

SOUTHERN ARC MINERALS INC.
FORM 51-102F1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010

Introduction

The following discussion, prepared as of October 26, 2010, is management's assessment and analysis of the results and financial condition of Southern Arc Minerals Inc. (the "Company" or "Southern Arc") and should be read in conjunction with the Company's audited consolidated financial statements for the year ended June 30, 2010 and 2009 and related notes attached thereto. The preparation of financial data is in accordance with Canadian generally accepted accounting principles and all figures are reported in Canadian dollars unless otherwise indicated.

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

Forward-Looking Statements

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

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

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Forward-Looking Statements (cont'd...)

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

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

Description of Business

The Company was incorporated in British Columbia on August 19, 2004 and is trading on the TSX Venture Exchange under symbol "SA". The Company is a natural resource company actively engaged in the acquisition and exploration of mineral properties in Indonesia. Southern Arc also owns 38.54% or 15.3 million shares in Nickel Oil & Gas Corp. ("Nickel Oil & Gas", formerly Canada Nickel Corp.), a private company active in mineral and oil and gas exploration in 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.

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Risks and Uncertainties

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

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

Credit risk

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

At June 30, 2010, the Company had asset backed commercial paper with a fair value of \$835,799 (2009 - \$816,703). As detailed in Note 7 of the financial statements, 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, 2010, the Company had a cash balance of \$1,604,476 (2009 - \$2,431,412) to settle current liabilities of \$1,997,846 (2009 - \$91,713). 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.

(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, 2010, the Company had US\$1,006,195 (approximately CAD\$1,071,195) in cash, US\$107,216 (approximately CAD\$112,277) in accounts payable and US\$1,000,000 (CAD\$1,064,600) in loans payable. As at June 30, 2010, US\$ amounts were converted at a rate of US\$1 to CAD\$1.04803.

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Risks and Uncertainties (cont'd...)

Market risk (cont'd...)

(c) Price risk

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

Gold and Metal Prices

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

Resource Properties

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

Outlook

The Company's focus of current activities is the Selodong Intrusive Complex (SIC), a large, gold-rich copper porphyry prospect and the Pelangan-Mencanggih Epithermal Vein Prospects situated on Lombok Island in Indonesia. The Company has identified 15 porphyry Cu-Au drill target areas within the SIC, along with km's of Au-Ag mineralized breccias structures ("MSB") and is currently finalizing permitting negotiations on its Lombok-Sumbawa properties, whilst surface exploration activities are on-going at its Central Java concessions.

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 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.

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

Background (cont'd...)

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

In accordance with a limited power of attorney granted by Indotan pursuant to the Option Agreement, the Company caused Indotan to enter into two joint venture agreements (the "JV Agreements") with Indotan's Indonesian partner, PT Puri Permata Mega ("PTPM"), on the Properties. The Company has an initial 90% interest in the Lombok joint venture (the "Lombok JV") and the Sumbawa joint venture (the "Sumbawa JV"). At any time after a joint venture company is formed with respect to the Lombok JV and that company enters into a Mining Business License ("IUP"), previously stated as a Contract of Work ("CoW"), the Company can acquire a further 5% interest in the Lombok JV by providing funds to the Lombok JV in the amount of US\$700,000. At any time after a joint venture company is formed with respect to the Sumbawa JV and that company enters into an IUP, previously stated as a CoW, the Company can acquire a further 5% interest in the Sumbawa JV by providing funds to the Sumbawa JV in the amount of US\$300,000. The Company has funded 100% of the ongoing operations to each of the Lombok JV and Sumbawa JV.

The Company is making the transition for the Lombok property from the CoW application to the new permit licensing system or "IUP" with the establishment of suitable Singaporean and Indonesian corporate entities.

The Company has entered into an agreement with PT Newmount Nusa Tenggara ("NNT") regarding a property ("Block 1") which is contiguous with the western boundary of the Company's current Lombok Island SIPP license. The acquisition was completed through a relinquishment of NNT of Block 1 area. The terms of the agreement include granting NNT a 2% net smelter return ("NSR") on any mineral production from the area covered by Block 1 together with a right of first refusal should the Company wish to introduce a new partner into any development within the area originally covered by Block 1.

During the year ended June 30, 2010, the Company acquired the right to the name Indotan Inc. as well as control over two companies (Indotan Lombok Pte. Ltd. and Indotan Sumbawa Pte. Ltd.) ("Singapore Companies"). As consideration the Company issued 3,500,000 common shares with a value of \$2,415,000 subject to two assignable options. The first option will entitle the Company to acquire 500,000 of these shares at a price of \$0.50 per common share until August 15, 2010 at a price of \$0.50 per common share (assigned, Note 7 ii)). The second option will entitle the Company to acquire 1,500,000 of these shares at a price of \$0.90 per common share within a period of 18 months. In place of the existing 1% NSR's on both the Sumbawa and Lombok Properties, the Company will grant a 2% NSR on the Sumbawa property and a 1% NSR on the portion of Lombok Property. In the case of the Lombok Property, the NSR does not apply to the Block 1 property (which encompasses all of Selodong, Mencanggih, and Pelangan prospects). (refer to financial statements Note 5)

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

Background (cont'd...)

Prior to the enactment of the new Mining Law No. 04/2009 the Lombok and Sumbawa properties comprised two separate applications to the Indonesian Government for CoWs to conduct mining activities and earn mineral rights to certain mineral tenements. Upon the approval in principle of the CoW, preliminary general survey licenses ("SIPPs") were granted for the properties. The SIPP permit allowed the Company to conduct preliminary general survey work over the CoW application areas. 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. A number of these have been issued by the Department of Energy & Mineral Resources, with the remainder in progress.

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. It was subsequently transitioned into an Exploration IUP license, being issued by the Regent of West Sumbawa on July 9, 2010. The Exploration IUP covers the period from General Survey through to Feasibility Study. The Company has the automatic right to conduct commercial production for 20 years and a further two 10 year extension periods if warranted.

The 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. The revision of the contentious land utilization regulation was completed on July 1, 2010 with enactment into law by the Governor of West Nusa Tenggara Province. With implementation of the revised regulation the West Lombok Project lies within areas zoned for mining activities. The relevant Indonesian holding company is currently being established, with the full support from the West Lombok Regent (the IUP issuing authority).

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.

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West Lombok Project (cont'd...)

Selodong Prospect

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

The Company has completed Phase 1 drilling at Selodong with 30 holes (SLD001 to SLD030) totaling 17,859.30 metres completed in September 2008. These holes have tested seven of the 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. Aside from on-going CSR commitments and permitting-related matters the project is currently on a care and maintenance basis.

Mencanggah Prospect (West Lombok)

On-going CSR responsibilities this period included upgrading and maintenance of public roads, along with logistical assistance to regional government officials. The project is currently on a care and maintenance basis.

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. The relevant Exploration IUP license was granted to the Company on July 9, 2010 for a period of six (6) years.

A Company branch office within the West Sumbawa Regency was established this period, with local staff currently being recruited. The Company's 2010-2011 exploration work program and budget is currently being reviewed by relevant Regency authorities.

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Taliwang Project (West Sumbawa) (cont'd....)

Lemonga Gold Prospect (West Sumbawa)

Field activities this period were restricted to routine Company site visits, sometimes in the presence of Provincial or Regency authorities. The forestry permit extension process is still on-going with resolution expected in calendar Q4 2010.

Ramit Prospect (West Sumbawa)

Field activities this period were restricted to routine Company site visits, sometimes in the presence of Provincial or Regency authorities. The forestry permit extension process is still on-going with resolution expected in calendar Q4 2010.

Jereweh (J3 & J6)Prospects (West Sumbawa)

No field activities were reported this period.

Sabalong KP and East Elang KP (West Sumbawa)

Subsequent to June 30, 2010, the Company entered into an option and joint venture agreement with Vale S.A ("Vale") through its wholly owned subsidiary Vale International S.A., regarding its East Elang and Sabalong properties. To exercise its option, Vale must fully fund the advancement of either property, through to and including the completion of a bankable feasibility study, at no cost to the Company.

East Elang

- Vale has agreed to fund US \$1,200,000 in Phase 1 exploration expenditures on the East Elang property within one year from the date on which the Company receives an exploration activities permit (forestry permit) from the Ministry of Forestry for that property. As reported on December 16, 2009, the Company holds an exploration permit ("IUP") for this property.
- Upon completion of Phase 1, Vale may elect to solely fund a Phase 2 Minimum Program, involving at least US \$2,500,000 in exploration expenditures. Vale must complete the Phase 2 Minimum Program within two years from the date that Vale notifies Southern Arc that it will be proceeding with Phase 2 (the "East Elang Phase 2 Commencement Date").
- Upon completion of the Phase 2 Minimum Program, Vale may elect to solely fund a Phase 2 Full Program, involving the completion of a Pre-Feasibility Study on East Elang or further exploration expenditures of at least US \$10 million, within four years from the East Elang Phase 2 Commencement Date.
- Upon completion of the Phase 2 Full Program, Vale may elect to solely fund the completion of the Bankable Feasibility Study for East Elang within seven years from the East Elang Phase 2 Commencement Date.

If Vale completes a Bankable Feasibility Study on either or both the East Elang and Sabalong properties within the permitted timeframes, Vale will be entitled to receive a 75% interest in PT SAM. PT SAM, a wholly owned subsidiary of the Company, holds the IUP's for Sabalong and East Elang.

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Sabalong and East Elang (cont'd....)

The *East Elang property*, covering 9,670 hectares, adjoins immediately to the east of Newmont Mining Corporation's Elang-Dodo property, host to a porphyry copper-gold discovery of size greater than one billion tonnes (with yet undisclosed grades). Newmont acquired the *East Elang property* (currently held by Southern Arc) in 1986, explored it up to 1993, and then relinquished it to the government in 1999 under the requirements of its license.

Mineralization on the adjacent Newmont property comprises a complex of polyphased felsic to intermediate intrusives which generated multiple mineralized porphyry centres (Elang, Gergang, Kuning, and Sepekat) along a NNE trending structural corridor. Rock geochemistry of surface and drill hole samples demonstrate a NE-SW elongate copper zone more than 1.5 km long by 0.8 km wide (Maryono, 2005).

Remote sensing studies together with modeling of airborne magnetic data indicate that the controlling NNE trending mineralized structural corridor (present on the Newmont property) extends on to Southern Arc's property. Limited surface evaluation work and airborne studies by the Company support this finding. Previous exploration by Newmont on the *East Elang property* identified a series of epithermal gold-silver-bearing quartz veins within a large argillic alteration system. Such alteration systems are often surface expressions ("lithocaps") of upper or distal portions of mineralized porphyry Cu-Au systems.

Sabalong

- Vale has agreed to fund US \$1,000,000 in Phase 1 exploration expenditures on the Sabalong property within one year from the date on which the Company receives an exploration activities permit (forestry permit) from the Ministry of Forestry for that property. As reported on December 17, 2009, the Company holds an IUP for this property.
- Upon completion of Phase 1, Vale may elect to solely fund a Phase 2 Minimum Program, involving at least US \$2,000,000 in exploration expenditures. Vale must complete the Phase 2 Minimum Program within two years from the date that Vale notifies Southern Arc that it will be proceeding with Phase 2 (the "Sabalong Phase 2 Commencement Date").
- Upon completion of the Phase 2 Minimum Program, Vale may elect to solely fund a Phase 2 Full Program, involving the completion of a Pre-Feasibility Study on Sabalong or further exploration expenditures of at least US \$10 million, within four years from the Sabalong Phase 2 Commencement Date.
- Upon completion of the Phase 2 Full Program, Vale may elect to solely fund the completion of a Bankable Feasibility Study for Sabalong within seven years from the Sabalong Phase 2 Commencement Date.
- If Vale completes a Bankable Feasibility Study on either or both the East Elang and Sabalong properties within the permitted timeframes, Vale will be entitled to receive a 75% interest in PT SAM. PT SAM, a wholly owned subsidiary of the Company, holds the IUP's for Sabalong and East Elang

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

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Sabalong and East Elang (cont'd....)

Surface geologic mapping has defined an area of 3 x 4 km of structurally-controlled argillic alteration with lesser advanced argillic assemblages, hosting low sulfidation epithermal veins in the east (*Toyang* Prospect). To the west, residual silica and enargite-bearing quartz veins typical of high-sulfidation epithermal systems are encountered (*Lito* Prospect). Low sulfidation veining comprises veins and vein breccias of up to 50 centimeters wide and form sporadic zones ranging from 1 to 20 meters wide, containing Au and Ag and anomalous As, Sb, and Mo. There is a direct relationship between gold tenor, concentrations of quartz veins/breccias and illite crystallinity, as evidenced by higher surface intersections including 4.0 m @ 7.23 g/t Au, 4.0 m @ 6.79 g/t Au and 10.0 m @ 5.91 g/t Au.

Residual vuggy silica occurrences are localized by a broader overprint of silica ± alunite, within ubiquitously argillic to advanced argillic altered rhyo-dacitic pyroclastics. Multi-phase hydrothermal brecciation events, where associated with increased amounts of sulfide and cross-cutting banded quartz veining are the loci for higher gold ± silver grades.

Central Java Island Properties

Karangtengah KP Property (Central Java)

Prospect evaluation work continued this period, along with evaluation of third party IUP properties on to which mineralization trends could be extrapolated from the Company's property.

Tirtomoyo KP Property (Central Java)

Aside from CSR commitments no field activities were reported this period.

Other Properties, Indonesia

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

Nickel Oil & Gas Corp.

Southern Arc owns 38.54% or 15.3 million shares in Nickel Oil & Gas Corp. (formerly Canada Nickel Corp.), a private company. During the year ended June 30, 2009, Nickel Oil & Gas, entered into an option agreement with Diamondex Resources Ltd. ("Diamondex") to earn up to 51% interest 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 for the year ended June 30, 2009. Nickel Oil & Gas also commenced a legal action against Diamondex in relation to the option agreement.

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Nickel Oil and Gas Corp. (cont'd....)

In November 2009 Nickel Oil & Gas settled the legal action with Diamondex on the following terms:

1. Diamondex has paid to Nickel Oil & Gas the sum of \$250,000 (received);
2. Nickel Oil & Gas has transferred to Diamondex its 10% interest in the James Bay Lowlands Property;
3. 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;
4. 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%.

The settlement of this matter enabled Nickel Oil & Gas to pursue a new strategic direction while retaining the significant upside potential of the James Bay Lowlands project without any remaining funding obligations.

In November 2009, the Company announced Nickel Oil & Gas has entered into a joint venture agreement (the "Joint Venture") with a Canadian intermediate oil and gas producer. 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.

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

- (a) 20% interest in 43-13-W5M: Section 22 by paying 100% of the costs of completing a previously drilled well on Section 22;
- (b) 48% interest in 43-13-W5M: Section 26 by paying 100% of the costs of drilling and completing, capping or abandoning a well on Section 26; and
- (c) 48% interest in 43-13-W5M: Section 27 by paying 80% of the costs of drilling and completing, capping or abandoning a well on Section 27.

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

In early December 2009, the previously drilled well on Section 22 was completed, earning Nickel Oil & Gas the interest in Section 22 described above. The Section 22 well is currently shut in. Nickel Oil & Gas also successfully drilled the well on Section 26 and completed it in two intervals of the Belly River formation, earning Nickel Oil & Gas the interests in Section 26 described above. Subject to financing, Nickel Oil & Gas intends to tie-in this well to a nearby pipeline in 2010.

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Nickel Oil & Gas Corp. (cont'd...)

In December 2009 Nickel Oil & Gas also entered into a farmout and option agreement with respect to the Pine Creek area, Alberta. This Agreement granted Nickel Oil & Gas the right to earn the following petroleum and natural gas rights:

- (a) 25% interest in 54-18-W5M: Section 29 to the base Notikewin, by paying 100% of the costs of re-entering and completing a previously drilled well on Section 29;
- (b) 60% interest in 55-18-W5M: Section 1 and Section 12 to the base Rock Creek by paying 100% of the costs of drilling and completing, capping or abandoning a well on either of Section 1 or Section 12; and
- (c) 60% interest in 55-18-W5M: Section 9 to the base Notikewin by paying 100% of the costs of drilling and completing, capping or abandoning a well on Section 9.

There is good well control in the Pine Creek area with recent success by other oil and gas companies and close proximity to infrastructure.

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, 2010, the Company's 38.54% owned subsidiary, Nickel Oil and Gas issued 4,569,000 shares (4,144,000 of that being flow-through) for total gross proceeds of \$1,121,000.

Subsequent to June 30, 2010 the Company:

- i) Negotiated an extension to the repayment of its US\$1,000,000 loan from a director of the Company. The loan may now be repaid by the Company prior to June 30, 2011 and remains non-interest bearing.
- ii) Disposed all of its holdings in the MAV Plan Notes (refer to financial statements Note 6) and received \$890,277. Concurrently, the Company repaid the bank bridge loan of \$550,000 (refer to financial statements Note 7)

Results of Operations

During the year ended June 30, 2010, the Company had a loss of \$1,559,227 compared to loss of \$5,240,556 for the year ended June 30, 2009. Significant fluctuations incurred in the following categories:

- a) Stock-based compensation of \$333,661 (2009 - \$63,864) increased as a result of a re-pricing and grant of stock options during the year. 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;

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- b) Management fees discussed in more detail in the related parties section;
- c) Foreign exchange loss of \$18,843 was realized during the year ended June 30, 2010 (2009 – gain \$92,361) 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;
- d) Property investigation costs of \$190,271 was expensed during year ended June 30, 2010 (2009 - \$2,358).
- e) Resource properties written off of \$15,616 (2009 - \$8,066,801).
- f) Gain on diluted interest in subsidiary of \$Nil was recorded in the year ended June 30, 2010 (2009 - \$201,920) due to addition shares issued to non-controlling parties of Nickel Oil and Gas diluting the Company's interest. With the current year adoption of Section 1602, the current year dilution in ownership was recognized in non-controlling interest reserve.
- e) The Company spent \$4,449,156 cash (2009 - \$8,855,234) on resource properties.
- f) During the year, Nickel Oil & Gas received \$250,000 cash on settlement of its lawsuit with Diamondex.

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, 2010 \$	Year ended June 30, 2009 \$	Year ended June 30, 2008 \$
Total revenues	-	-	-
Loss for the year	(1,559,227)	(5,240,556)	(5,409,343)
Basic and diluted loss per share	(0.02)	(0.07)	(0.08)
Total assets	24,898,967	19,496,869	23,688,619
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, 2010:

- a) The Company expended approximately \$1,783,995 (2009 - \$199,799) on mineral properties.
- b) The Company recognized an impairment loss of \$15,616 (2009 - \$8,066,801) in the statement of operations.
- c) The Company recognized an unrealized gain of \$36,063 (2009 – loss of \$323,059) on investment.

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Summary of Quarterly Results

	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009
Total assets	\$ 24,898,967	\$ 22,910,770	\$ 23,434,431	\$ 19,243,326
Resource properties and deferred costs	22,410,416	20,626,421	20,318,136	15,691,274
Working capital	479,631	758,642	1,652,957	2,632,708
Accumulated deficit	(15,692,612)	(15,134,938)	(14,752,532)	(14,679,954)
Net Loss	(557,674)	(382,406)	(72,578)	(546,569)
Basic and diluted loss per share	(0.01)	(0.01)	(0.00)	(0.01)

	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

Liquidity

The Company's cash position at June 30, 2010 was \$1,604,476 a decrease of \$826,936 from June 30, 2009. The decrease is primarily due to resource property acquisition and exploration expenditures.

As at June 30, 2010, the Company's working capital is \$479,631. The Company has financed its operations to date primarily through the issuance of common shares and loans received from the bank and a director.

Net cash used in operating activities for the year ended June 30, 2010 was \$333,102 compared to net cash used of \$1,784,830 during the year ended June 30, 2009. The cash used in operating activities for the year consists primarily of changes in non-cash working capital items.

Net cash used in investing activities for the year ended June 30, 2010 was \$4,432,189 compared to cash used of \$8,479,839 during the year ended June 30, 2009. The cash used in investing activities for the year consists primarily of the acquisition and exploration of resource properties.

Net cash provided by financing activities for the year ended June 30, 2010 was \$3,957,198 compared to \$3,306,843 during the year ended June 30, 2009. Financing activities included \$550,000 proceeds from the bank loan, \$1,064,600 loan from a director, \$1,365,349 cash received from the exercise of warrants and options and \$977,249 cash received from issuance of shares by Nickel Oil and Gas.

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INVESTMENT

	2010	2009
Plan Notes	\$ 835,799	\$ 816,703

At June 30, 2010, investment included Master Asset Vehicle II notes received in exchange for Canadian third-party asset backed commercial paper ("ABCP") that was held by the Company. The notes held by the Company are referred to as MAVII, including senior notes Class A-1, subordinated notes Class C, and ineligible asset tracking notes Class 13:

Notes	Maturity Date (1)	Interest Rate (2)	Face Value	Fair Value Estimate
MAV II Class A-1	July 2056	BA - 0.5%	\$ 1,187,185	\$ 835,799
MAV II Class C	July 2056	BA + 20%	36,717	-
MAV II Class 13 (Ineligible Asset Tracking Notes)	March 2014		186,296	-
Total			\$ 1,410,198	\$ 835,799

(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.

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.

Subsequent to June 30, 2010 the Company disposed all of its holdings in the MAV Plan Notes and received \$890,277.

Investment in Nickel Oil & Gas

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

During the year ended June 30, 2010, Nickel Oil & Gas issued additional common stock to third parties which diluted the Company's ownership percentage of Nickel Oil & Gas to 38.54% (2009 – 43.56%) resulting in a gain on diluted interest in subsidiary of \$221,008 (2009 - \$201,920). The Company maintains control as a result of a common director.

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

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Related Party Transactions

During the year ended June 30, 2010, the Company entered into transactions with related parties as follows:

- a) Paid \$402,000 (2009 - \$409,200) for management fees and \$80,400 (2009 - \$42,800) 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 \$209,476 (2009 - \$223,105) 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 \$4,744 (2009 - \$84,505) for legal fees, included in professional fees, to a firm in which a director of Canada Nickel is a partner of which \$Nil (2009 - \$4,104) is included in account payable.
- d) Repaid a \$Nil (2009 - \$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 (Refer to financial statements Note 5).
- e) Related party transactions also include a US\$1,000,000 (CDN\$1,064,600 (2009 - \$Nil) loan from a director of the Company (Refer to financial statements note 7 ii))

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

Off-balance Sheet Arrangements

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

Stock-based compensation

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

Commitment

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

Unit	Commencement Date	Term	\$/ month	Remaining Fiscal 2011
1522	1-Mar-10	28-Feb-11	\$1,362	\$10,896

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Current Share Data

Subsequent to June 30, 2010 the Company granted incentive stock options to directors, officers and consultants of the Company for the purchase of up to 3,650,000 common shares, exercisable at \$0.80 per share for a period of five years.

As at the date of this MD&A, the Company has 77,329,990 common shares issued and outstanding and has the following stock options:

	Number of Shares	Exercise Price	Expiry Date
Options	425,000	\$ 0.56	January 13, 2011
	150,000	\$ 0.30	July 31, 2013
	3,500,000	\$ 0.40	September 16, 2014
	3,650,000	\$ 0.80	July 19, 2015

As at the date of this MD&A the Company does not have any warrants outstanding.

Financing

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

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.

Investor Relations

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

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Change in accounting policies

Goodwill and Intangible Assets

In February 2008, the CICA issued Handbook Section 3064 "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". These sections establish standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The new sections are effective for years beginning on or after October 1, 2008. The adoption of this new section had no impact on its consolidated financial statements, when adopted by the Company on July 1, 2009.

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 January 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". Changes in ownership interests that do not result in a loss of control are treated as transactions with shareholders of the Company. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interest any consideration paid or received is recognized in a separate reserve within equity attributed to the shareholders of the Company.

These sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 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 January 1, 2011.

The Company adopted these sections on a retrospective basis, except where prospective application is required, which resulted in Company's non-controlling interests moving to a component of equity and the current year dilution in ownership being recognized in non-controlling interest reserve.

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Principles of consolidation

The consolidated financial statements include:

- i) the accounts of the Company;
- ii) its 38.54% owned Canadian subsidiary, Nickel Oil & Gas Corp. from the date of acquisition; and
- iii) its wholly owned Singapore subsidiaries, Indotan Lombok Pte. Ltd., Indotan Sumbawa Pte. Ltd. and Pt. Selatan Arc Minerals.

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

Recent accounting pronouncements

International financial reporting standards ("IFRS")

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

IFRS Changeover Plan Disclosure

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

First-time adoption of IFRS

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

Accounting policies

Below are some of the significant areas that were discussed:

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

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

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

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

Systems and disclosure

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

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