	(100,375)	(100,375)
Gain on diluted interest in subsidiary (Note 4)	-	-	221,008	-	221,008	(221,008)	-
Stock-based compensation	-	333,661	-	-	333,661	-	333,661
Stock-based financing costs	-	117,713	-	-	117,713	-	117,713
Exercise of warrants	1,175,359	-	-	-	1,175,359	-	1,175,359
Exercise of options	318,746	(128,756)	-	-	189,990	-	189,990
Issued for acquisition of subsidiaries (Note 6)	2,415,000	-	-	-	2,415,000	-	2,415,000
	3,909,105	322,618	221,008	-	4,452,731	656,320	5,109,051
Balance at June 30, 2010	**30,474,172**	**5,926,928**	**221,008**	**(15,692,612)**	**20,929,496**	**1,971,625**	**22,901,121**
Comprehensive loss for the period	-	-	-	(5,160,529)	(5,160,529)	(198,602)	(5,359,131)
Private placement, net of transaction costs	-	-	-	-	-	317,311	317,311
Private placement, net of transaction costs	26,470,553	-	-	-	26,470,553	-	26,470,553
Agent warrants (Share issue costs)	(658,817)	658,817	-	-	-	-	-
Gain on diluted interest in subsidiary (Note 4)	-	-	43,466	-	43,466	145,577	189,043
Stock-based compensation	-	3,679,906	-	-	3,679,906	-	3,679,906
Exercise of options	832,706	(369,706)	-	-	463,000	-	463,000
	26,644,442	3,969,017	43,466	-	30,656,925	462,888	31,119,813
Balance at March 31, 2011	**$ 57,118,614**	**$ 9,895,945**	**$ 264,474**	**$ (20,853,141)**	**$ 46,425,892**	**$ 2,235,911**	**$ 48,661,803**

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

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 for the year ended June 30, 2010. 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 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.

These financial statements are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") 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. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast doubt upon the entity's ability to continue as a going concern.

During the nine month period ended March 31, 2011, the Company incurred a net loss of $5,160,529 (2009 - $1,001,553) and had working capital of $24,018,795 (March 31, 2010 – working capital of $758,642). The Company does not generate sufficient cash flow from operations to adequately fund its future exploration activities and has relied principally upon issuance of securities and loans from related parties to fund its exploration and administrative expenditures.

The Company will require additional capital to fund its future property acquisitions and exploration programs as well as for administrative purposes. If the management is unable to obtain new funding, the Company may be unable to continue its operations, and amounts realized for assets may be less than amounts reflected in these financial statements.

The financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements include:

i) the accounts of the Company; and
ii) its 37.59% owned Canadian subsidiary, Nickel Oil & Gas Corp.; and
iii) its wholly owned Canadian subsidiary West Indonesia Mining Holdings Inc.; and
iv) its wholly owned Singapore subsidiaries: Indotan Lombok Pte. Ltd., Indotan Sumbawa Pte. Ltd., East Indonesia Mining Pte. Ltd., and Southern Sunda Mining Pte. Ltd.; and
v) its wholly owned Indonesian subsidiary PT. Selatan Arc Minerals; and
vi) its 85% owned Indonesian subsidiaries: PT. Indotan Lombok Barat Bangkit and PT. Indotan Sumbawa Barat.

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

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the periods presented, diluted loss per share did not include the effect of 7,450,000 options and 1,064,325 warrants as they are anti-dilutive. Basic loss per share is calculated using the weighted average number of common shares outstanding during the period.

Recent accounting pronouncements

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

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 evaluating the impact of the conversion on the Company's consolidated financial statements and is considering accounting policy choices available under IFRS.

(Expressed in Canadian dollars)

4. INVESTMENT IN NICKEL OIL & GAS CORP.

On July 7, 2008, the Company acquired 15,300,000 common shares of Nickel Oil & Gas Corp. ("Nickel" or "Nickel Oil & Gas", formerly Canada Nickel Corp.), a related corporation by way of a common director, for $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, 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 was allocated as follows:

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

During the years ended June 30, 2009 and 2010, Nickel Oil & Gas issued additional common stocks to third parties which diluted the Company's ownership percentage of Nickel Oil & Gas to 38.54%. During the period ended March 31, 2011, Nickel Oil & Gas issued additional common stocks to a director which diluted the Company's ownership percentage of Nickel Oil & Gas to 37.59%, resulting in a gain on diluted interest in subsidiary of $43,466. The Company maintains control of Nickel as a result of a common director.

5. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2011			June 30, 2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Telephone equipment	$ 26,278	$ 16,866	$ 9,412	$ 26,278	$ 15,204	$ 11,074
Vehicle	$ 8,896	$ 186	$ 8,710	-	-	-
Furniture	$ 1,371	$ 128	$ 1,243	-	-	-
Computer	$ 55,737	$ 2,849	$ 52,888	-	-	-
Field equipment	$ 38,297	$ 1,862	$ 36,435	-	-	-
Total	$ 130,579	$ 21,891	$ 108,688	$ 26,278	$ 15,204	$ 11,074

(Expressed in Canadian dollars)

6. RESOURCE PROPERTIES

March 31, 2011	Lombok Property, Indonesia	Sumbawa Properties, Indonesia	Oil& Gas Properties, Canada	Total
Acquisition costs				
Balance, beginning and end of period	$ 2,427,299	$ 1,736,682	$ 1,691	$ 4,165,672
Deferred exploration costs				
Incurred during the period:				
Assaying, surveying and analysis	4,440	14,366	-	18,806
Camp construction and other	695,493	276,055	-	971,548
Drilling	75,607	-	-	75,607
Geological and other consulting	248,395	397,283	12,038	657,716
Labour	40,135	41,912	-	82,047
Total deferred exploration costs	1,064,070	729,616	12,038	1,805,724
Balance, beginning of period	10,773,410	4,218,218	3,253,116	18,244,744
Balance, end of period	11,837,480	4,947,834	3,265,154	20,050,468
Total resource property costs	$14,264,779	$ 6,684,516	$ 3,266,845	$24,216,140

(Expressed in Canadian dollars)

6. RESOURCE PROPERTIES (cont'd…)

June 30, 2010	Lombok Property, Indonesia	Sumbawa Properties, Indonesia	Oil& Gas Properties, Canada	Total
Acquisition costs				
Balance, beginning of year	$ 1,051,254	$ 450,537	$ -	$ 1,501,791
Cash	168,545	94,261	1,691	264,497
Shares	1,207,500	1,207,500	-	2,415,000
Written-off during the year	-	(15,616)	-	(15,616)
Balance, end of year	2,427,299	1,736,682	1,691	4,165,672
Deferred exploration costs				
Incurred during the year:				
Assaying, surveying & analysis	34,721	167	-	34,888
Camp construction and other	293,734	121,576	-	415,310
Completion	-	-	968,367	968,367
Drilling	11,167	-	2,216,933	2,228,100
Geological and other consulting	416,299	132,519	67,816	616,634
Total deferred exploration costs	755,921	254,262	3,253,116	4,263,299
Balance, beginning of year	10,017,489	3,963,956	-	13,981,445
Balance, end of year	10,773,410	4,218,218	3,253,116	18,244,744
Total resource property costs	$ 13,200,709	$ 5,954,900	$ 3,254,807	$ 22,410,416

Lombok and Taliwang (Sumbawa) Properties, Indonesia

During 2005, the Company acquired its original interests in the Lombok and Taliwang properties by paying $81,572 and issuing 11,500,000 common shares (valued at $862,500) to Sunda Mining Corporation ("Sunda") and by paying $180,000 and issuing 1,000,000 common shares (valued at $125,000) to Indotan Inc. ("Indotan"). The Company also granted a 0.5% net smelter return ("NSR") to individuals related to Sunda and a 2% NSR to Indotan on the Taliwang property and a 0.5% NSR to individuals related to Sunda and a 1% NSR to Indotan on approximately 8% of the current Lombok Property, which excludes Block 1 described below.

In August, 2005, the Company entered into an agreement with PT Newmont Nusa Tenggara ("Newmont") regarding a property ("Block 1") which now forms the western portion of the Company's Lombok property (including the Selodong, Mencanggah, and Pelangan prospects) and is included in the IUP license. The acquisition was completed through a relinquishment by Newmont of the Block 1 area. The terms of the agreement include granting Newmont a 2% NSR on any mineral production from the Block 1 area and 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 the right to repurchase this 2% NSR for US$1 million at any time.

6. RESOURCE PROPERTIES (cont'd…)

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

In December 2009, 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.) (each a "Singapore Company"). As consideration the Company issued 3,500,000 of its common shares with a value of $2,415,000 subject to two assignable options. The first option, which entitled 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, was assigned to a related party in relation to a loan agreement (see note 8. iii) and was exercised during the period ended December 31, 2010. The second option entitles 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.

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

During the period ended March 31, 2011, the Company established new 85% owned Indonesian subsidiaries (PT. Indotan Lombok Barat Bangkit and PT. Indotan Sumbawa Barat) to hold its Lombok and Taliwang properties respectively. A 5% carried interest in these companies is owned by the Company's Indonesian Joint Venture partner, PT Puri Permata Mega ("PTPM") and a 10% carried interest is owned by the respective local governments.

The Company has advanced Loans Receivable of $318,180 (US$300,000) on an unsecured basis and without interest to these subsidiary companies as capital contributions on behalf of the Indonesian shareholders and these funds are to be repaid to the Company from future revenues of the subsidiaries.

During the period ended March 31, 2011, the Company and Newcrest Mining Limited ("Newcrest") 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:

a) Newcrest will solely fund expenditures of US$4 million on the Taliwang property during the first two years of the Agreement by way of a convertible loan;

b) Upon completion of the Minimum Spend Obligation, Newcrest may convert its loan into shares equal to 75% of the shares of the Singapore company that will have an 85% interest in the Taliwang mining permit (IUP);

c) 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

d) 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 PTPM (5%).

6. RESOURCE PROPERTIES (cont'd…)

East Elang and Sabalong (Sumbawa) Properties

The Company acquired the East Elang and the Sabalong Properties by way of mining licenses ("KP's") which were granted to the Company by the Sumbawa Regency in 2006 and 2007 respectively. Both KPs were subsequently transitioned into mining business licenses ("IUP's") in December, 2009.

Vale Option and Joint Venture Agreement

In October, 2010 the Company entered into an option and joint venture agreement with Vale International S.A. ("Vale"), a wholly owned subsidiary of Vale S.A., regarding the East Elang and the Sabalong properties. To exercise its option, Vale must fully fund the advancement of either or both the East Elang property or the Sabalong property, through to and including the completion of a bankable feasibility study, at no cost to the Company.

a) 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 that property; If Vale elects, they could proceed to;
b) 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;
c) 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;
d) 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 East Elang and Sabalong.

The East Elang and Sabalong properties are held by the Company's wholly owned Indonesian subsidiary, PT SAM. Funds advanced to PT SAM by Vale are recorded as Cash and as Accounts Payable and Accrued Liabilities in the Company's accounts until such time as the funds are expended on approved exploration activities. During the period ended March 31, 2011, Vale advanced $453,146 (US$450,000) to PT SAM and PT SAM held $295,097 of these funds as cash at March 31, 2011.

6. RESOURCE PROPERTIES (cont'd…)

Oil and Gas Properties, Canada

Brewster Area, Alberta, Canada (unproven)

During the year ended June 30, 2010, Nickel Oil & Gas, entered into a joint venture agreement (the "Joint Venture"). 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 a 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. Nickel Oil & Gas has an option to earn a 48% interest in a third section at Brewster by paying 80% of drilling and completion. 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.

Pine Creek Area, Alberta, Canada (unproven)

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 in the Pine Creek area, Alberta. During the period ended December 31, 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.

Other Rights, Ontario, Canada

Nickel Oil & Gas holds a royalty equal to a 1.5% Net Smelter Returns ("NSR") in the Nickel Bay Project, Ontario. Nickel Oil & Gas has granted an exclusive option to purchase up to two-thirds of this 1.5% NSR 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.

(Expressed in Canadian dollars)

7. INVESTMENT

	March 31, 2011	June 30, 2010
MAVII 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 March 31, 2011, 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 8 i)) to its bank and recognized a gain on sale of investment of $54,852.

8. LOANS PAYABLE

	March 31, 2011	June 30, 2010
Non-revolving bridge loan	$ -	$ 550,000
Non-interest bearing loans from a director	971,800	1,064,600
	$ 971,800	$ 1,614,600

Loans payable consists of:

i) a demand non-revolving bridge loan from its bank of $Nil (June 30, 2010 - $550,000);

ii) a non-interest bearing loan of US$1,000,000 (CDN$971,800) (June 30, 2010 – $Nil) from a director of the Company to the Company's 100% owned subsidiary, Southern Sunda Mining Pte. Ltd. The loan is repayable on demand. (Note 16)

During the period ended March 31, 2011, the Company:

iii) repaid a non-interest bearing loan of US$1,000,000 (CDN$1,064,600) from a director of the Company. In consideration for granting the loan, the Company assigned its option to acquire 500,000 of the Company's shares at $0.50 per share (Note 6) from Indotan Inc. A fair value of $117,713 was allocated to stock-based financing costs and recorded to contributed surplus in fiscal year 2010 in connection with the assignment. The director has exercised the option and acquired the mentioned shares; and

iv) repaid a non-interest bearing loan of US$1,000,000 (CDN$994,600) from a director of the Company to the Company's 100% owned subsidiary, Indotan Lombok Pte. Ltd.

(Expressed in Canadian dollars)

9. 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, 2009	71,410,906	$	26,565,067	$	5,604,310
Stock-based compensation	-		-		333,661
Stock-based financing (Note 8. iii))	-		-		117,713
Exercise of warrants	1,679,084		1,175,359		-
Exercise of options	740,000		318,746		(128,756)
Issued for acquisition of subsidiaries	3,500,000		2,415,000		-
Balance as at June 30, 2010	77,329,990		30,474,172		5,926,928
Private placement	17,738,750		28,382,000		-
Share issue costs	-		(1,911,447)		-
Agent warrants issued	-		(658,817)		658,817
Stock-based compensation	-		-		3,679,906
Exercise of options	975,000		832,706		(369,706)
Balance as at March 31, 2011	96,043,740	$	57,118,614	$	9,895,945

During the period ended March 31, 2011, 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.

During the period ended March 31, 2011, the Company completed a private placement offering of 17,738,750 common shares at $1.60 per shares for total proceeds of $28,382,000. In connection with the offering, the underwriters received a cash commission of 6% of the gross proceeds and 1,064,325 non-transferable common share purchase warrants exercisable for 18 months at $1.60 per share.

(Expressed in Canadian dollars)

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

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 up to 5 years. A summary of the Company's outstanding stock options granted is presented below.

	Number of Options	Weighted Average Exercise Price
Outstanding, June 30, 2009	4,775,000	$ 1.23
Exercised	(740,000)	(0.26)
Granted	3,500,000	0.40
Cancelled	(3,450,000)	(1.56)
Expired	(10,000)	(0.25)
Outstanding, June 30, 2010	4,075,000	0.98
Granted	4,350,000	0.80
Exercised	(975,000)	(0.47)
Outstanding, March 31, 2011	7,450,000	$ 0.74
Number of options currently exercisable	7,450,000	$ 0.74

During the period ended March 31, 2011, the Company recorded stock-based compensation of $3,679,906 (2009 - $333,661) using the Black-Scholes Option Pricing model, as a result of 4,350,000 (2009 – 3,500,000) options granted. These amounts were recorded as contributed surplus on the balance sheet. The weighted average fair value of the options granted was $0.80 (2009 - $0.10) 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)

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

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, 2011	Nine Month Period Ended March 31, 2010
Risk-free interest rate	2.37% - 2.80%	0.62%
Expected life of options	5 years	5 years
Annualized volatility	113.99% -150.53%	121.25%
Dividend rate	0.00%	0.00%

At March 31, 2011, the Company had share purchase options outstanding enabling holders to acquire common shares as follows:

	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
	7,450,000		

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, 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	(3,037,334)	0.70
Outstanding, June 30, 2010	-	$ -
Issued	1,064,325	1.60
Outstanding, March 31, 2011	1,064,325	$ 1.60

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company had the following significant non-cash transaction:

During the period ended March 31, 2011, the Company allocated $369,706 (2010 – $25,546) to capital stock from contributed surplus for stock options exercised during the period.

At March 31, 2011, the Company included in accounts payable $72,561 (2009 - $Nil) of resource property costs.

11. RELATED PARTY TRANSACTIONS

During the period ended March 31, 2011, the Company entered into transactions with related parties as follows:

a) paid $301,500 (2010 - $301,500) for management fees and $90,000 (2009 - $50,700) 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 $200,750 (2010 - $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 $165,453 (2010 - $Nil) for geological consulting services included in resource properties to an officer of the Company;

d) paid $Nil (2010 - $4,744) for legal fees, included in professional fees, to a firm in which a director of Nickel Oil & Gas is a partner;

e) has a US$1,000,000 (CDN$971,800) (2010- $Nil) loan from a director of the Company (Note 8);

f) issued 1,000,000 common shares of Nickel Oil & Gas for proceeds of $200,000 (2010 - $Nil) to an officer of Nickel Oil & Gas;

g) paid $2,021 (2010 - $Nil) for directors fees to an officer of a subsidiary; and

h) entered into a contract with a company controlled by a director and officer of the Company, for drilling services at the Company's Lombok property. This contract was awarded under a competitive bidding process and all charges under the contract are considered to be at market rates. A balance of $72,561 is included in accounts payable for drilling services incurred during the period ended March 31, 2011 under this contract.

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.

12. FINANCIAL INSTRUMENTS AND RISK

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.

Concentration of credit risk

Financial instruments that potentially subject the Company to a significant concentration of credit risk due to the potential for counterparties to default on their contractual obligations consist primarily of cash and cash equivalents, investments and receivables. The maximum potential loss on these financial instruments is equal to the carrying amounts of these items. The Company limits its exposure to credit loss by placing its cash and cash equivalents with major financial institutions and by dealing with counterparties it believes to be creditworthy. The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Fair value

The Company estimates the fair value of its financial instruments based on current interest rates, market value and pricing of financial instruments with comparable terms. Unless otherwise indicated, the carrying value of these financial instruments approximates their fair market value because of the near maturity of those instruments. As at March 31, 2011 and June 30, 2010, the carrying amount of current financial assets and liabilities approximated the fair value because of the near maturity of those instruments.

Financial instruments measured at fair value on the balance sheet are summarized in levels of fair value hierarchy as either "Level 1", "Level 2", or "Level 3". As all of the Companies balances of Cash, as at March 31, 2011 and June 30, 2010 are Cash on Hand, they are all classified as Level 1.

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 March 31, 2011, the Company had a cash balance of $25,774,261 (June 30, 2010 - $1,604,476) to settle current liabilities of $1,955,729 (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.

(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.

(Expressed in Canadian dollars)

12. 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 minimizes cash and monetary assets or liabilities in Indonesia.

At March 31, 2011, the Company had US$2,955,652 (approximately CAD$2,872,354) and Indonesian Rupiah ("Rph") 2,776,900,374 (approximately CAD$306,670) in cash, and US$1,000,000 (CAD$971,800) in loans payable. As at March 31, 2011, US$ amounts were converted at a rate of US$1.029 to CAD$1 and Rupiah amounts were converted at a rate of Rph 9,055 to CAD$1.

(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.

13. COMMITMENT

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

14. SEGMENTED INFORMATION

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

	March 31, 2011	June 30, 2010
Oil and gas properties – Canada	$ 3,266,845	$ 3,254,807
Resource properties - Indonesia	20,949,295	19,155,609
Equipment – Indonesia	99,276	-
Equipment – Canada	9,412	11,074
	$ 24,324,828	$ 22,421,490
Resource property write-down-Indonesia	$ -	$ 15,616

15. 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 of components of equity (ie. share capital, contributed surplus 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, 2011.

16. SUBSEQUENT EVENT

Subsequent to the period ended March 31, 2011 the Company repaid the US$1,000,000 (CDN$971,800) loan from a Director (Note 8).