

SOUTHERN ARC MINERALS INC.
FORM 51-102F1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009

Introduction

The following discussion, prepared as of October 28, 2009, is management's assessment and analysis of the results and financial condition of Southern Arc Minerals Inc. (the "Company") and should be read in conjunction with the Company's audited consolidated financial statements for the year ended June 30, 2009 and 2008 and related notes attached thereto. The preparation of financial data is in accordance with Canadian generally accepted accounting principles and all figures are reported in Canadian dollars unless otherwise indicated.

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

Forward-Looking Statements

Certain of the statements made and information contained herein is "forward-looking information" within the meaning of the Ontario Securities Act. Forward-looking statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation, risks and uncertainties relating to foreign currency fluctuations; risks inherent in gold and copper exploration and development including environmental hazards, industrial accidents, unusual or unexpected geological formations, risks associated with the estimation of resources and reserves and the geology, the possibility that future exploration, development or exploration results will not be consistent with the Company's expectations; the potential for and effects of labour disputes or other unanticipated difficulties with or shortages of labour; the inherent uncertainty of future production and cost estimates and the potential for unexpected costs and expenses, commodity price fluctuations; uncertain political and economic environments; changes in laws or policies, delays or the inability to obtain necessary governmental permits; and other risks and uncertainties, including those described under Risk Factors in the Company's Management Proxy Circular that can be found on the SEDAR website. Forward-looking information is in addition based on various assumptions including, without limitation, the expectations and beliefs of management, the assumed long term price of gold and copper; that the Company can access financing, appropriate equipment and sufficient labour. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements.

Description of Business

The Company was incorporated in British Columbia on August 19, 2004. The Company is a natural resource company engaged in the acquisition and exploration of mineral properties in Indonesia and Canada. To date, the Company has not generated revenues from operations and is considered to be in the exploration stage.

Industry

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

Trends

In previous years, the resource exploration industry had been through a very difficult period, with low prices for both precious and base metals. Lack of interest led to low market capitalizations and large companies found it was easier to grow by purchasing companies or mines than to explore for the resources themselves. This led to downsizing of large company exploration staff and many professionals took early retirement or left the industry to pursue other careers. As a result of these trends, there were limited mining projects in the pipeline and a shortage of experienced explorers. With improving metal prices and increasing demand, especially from Asia, there was a discernible need for the development of exploration projects. Junior companies, like the Company, are key participants in identifying properties of merit to explore and develop.

Risks and Uncertainties

The Company's financial instruments consist of cash and cash equivalents, receivables, long term investments, and accounts payable and accrued liabilities and 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 a counterparty's inability to fulfill its payment obligations.

At June 30, 2009, the Company had asset backed commercial paper with a fair value of \$816,703. As detailed in Note 6, the Company believes this is a 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 June 30, 2009, the Company had a cash balance of \$2,431,412 (June 30, 2008 - \$9,296,877) to settle current liabilities of \$91,713 (June 30, 2008 - \$491,194). All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal period. The Company intends to settle these with funds from its positive working capital position.

Market risk

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

(a) Interest rate risk

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

(b) Foreign currency risk

The Company's largest 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 June 30, 2009, the Company had US\$27,003 (approximately CAD\$31,215) in cash and US\$9,109 (approximately CAD\$10,525) in accounts payable.

(c) Price risk

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

Gold and Metal Prices

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

Resource Properties

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

Lombok Island and Sumbawa Island Properties, Indonesia

Background

The Company entered into an agreement with Sunda Mining Corporation ("Sunda") pursuant to which Sunda assigned its option to acquire certain rights on the Lombok Island property ("Lombok") and the Sumbawa Island property ("Sumbawa") (collectively the "Properties") to the Company, which Sunda had obtained from Indotan. In consideration for the assignment, the Company paid \$81,572 and issued 11,500,000 common shares valued at \$862,500 to Sunda. Effective February 25, 2005, the Company and Indotan Inc. ("Indotan") entered into a settlement agreement with respect to certain outstanding matters related to the Properties. Pursuant to this settlement, the Company and Indotan entered into an amended and restated option agreement (the "Option Agreement") which sets out all of the rights and responsibilities of the Company and Indotan with respect to the Properties.

Pursuant to the Option Agreement, the Company acquired all of Indotan's rights to the Properties in consideration for 1,000,000 common shares of the Company, valued at \$125,000, and \$180,000 in cash. Indotan is still nominally in control of the properties by virtue of being the legal holder of applications to the Indonesian government for contracts of work respecting each property, but Indotan has assigned all beneficial rights respecting the ownership and conduct for such applications to the Company (see below for details). Under the terms of the option agreement, Indotan retained a 1% net smelter return royalty ("NSR") in connection with the properties. The Company has an option, until February 2010, to acquire 50% of Indotan's 1% NSR on the Properties in consideration for the payment of \$500,000. The Company acquired this option for \$60,000. All of the holders of the NSR agreed that the NSR only applies to the Properties as at July 21, 2004 and not to any additional property interests which the Company acquires after that date.

In accordance with a limited power of attorney granted by Indotan pursuant to the Option Agreement, the Company caused Indotan to enter into two joint venture agreements (the "JV Agreements") with Indotan's Indonesian partner, PT Puri Permata Mega ("PTPM"), on the Properties. The Company has an initial 90% interest in the Lombok joint venture (the "Lombok JV") and the Sumbawa joint venture (the "Sumbawa JV"). At any time after a joint venture company is formed with respect to the Lombok JV and that company enters into a 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.

Prior to the enactment of the new Mining Law No. 04/2009 the Lombok and Sumbawa properties comprised two separate applications to the Indonesian Government for CoWs to conduct mining activities and earn mineral rights to certain mineral tenements. Upon the approval in principle of the CoW, preliminary general survey licenses (“SIPPs”) were granted for the properties. The SIPP permit allowed the Company to conduct preliminary general survey work over the CoW application areas. With the advent of the new Mining Law enacted by the President of Indonesia on January 12, 2009 this effectively put an end to the CoW plan under which the Company had been operating since 2004. Based on clause 172 of this law the sanctity of CoW applications will be honoured by the Government, but must be transitioned into the new permit licensing system. For the law to take effect, the government will have to issue at least 20 implementing regulations. These are currently being drafted by the Department of Energy of Mineral Resources.

The Sumbawa SIPP was granted on January 2, 2004 for an initial 12 month period. A succession of SIPP and in-principle CoW approvals culminated in the successful negotiation of the terms and conditions of the CoW manuscript. With the introduction of the new mining law the CoW manuscript failed to complete the final central government administrative hurdle, and thus will be transitioned into an IUP license once implementing regulations have been issued. Relevant administrative requirements for the issuing of the IUP license are in progress.

The Lombok SIPP was granted on December 4, 2002. Relevant SIPP extensions and expansions to the property area were granted until February 15, 2006, when the CoW application came into conflict with an unconstitutional provincial land utilization regulation. Because of both central and regency government support in the form of endorsement letters and instructions to the Governor to revise the conflicting regulation, the Company continued exploration activities unabated through to Q4 2008 where upon field operations were suspended because of the global economic downturn. With the election of a new pro-business governor the Company is already seeing positive developments with respect to the revision of the contentious land utilization regulation and subsequent retro-active permitting.

Agreement with Indotan

On October 28, 2009, the Company entered into agreement with Indotan, subject to regulatory acceptance, to acquire its wholly owned subsidiary Indotan Inc. and the name Indotan Inc.. This agreement was prompted by the introduction of the new mining law in Indonesia, enacted earlier this year. Since March, 2005 Southern Arc has been conducting exploration on two of its Indonesian properties, one on Lombok and one on Sumbawa, pursuant to powers of attorney granted by Indotan as holder of the related contract of work applications. The powers of attorney refer specifically to contracts of work which have been replaced with IUP mining licenses by the new mining law announced earlier this year. By acquiring the Indotan name and the subsidiary company Southern Arc’ will have direct control over the applications for the IUP’s on Lombok and Sumbawa in Indonesia.

In consideration for the assignment of the rights to the applications, the acquisition of the subsidiary and the name Indotan Inc., Southern Arc will issue 3.5 million common shares to the parent company subject to two options in favour of Southern Arc. The first option will entitle Southern Arc to acquire 1.5 million of these shares at a price of \$0.90 per common share within a period of 18 months. The second option will entitle Southern Arc to acquire 0.5 million of these shares at a price of \$0.50 per common share within a period of 8 months. All of the shares to be issued by Southern Arc will be subject to a four month statutory hold period. In place of the existing 1% NSR’s on both the Sumbawa and Lombok Properties, Southern Arc 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, Mencanggah, and Pelangan prospects) acquired by Southern Arc from Newmont in January, 2006.

West Lombok Project

This area was previously held by PT Newmont Nusa Tenggara, a subsidiary of the Newmont Mining Corporation. Through an agreement with Newmont, announced on January 11, 2006, Newmont relinquished the area and the Company incorporated it into its CoW application area. The area of interest comprises a 13-km long, northwest trending structural corridor of hydrothermal mineralization and alteration within which lie the Selodong porphyry Cu-Au Prospect, Mencanggah epithermal/porphyry District and Pelangan Epithermal Prospect.

Selodong Prospect

Preparations for an environmental baseline study were completed this period. Routine rehabilitation of drill pads and access roads, together with on-going CSR responsibilities also continued unabated.

The Company has completed Phase 1 drilling at Selodong with 30 holes (SLD001 to SLD030) totaling 17,859.30 metres completed in September 2008. These holes have tested seven of the 15 porphyry Cu-Au targets, with the majority having intersected broad zones (126.45 to 855.105 metres) of significant Cu-Au mineralization. Drill hole rationale and results have been detailed in previous Management Discussion and Analysis filed with SEDAR releases at www.sedar.com.

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

Based on encouraging results and a concept of increasing gold grades with depth, together with the potential for high grade lode structures, a second phase of drilling commenced in August 2008, focusing initially on the *Central Raja* target.

The drilling program (2 holes totaling 371.8 m) was prematurely terminated because of Company restructuring in the face of the present recessionary period. The project is currently on care and maintenance.

Mencanggah Prospect (West Lombok)

On-going CSR responsibilities this period included completion of renovations to a second elementary school together with the provision of educational aids. No exploration activities were undertaken this period with the project currently on care and maintenance.

East Lombok Project

No field activities were conducted during the reporting period.

Sumbawa Island Properties

Taliwang Project (West Sumbawa)

With the advent of the new Mining Law No. 4/2009 signed into law by the President on January 12, 2009 this effectively put an end to the CoW scheme under which the Company had been operating under since 2004. Whilst negotiations on the Taliwang property had reached a stage where the CoW manuscripts have been finalized and initialled by both negotiating team leaders, the enactment of the new Mining Law effectively put a halt to this process and has been replaced by a permit licensing system. Preliminary requirements for the issuing of the new Mining Business License or "IUP" including the establishment of an appropriate Indonesian holding company are in progress.

Lemonga Gold Prospect (West Sumbawa)

No field activities were reported this period.

Ramit Prospect (West Sumbawa)

No field activities were reported this period.

Jereweh (J3 & J6)Prospects (West Sumbawa)

No field activities were reported this period.

Sabalong KP (West Sumbawa)

Aside from routine camp maintenance, no field activities were conducted this period.

East Elang KP (West Sumbawa)

The Company's field programs are still suspended awaiting resolution of the outstanding Forestry permit. Recent meetings with the provincial governor and Forestry Department staff suggest that the outstanding administrative hurdle to issuing of the mandatory forestry permit will be completed shortly.

Central Java Island Properties

Karantengah KP Property (Central Java)

Activities this period were limited to administrative requirements for issuing of the required forestry permit, along with documentation required for the conversion of the KP license to an IUP.

Tirtomoyo KP Property (Central Java)

No exploration activities were undertaken during the reporting period, with efforts directed at completing the conversion of the KP license to an IUP.

Other Properties, Indonesia

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

James Bay Nickel Project, Canada

During the year ended June 30, 2009, the Company's 43.56% 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 "Property"). The Property 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 payments (\$5,000,000 paid) and incur a total of \$20,000,000 of exploration expenditures (\$1,100,000 incurred), as follows:

<u>Date</u>	<u>Cash Payments</u>	<u>Exploration Expenditures</u>	<u>Interest Earned</u>
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%

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.

During the year ended June 30, 2009, Canada Nickel commenced a legal action against Diamondex in connection with its option agreement on the Project.

Canada Nickel alleges that it entered into the option Agreement and made a \$5 million option payment to Diamondex on the basis of representations that Diamondex had incurred \$5 million dollars in historical exploration expenditures on the Property and that the \$5 million payment was to reimburse Diamondex for those expenditures. Canada Nickel alleges that Diamondex's historical expenditures on the Property including acquisition costs were materially less than \$5 million as represented to Canada Nickel. Canada Nickel states that it has given notice of rescission of the Option Agreement and seeks the return of the \$5 million option payment, together with \$1.1 million in exploration expenditures paid under the Option Agreement.

During the year ended June 30, 2009, Diamondex provided notice to Canada Nickel that the failure to remit \$2 million of further exploration expenditures previously requested by Diamondex has resulted in the termination of the Option Agreement. As a result, the Company abandoned the James Bay Nickel Project and recognized an impairment loss of \$8,066,801 in the statement of operations.

At June 30, 2009, the Company had paid deposits and retainers of \$735,099 for expected legal fees.

Financing

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

During the year ended June 30, 2009, the Company's 43.65% owned subsidiary, Canada Nickel issued 10,633,685 flow-through shares for total proceeds of \$2,525,790. At June 30, 2009, the Company had spent \$1,100,000 on the related property.

Results of Operations

During the year ended June 30, 2009, the Company had a loss of \$5,240,556 compared to a loss of \$5,409,343 for the year ended June 30, 2008. Significant fluctuations incurred in the following categories:

- a) Stock-based compensation of \$63,864 (2008 - \$4,601,368) decreased as a result of less stock options granted during the period. Stock-based compensation expense is accounted for at fair value as determined by the Black-Scholes Option Pricing Model using estimates that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of stock-based compensation, the fair value of the Company's stock and risk-free interest rate.
- b) Travel of \$17,791 (2008 - \$95,754) decreased due to less travel to Indonesia by the Company's management, directors and consultants.
- c) Office and miscellaneous of \$152,629 (2008 - \$149,530), management fees of \$409,200 (2008- \$177,000) and professional fees of \$325,924 (2008 - \$159,866) increased mainly due to consolidation of Canada Nickel operational results during the 2009 period.
- d) Foreign exchange gain of \$92,361 was realized during the year ended June 30, 2009 (2008 - \$24,294) due to the effect the fluctuation of the US\$/CAD foreign exchange rate had on the Canadian equivalent of the Company's holdings and transactions in \$US term deposits and a US\$ bank balance.
- e) Gain on diluted interest in subsidiary of \$201,920 was recorded in the year ended June 30, 2009 due to additional shares issued to non-controlling parties of Canada Nickel diluting the Company's interest.
- f) The Company spent \$8,855,234 (2008 - \$4,304,555) of cash on resource properties.

Selected Annual Financial Information

The following table provides a brief summary of the Company's financial operations. For more detailed information, refer to the financial statements.

	Year ended June 30, 2009 \$	Year ended June 30, 2008 \$	Year ended June 30, 2007 \$
Total revenues	-	-	-
Loss for the year	(5,240,556)	(5,409,343)	(1,017,786)
Basic and diluted loss per share	(0.07)	(0.08)	(0.02)
Total assets	19,496,869	23,688,619	10,794,600
Total long-term liabilities	-	-	-
Cash dividends	-	-	-

Fourth Quarter

The following is a summary of significant events and transactions that occurred during the quarter ended June 30, 2009:

- The Company expended approximately \$199,799 on mineral properties.
- The Company recognized an impairment loss of \$8,066,801 in the statement of operations.
- The Company recognized a loss of \$323,059 on investment.

Summary of Quarterly Results

	June 30, 2009 \$	March 31, 2009 \$	December 31, 2008, \$	September 30 2008, \$
Total assets	19,496,869	28,116,927	28,350,164	28,564,629
Resource properties and deferred costs	15,483,236	23,348,353	23,136,748	22,623,971
Working capital	3,091,375	2,728,992	3,136,051	4,539,075
Accumulated deficit	(14,133,385)	(9,157,886)	(8,811,865)	(8,705,652)
Net Income (loss)	(4,975,499)	(346,021)	(106,213)	187,177
Basic and diluted income (loss) per share	(0.07)	(0.00)	(0.00)	0.00

	June 30, 2008 \$	March 31, 2008 (restated to conform with June 30, 2008 adjustment to stock-based compensation) \$	December 31, 2007 (restated to conform with June 30, 2008 adjustment to stock-based compensation) \$	September 30, 2007 (restated to conform with June 30, 2008 adjustment to stock-based compensation) \$
Total assets	23,688,619	23,352,866	23,069,567	12,105,094
Resource properties and deferred costs	13,152,613	11,454,542	9,903,666	9,211,877
Working capital	8,827,288	10,607,080	11,731,794	1,284,020
Accumulated deficit	(8,892,829)	*(8,818,026)	*(8,675,876)	*(7,892,249)
Net Loss	(82,803)	(142,150)	*(783,627)	*(4,408,763)
Basic and diluted loss per share	(0.00)	(0.00)	(0.01)	(0.08)

Significant fluctuations in net loss and accumulated deficit are primarily due to write-off of resource properties and timing of stock-based compensation. The fluctuations in total assets, resource properties and working capital are primarily a result of acquisition of Canada Nickel Corp.

Quarterly results, starting with the September 30, 2008 quarter, include the consolidation of Canada Nickel Corp. acquired on July 7, 2008.

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

- Change to the September 30, 2007 quarterly figures
 - Volatility was changed to 110% (originally the Company used 162%)
 - Stock based compensation expense was adjusted to \$4,038,879 (previously stated as \$4,700,522)
- Change to the December 31, 2007 quarterly figures
 - Volatility was changed to 110% (originally the Company used 144%)
 - Stock based compensation expense was adjusted to \$570,489 (previously stated as \$636,193)

Liquidity

The Company's cash position at June 30, 2009 was \$2,431,412, a decrease of \$6,865,465 from June 30, 2008. The decrease is primarily due to the acquisition of Canada Nickel Corp., resource property acquisition and exploration expenditures.

As at June 30, 2009, the Company's working capital is \$3,091,375. The Company has financed its operations to date primarily through the issuance of common shares.

Net cash used in operating activities for the year ended June 30, 2009 was \$1,784,830 compared to net cash used of \$597,486 during the year ended June 30, 2008. The cash used in operating activities for the year consists primarily of the operating loss from the general and administrative expenditures and a change in non-cash working capital items.

Net cash used in investing activities for the year ended June 30, 2009 was \$8,479,839 compared to cash used of \$4,304,555 during the year ended June 30, 2008. The cash used in investing activities for the period consists primarily of the acquisition and exploration of resource properties and the acquisition of Canada Nickel.

Net cash provided by financing activities for the year ended June 30, 2009 was \$3,306,843 compared to \$13,319,930 during the year ended June 30, 2008. The cash provided by financing activities consists primarily of the issue of equity securities by Canada Nickel to non-controlling interests.

Asset-backed Commercial Paper

At June 30, 2009, the Company held restructured asset-backed commercial papers ("ABCP") notes with a face value of \$1,410,198 and estimated fair value of \$816,703. These investments were designated as held-for-trading and are accounted for at their fair value.

On January 21, 2009, the Committee announced the successful implementation of the restructuring plan. Upon the restructuring, old short-term ABCP notes were exchanged for longer-term notes of various classes with maturities that generally approximate those of the assets previously contained in the underlying assets.

Upon restructuring, the Company received new notes ("New Notes") of various classes issued by trusts referred to as MAVII, including senior notes Class A-1, subordinated notes Class C, and ineligible tracking notes Class 13. At the time of the restructuring, DBRS, a credit rating firm, assigned a rating "A" to the MAV II Class A-1 notes. The MAV II Class C and Class 13 notes have not been rated by DBRS.

Upon the restructuring, the Company received the replacement notes as follows:

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	794,401
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.

In Q4 2009, the Company settled the original notes and recognized the New Notes with the face value of \$1,410,198. The New Notes were measured at fair value on initial recognition. The Company estimated the fair value of these notes to be \$816,703 and recognized additional impairment charge of \$323,059 (\$211,804 impairment charge recognized in the fiscal 2008). In conjunction with the notes exchange, the Company received a payment of \$60,460 which was its share of the accumulated interest to June 30, 2009. This amount was accounted for as a reduction of the Company's investment. Additional information on the Company's estimation of fair value is included in note 6 of the Company's audited financial statements.

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.

On March 17, 2008, the Pan-Canadian Investors Committee (the "Committee") for ABCP filed proceedings for a plan of compromise and arrangement (the "Plan") under the *Companies' Creditors Arrangement Act* (Canada) ("CCAA") with the Ontario Superior Court (the "Court"). At the meeting of ABCP noteholders on April 25, 2008, noteholders approved the Plan by the required majorities. On June 5, 2008, the Court issued a sanction order and reasons for the decision approving the Plan as amended. On August 18, 2008, that decision was upheld by the Ontario Court of Appeal and, on September 19, 2008, the Supreme Court of Canada denied leave to appeal. On December 24, 2008, the Committee announced that an agreement had been reached with all key stakeholders, including the governments of Canada, Quebec, Ontario and Alberta, to provide additional margin facilities to support the Plan and finalized certain enhancements to the Plan.

The Company estimates the fair value of its ABCP by discounting expected future cash flows on a probability weighted basis considering the best available data at June 30, 2009. The assumptions used in determining the estimated fair value reflect the details included in the Information Statement issued by the Committee.

The assumptions used in the valuation model at June 30, 2009 include:

Weighted average interest rate 0.1%

Weighted average discount rate 5%

Maturity of notes of 7.5 years

If these assumptions were to change, the fair value of ABCP could change significantly.

On January 12, 2009, the Ontario Superior Court issued the final implementation order in the ABCP restructuring process. The restructuring closed on January 21, 2009. The exchange of restructured ABCP notes was completed on January 21, 2009. A first installment of interest for \$48,582 (to August 31, 2008) was also paid on the same day. The balance of the interest is to be paid in subsequent installments, and the amounts and timing are still to be determined. Restructuring fees already incurred and a reserve for additional restructuring fees were deducted from this first interest payment.

Investment in Canada Nickel

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

During the year ended June 30, 2009, Canada Nickel issued additional common stock to third parties which diluted the Company’s ownership percentage of Canada Nickel to 43.56% and renounced flow-through shares, resulting in a net gain of \$201,920. The Company maintains control over 66.6% of Canada Nickel shares as a result of a voting agreement with a common director.

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

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

Cash	\$ 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>

Related Party Transactions

During the year ended June 30, 2009, the Company entered into transactions with related parties as follows:

- a) Paid \$409,200 (2008 - \$177,000) for management fees and \$42,800 (2008 - \$18,000) 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 \$223,105 (2008 - \$220,780) 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 \$72,000 (2008 - \$55,700) for consulting fees to an officer of the Company.
- d) Paid \$84,505 (2008 - \$34,523) for legal fees, included in professional fees, to a firm in which a director of Canada Nickel is a partner, of which \$4,104 is included in accounts payable.
- e) 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.

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

Off-balance Sheet Arrangements

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

Stock-based compensation

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

Commitment

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

Unit	Commencement Date	Term	\$/ month	Remaining Fiscal 2010
1522	1-Jan-09	25-Feb-10	\$ 1,310	\$ 10,480

Current Share Data

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

	Number of Shares	Exercise Price	Expiry Date
Options	650,000	\$ 0.25	June 30, 2010
	425,000	0.56	January 13, 2011
	250,000	0.30	July 31, 2013
	3,500,000	0.40	September 16, 2014
Warrants	4,630,168	1.75	December 18, 2009
	86,250	1.75	January 8, 2010

See Agreement with Indotan in Lombok Island and Sumbawa Island Properties, Indonesia

Outlook

The Company's focus of current activities is the Selodong Intrusive Complex (SIC), a large, gold-rich copper porphyry prospect situated on Lombok Island in Indonesia. The Company has identified 15 porphyry Cu-Au drill target areas within the SIC and is currently evaluating the results of the recently completed drilling program. The Company will also continue its effort in finalizing the new permitting negotiation on its Indonesian properties.

Change in accounting policies

Financial instruments

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

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

Principles of consolidation

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

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 July 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.

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.

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.