SOUTHERN ARC MINERALS INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2010 and 2009

(Expressed in Canadian Dollars)

CHARTERED
ACCOUNTANTS
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Auditors' Report

To the Shareholders of
Southern Arc Minerals Inc.

We have audited the consolidated balance sheets of Southern Arc Minerals Inc. as at June 30, 2010 and 2009, and the consolidated statements of operations, comprehensive loss and deficit, statement of changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in these financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at June 30, 2010 and 2009, and the results of its operations, changes in equity and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada
October 15, 2010

"MacKay LLP"
Chartered Accountants

SOUTHERN ARC MINERALS INC.
CONSOLIDATED BALANCE SHEETS
AS AT JUNE 30
(Expressed in Canadian dollars)

	2010	2009
ASSETS		
Current		
Cash and cash equivalents	$ 1,604,476	$ 2,431,412
Receivables	29,668	13,246
Prepaid expense and deposit	7,534	738,430
Investment (Note 6)	835,799	-
	2,477,477	3,183,088
Equipment (Note 4)	11,074	13,842
Resource properties (Note 5)	22,410,416	15,483,236
Investment (Note 6)	-	816,703
	$ 24,898,967	$ 19,496,869
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 383,246	$ 91,713
Loans payable (Note 7)	1,614,600	-
	1,997,846	91,713
Shareholders' equity		
Capital stock (Note 8)	30,474,172	26,565,067
Contributed surplus (Note 8)	5,926,928	5,604,310
Reserve	221,008	-
Deficit	(15,692,612)	(14,133,385)
Capital and reserve attributable to shareholders of Southern Arc Minerals Inc.	20,929,496	18,035,992
Non-controlling interest (Note 3)	1,971,625	1,369,164
Total equity	22,901,121	19,405,156
	$ 24,898,967	$ 19,496,869

Nature and continuance of operations (Note 1)
Commitment (Note 13)
Subsequent events (Note 16)

On behalf of the Board:

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

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

SOUTHERN ARC MINERALS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT
FOR THE YEARS ENDED JUNE 30
(Expressed in Canadian dollars)

		2010		2009
EXPENSES				
Amortization	$	2,768	$	3,460
Consulting fees		42,557		78,500
Foreign exchange		18,843		(92,361)
Investor relations		67,893		59,929
Management fees (Note 10)		402,000		409,200
Office and miscellaneous (Note 10)		193,742		152,629
Professional fees (Note 10)		423,758		325,924
Property investigation costs		190,271		2,358
Rent		16,648		19,173
Resource properties written-off (Note 5)		15,616		8,066,801
Stock-based compensation (Note 8)		333,661		63,864
Stock-based financing cost (Note 7ii)		117,713		-
Transfer agent and filing fees		40,344		50,748
Travel		35,566		17,791
Loss before other items		(1,901,380)		(9,158,016)
OTHER ITEMS				
Interest income		2,231		37,155
Gain on settlement of lawsuit (Note 5)		250,000		-
Gain on diluted interest in subsidiary (Note 3)		-		201,920
Unrealized gain/(loss) on investment (Note 6)		36,063		(323,059)
		288,294		(83,984)
Loss for the year, before income taxes		(1,613,086)		(9,242,000)
Future income tax recovery (Note 11)		-		764,000
Loss and comprehensive loss for the year	$	(1,613,086)	$	(8,478,000)
Loss and comprehensive loss attributable to:				
Shareholders of Southern Arc Minerals Inc.	$	(1,559,227)	$	(5,240,556)
Non-controlling interests		(53,859)		(3,237,444)
	$	(1,613,086)	$	(8,478,000)
Basic and diluted loss per share	$	(0.02)	$	(0.07)
Weighted average number of shares outstanding		74,317,213		71,410,906

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

SOUTHERN ARC MINERALS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30
(Expressed in Canadian dollars)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss and comprehensive loss for the year	$ (1,613,086)	$ (8,478,000)
Items not affecting cash:		
Stock-based compensation	333,661	63,864
Stock-based financing cost	117,713	-
Amortization	2,768	3,460
Gain on diluted interest in subsidiary	-	(201,920)
Unrealized (gain)/loss on investment	(36,063)	323,059
Future income tax recovery	-	(764,000)
Resource properties written-off	15,616	8,066,801
Foreign exchange	18,843	(92,361)
Changes in non-cash working capital items:		
(Increase)/decrease in receivables	(16,422)	3,399
Prepaid expense and deposit	730,896	(733,430)
Increase in accounts payable and accrued liabilities	112,972	24,298
Net cash used in operating activities	(333,102)	(1,784,830)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to resource properties	(4,449,156)	(8,855,234)
Acquisition of Nickel Oil & Gas (Note 3)	-	(5,355,000)
Cash acquired on acquisition of Nickel Oil & Gas (Note 3)	-	5,669,935
Repayment of investment	16,967	60,460
Net cash used in investing activities	(4,432,189)	(8,479,839)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	1,365,349	-
Share issue (costs)/ recovery	-	15,259
Reimbursement of income tax paid by Nickel Oil & Gas shareholders	(100,375)	-
Issue of equity securities by Nickel Oil & Gas to non-controlling interests	1,077,624	3,291,584
Proceeds from loan	550,000	-
Proceeds from shareholder loan (Note 7)	1,064,600	1,100,000
Repayment of shareholder loan (Note 10)	-	(1,100,000)
Net cash provided by financing activities	3,957,198	3,306,843
FOREIGN EXCHANGE ON CASH	(18,843)	92,361

- Continued –

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

SOUTHERN ARC MINERALS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30
(Expressed in Canadian dollars)

	2010	2009
Continued…		
Change in cash during year	(826,936)	(6,865,465)
Cash and cash equivalents, beginning of year	2,431,412	9,296,877
Cash and cash equivalents, end of year	$ 1,604,476	$ 2,431,412
Cash paid for interest	$ 9,150	$ -
Cash paid for income taxes	$ -	$ -
Cash and cash equivalents consist of:		
Cash on hand	$ 1,604,476	$ 1,831,324
Term deposits	-	600,088
	$ 1,604,476	$ 2,431,412

Supplemental disclosure with respect to cash flows (Note 9)

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

SOUTHERN ARC MINERALS INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30
(Expressed in Canadian dollars)

	Capital Stock	Contributed Surplus	Non-controlling interest reserve	Deficit	Total	Non-controlling interest	Total Equity
Balance at July 1, 2008	$ 26,549,808	$ 5,540,446	$ -	$ (8,892,829)	$ 23,197,425	$ -	$ 23,197,425
Comprehensive loss for the year	-	-	-	(5,240,556)	(5,240,556)	(3,237,444)	(8,478,000)
Private placement, net of transaction costs	15,259	-	-	-	15,259	4,606,608	4,621,867
Stock-based compensation	-	63,864	-	-	63,864	-	63,864
	15,259	63,864	-	-	79,123	-	4,685,731
Balance at June 30, 2009	**26,565,067**	**5,604,310**	**-**	**(14,133,385)**	**18,035,992**	**1,369,164**	**19,405,156**
Comprehensive Loss for the year	-	-	-	(1,559,227)	(1,559,227)	(53,859)	(1,613,086)
Private placement, net of transaction costs	-	-	-	-	-	977,703	977,703
Reimbursement of income taxes paid to flow-through shares subscribers	-	-	-	-	-	(100,375)	(100,375)
Gain on diluted interest in subsidiary (Note 3)	-	-	221,008	-	221,008	(221,008)	-
Stock-based compensation	-	333,661	-	-	333,661	-	333,661
Stock-based financing costs	-	117,713	-	-	117,713	-	117,713
Exercise of warrants	1,175,359	-	-	-	1,175,359	-	1,175,359
Exercise of options	318,746	(128,756)	-	-	189,990	-	189,990
Issued for acquisition of subsidiaries (Note 5)	2,415,000	-	-	-	2,415,000	-	2,415,000
	3,909,105	322,618	221,008	-	4,452,731	656,320	5,109,051
Balance at June 30, 2010	**$ 30,474,172**	**$ 5,926,928**	**$ 221,008**	**$ (15,692,612)**	**$ 20,929,496**	**$ 1,971,625**	**$ 22,901,121**

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

1. NATURE AND CONTINUANCE OF OPERATIONS

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

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

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

For the year ended June 30, 2010, the Company incurred a net loss of $1,559,227 (2009 - $5,240,556) and had working capital of $479,631(2009 - $3,091,375). The Company does not generate sufficient cash flow from operations to adequately fund its future exploration activities and has relied principally upon issuance of securities and loans from related parties to fund its exploration and administrative expenditures. These conditions raise significant doubt regarding the Company's ability to continue as a going concern.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

These consolidated financial statements include:

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Basis of presentation

The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

Cash and cash equivalents

Cash and cash equivalents consist of cash in the bank, less outstanding cheques, and short-term deposits which are readily convertible into a known amount of cash, are subject to an insignificant risk of change in value and have a maturity of three months or less when purchased.

Equipment

Telephone equipment is recorded at cost and is being amortized using the declining balance method at 20% per year.

Resource properties

(i) Resource Properties

All costs related to the acquisition, exploration and development of resource properties are capitalized by geographical area. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a resource property is impaired, that property is written down to its estimated fair value. A resource property is reviewed for impairment annually and whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for resource properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

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

(ii) Joint interest

A portion of the Company's development activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

(iii) Asset retirement obligations

Asset retirement obligations are recognized for legal obligations related to the retirement of long-lived tangible assets that arise from the acquisition, construction, development or normal operation of such assets. A liability for an asset retirement obligation must be recognized in the period in which it is incurred and when a reasonable estimate of the fair value of the liability can be made. Furthermore, a corresponding asset retirement cost should be recognized by increasing the carrying value of the related long-lived asset. The asset retirement cost is subsequently charged to operations in a rational and systematic manner over the underlying asset's useful life. The initial fair value of the asset retirement liability is accreted, by charges to operations, to its estimated future value. The Company has determined that there are no significant asset retirement obligations at June 30, 2010 and 2009.

(iv) Impairment of long lived assets

The Company has adopted the recommendations of CICA Handbook Section 3063 "Impairment of Long-lived Assets" and abstract EIC 174, "Mining Exploration Costs" ("EIC 174") of the Emerging Issues Committee on a prospective basis. Section 3063 requires that long-lived assets and intangibles to be held and used by the Company be reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstance indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated.

EIC 174 provides that an enterprise that is in the development stage with initially capitalized exploration costs but has not established mineral reserves objectively and therefore does not have a basis for preparing a projection of the estimated future net cash flow from the property, is not obliged to conclude that the capitalized costs have been impaired. However, such an enterprise should consider whether a subsequent write-down of capitalized exploration costs related to mining properties is required.

Oil and Gas Interests

(i) Oil and Gas Properties

The Company follows the full cost method of accounting for oil and gas interests whereby all costs of exploration for and development of oil and gas reserves are capitalized by cost centre. These costs include lease acquisition costs, geological and geophysical expenses, drilling costs of successful as well as unsuccessful wells and overhead charges related directly to the exploration.

Depletion of exploration and development costs is provided using the unit of production method based on estimated proven oil and gas reserves as determined by the Company and substantiated by independent professional engineers. For the purposes of depletion calculations proved oil and gas reserves are converted to a common unit of measure on the basis that six thousand cubic feet of natural gas is equivalent to one barrel petroleum. The depletion cost base includes total capitalized costs, less costs of unproven properties, plus estimated future development costs associated with proven undeveloped reserves. If the interests are sold, the proceeds will be applied against capitalized costs unless such sale significantly impacts the rate of depletion by more than 20%, in which case a gain or loss is recorded. If the interests are abandoned, the costs will be written off to operations.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

(ii) Impairment

All cost centers are in the exploration, appraisal or "pre-development" stage and as such, the costs in each centre are not subject to depletion. An impairment review is performed at every reporting date to determine whether the aggregate net costs in each pre-development stage cost center are recoverable. Recoverability is determined by comparing capitalized costs for each cost centre with estimated future net revenues using estimated future prices and costs and internal estimates of recoverable reserves or resources. Sensitivity to key assumptions is also tested using a range of values. Costs which are unlikely to be recovered are written off. The recovery of the costs incurred to date is ultimately dependent upon production of commercial quantities of hydrocarbons or the sale of the related asset. The likelihood of such production is not assured at this time.

(iii) Ceiling Test

The net carrying value of the Company's oil and gas properties is limited to an ultimate recoverable amount. The Company tests impairment against undiscounted future net revenue from proved reserves using expected future prices and costs as well as the income tax legislation in effect at the period end. Impairment is recognized when the carrying value of the asses is greater than the undiscounted future net revenues, in which case the assets are written down to the fair value of proved plus probable reserves plus the cost of unproved properties, net of impairment allowances. Fair value is determined based on discounted future net cash flows calculated using expected future prices and costs as well as the income tax legislation in effect at the period end. The discounted rate used is a risk free interest rate.

(iv) Title

Although the Company has taken steps to secure and verify title to its property interests, in accordance with industry norms, these procedures do not guarantee the Company's title. Properties may be subject to prior unregistered agreements, native land claims, transfers which have not been recorded or detected through title research or which have been asserted since the date research may have been completed, or inadvertent noncompliance with regulatory requirements.

Certain of the Company's property interests are held as conditional exploration licenses or permits. Conversion of these interests into ownership interests requires that the conditions attaching to the licenses or permits be fulfilled. The Company may or may not elect to fulfill such conditions.

Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Significant areas requiring the use of management estimates include assessment of carrying values of long-term investments, impairment of resource properties and valuation of stock-based compensation and financing. Actual results could differ from these estimates.

Foreign currency translation

Transactions denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the related transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date, non-monetary assets and liabilities denominated in foreign currencies are translated at the historical rate. Exchange gains and losses arising on translation are included in the results of operations.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Future income taxes

Future income taxes are recorded using the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Stock-based compensation

The Company accounts for its stock-based compensation programs using the fair value method. The fair value of option grants is generally established at the date of grant using the Black-Sholes option pricing model and the expense is recognized over the vesting period, with offsetting amounts recorded as contributed surplus. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date which the equity instruments are granted if they are fully vested and non-forfeitable. The Company has not incorporated an estimated forfeiture rate for stock options, rather the Company accounts for actual forfeitures as they occur. If and when the stock options are exercised, the applicable amounts of contributed surplus are transferred to share capital.

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the periods presented, this calculation proved to be anti-dilutive. Basic loss per share is calculated using the weighted average number of common shares outstanding during the period.

Share capital

The Company has adopted the residual value method with respect to the valuation of warrants issued as part of a private placement unit. The residual value method allocates the net proceeds to the common shares up to their fair value, as determined by the current quoted trading price on the announcement date, and the balance, if any, to the attached warrants. The fair value attributed to the warrants, if any, is recorded in Contributed Surplus.

Share capital issued as non-monetary consideration is recorded at the fair market value of the shares issued, and is generally based on the trading price of the shares at the time an agreement to issue shares has been reached, which is determined by the Board of Directors of the Company.

Share issue costs incurred on the issue of the Company's shares are charged directly to share capital.

Comparative figures

Certain of the comparative figures have been reclassified to conform with the consolidated financial statement presentation adopted in the current year.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Flow-through shares

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. Under the liability method of accounting for income taxes, the future income taxes related to the temporary difference arising at the renunciation date are recorded at that time together with a corresponding reduction to the carrying value of the shares issued. In instances where the Company has sufficient deductible temporary differences available to offset the future income tax liability created from renouncing qualifying expenditures, the realization of the deductible temporary differences will be shown as a recovery in operations in the period of renunciation.

Financial instruments

The Company follows the recommendations of CICA Handbook Section 3855, Financial Instruments - Recognition and measurement. Section 3855 provides that all financial instruments are to be recorded initially at fair value, with the exception of certain related party transactions. In subsequent periods, all financial instruments are measured based on the classification adopted for the financial instrument:

Held for trading assets -	measured at fair value with the change in the fair value recognized in net income during the period.
Available-for-sale assets -	measured at fair value with the change in fair value recorded in other comprehensive income.
Held-to-maturity assets -	measured at amortized cost using the effective interest rate method.
Loans and receivables -	measured at amortized cost using the effective interest rate method.
Other liabilities -	measured at amortized cost using the effective interest rate method.

Transaction costs related to financial instruments will be expensed in the period incurred.

The Company has classified its financial instruments as follows:

Financial Instrument	Classification
Cash and cash equivalents	Held for trading
Investment	Held for trading
Amounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Loans payable	Other liabilities

Amendment to financial instruments – disclosures

CICA Handbook Section 3862, Financial Instruments – Disclosures was amended to require disclosure about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

Level 1 -	Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 -	Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 -	Inputs that are not based on observable market data.

See Note 12 for relevant disclosures.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Accounting Policies Adopted

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, consolidated financial statements and non-controlling interests

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.

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.

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.

Recent accounting pronouncements

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

International financial reporting standards ("IFRS")

In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Recent accounting pronouncements (cont'd…)

The transition date of July 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011. The Company is currently evaluating the impact of the conversion on the Company's consolidated financial statements and is considering accounting policy choices available under IFRS.

3. INVESTMENT IN NICKEL OIL & GAS CORP.

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

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

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

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.

4. EQUIPMENT

	2010			2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Telephone equipment	$ 26,278	$ 15,204	$ 11,074	$ 26,278	$ 12,436	$ 13,842

(Expressed in Canadian dollars)

5. RESOURCE PROPERTIES

June 30, 2010	Brewster Area, Canada (Unproven)	Pine Creek Area, Canada (Unproven)	Lombok Property, Indonesia	Sumbawa Property, Indonesia	Total
Acquisition costs					
Balance, beginning of year	$ -	$ -	$ 1,051,254	$ 450,537	$ 1,501,791
Cash	-	1,691	168,545	94,261	264,497
Shares	-	-	1,207,500	1,207,500	2,415,000
Written-off during the year	-	-	-	(15,616)	(15,616)
Balance, end of year	-	1,691	2,427,299	1,736,682	4,165,672
Deferred exploration costs					
Incurred during the year:					
Assaying, testing, surveying and analysis	-	-	34,721	167	34,888
Camp construction, supplies and other	-	-	268,821	117,557	386,378
Completion	968,367	-	-	-	968,367
Drilling	791,577	1,425,356	11,167	-	2,228,100
Geological and other consulting	53,691	14,125	416,299	132,519	616,634
Travel	-	-	24,913	4,019	28,932
Total deferred exploration costs	1,813,635	1,439,481	755,921	254,262	4,263,299
Balance, beginning of year	-	-	10,017,489	3,963,956	13,981,445
Balance, end of year	1,813,635	1,439,481	10,773,410	4,218,218	18,244,744
Total resource property costs	$ 1,813,635	$ 1,441,172	$ 13,200,709	$ 5,954,900	$ 22,410,416

June 30, 2009	Lombok Property, Indonesia	Sumbawa Property, Indonesia	James Bay Project, Canada	Total
Acquisition costs				
Balance, beginning of year	$ 1,051,254	$ 450,537	$ -	$ 1,501,791
Option payment	-	-	5,000,000	5,000,000
Purchase price allocation (Note 3)	-	-	1,966,801	1,966,801
Written-off during the year	-	-	(6,966,801)	(6,966,801)
Balance, end of year	1,051,254	450,537	-	1,501,791
Deferred exploration costs				
Incurred during the year:				
Assaying, testing, surveying and analysis	63,876	9,836	-	73,712
Camp construction, supplies and other	704,434	192,971	-	897,405
Drilling	558,805	1,879	-	560,684
Geological and other consulting	679,779	89,633	-	769,412
Geophysical survey	-	-	1,100,000	1,100,000
Travel	27,863	1,547	-	29,410
Written-off during the year	-	-	(1,100,000)	(1,100,000)
Total deferred exploration costs	2,034,757	295,866	-	2,330,623
Balance, beginning of year	7,982,732	3,668,090	-	11,650,822
Balance, end of year	10,017,489	3,963,956	-	13,981,445
Total resource property costs	$ 11,068,743	$ 4,414,493	$ -	$ 15,483,236

5. RESOURCE PROPERTIES (cont'd…)

Oil and Gas Properties
Brewster Area, Canada

During the year ended June 30, 2010, the Company's 38.54% owned subsidiary, Nickel Oil & Gas, entered into a joint venture agreement (the "Joint Venture"). According to the Joint Venture agreement, Nickel Oil & Gas earned a 20% working interest in one section of land (640 acres) by paying 100% of the costs of completing a previously drilled well and a 48% working interest in a second section by paying 100% of the costs of drilling and completing a well. A party holding a 20% interest in both sections elected not to participate in the operations and consequently has forfeited its 20% interest in production until such time as the parties participating in the operation have collectively recovered a penalty equal to 400% of the operation costs associated with the drilling and completion of these wells. As a result, Nickel Oil & Gas effectively holds a 40% interest in one section and a 68% interest in the second section until such time as the 400% penalty has been recovered. Nickel Oil & Gas has an option to earn a 48% interest in a third section at Brewster by paying 80% of drilling and completion.

Pine Creek Area, Canada

During the year ended June 30, 2010, the Company's 38.54% owned subsidiary, Nickel Oil & Gas, entered into a farmout and option agreement with respect to the Pine Creek area, Alberta. This agreement granted Nickel Oil & Gas the option to earn the following oil and gas rights:

i) a 25% working interest in the first section by paying 100% of the costs of re-entering and completing a previously drilled well; and
ii) a 60% working interest in the second section by paying 100% of the costs of drilling and completing, capping or abandoning a well; and
iii) a 60% working interest in the third section by paying 100% of the costs of drilling and completing, capping or abandoning a well.

Subsequent to year end, Nickel Oil & Gas entered into an Amending Agreement with its joint venture partner on Pine Creek Property. Under the amending agreement, Nickel Oil & Gas earned a 60% working interest in two sections by funding 100% of the costs of drilling of the horizontal well. Nickel Oil & Gas has an obligation to pay 100% of the completion, equipping and tie-in costs.

Resource Properties
Lombok and Sumbawa Properties, Indonesia

During the period ended June 30, 2005, the Company entered into an agreement with Sunda Mining Corporation ("Sunda") pursuant to which Sunda assigned its option to acquire certain rights on the Lombok property ("Lombok") and the Sumbawa property ("Sumbawa")(collectively the "Properties") to the Company, which Sunda had obtained from Indotan Inc. ("Indotan"). In consideration for the assignment, the Company paid $81,572 and issued 11,500,000 common shares valued at $862,500 to Sunda. Effective February 25, 2005, the Company and Indotan entered into a settlement agreement with respect to certain outstanding matters related to the Properties. Pursuant to this settlement, the Company and Indotan entered into an amended and restated option agreement (the "Option Agreement") which sets out all of the rights and responsibilities of the Company and Indotan with respect to the Properties.

Pursuant to the Option Agreement, the Company has acquired, directly from Indotan, all of its rights to the Properties in consideration for which the Company issued 1,000,000 common shares, valued at $125,000, and paid $180,000. 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.

5. RESOURCE PROPERTIES (cont'd…)

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

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 a 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, Mencanggah, and Pelangan prospects).

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

James Bay Nickel Project, Canada

During the year ended June 30, 2009, the Company's 38.54% owned subsidiary, 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"). In order to earn its interest, Nickel Oil & Gas had to 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). Nickel Oil & Gas did not continue with the option agreement and recognized an impairment loss of $8,066,801 in fiscal 2009. Nickel Oil & Gas also commenced a legal action against Diamondex in connection with its option agreement.

(Expressed in Canadian dollars)

5. RESOURCE PROPERTIES (cont'd…)

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

During the year ended June 30, 2010, the Company announced the settlement of legal action against Diamondex. According to the settlement, Diamondex has paid to Nickel Oil & Gas the sum of $250,000; Nickel Oil & Gas has transferred to Diamondex its 10% interest in the James Bay Lowlands Property; Diamondex has granted to Nickel Oil & Gas a royalty equal to 1.5% of Net Smelter Returns ("NSR") if the Property is put into commercial production; Nickel Oil & Gas has granted to Diamondex an exclusive option to purchase two-thirds of this 1.5% NSR (namely, 1%), as follows: 0.33% for $833,333 before November 26, 2014, an additional 0.33% for $833,333 before November 26, 2014, and a further 0.34% for $833,334 before the second anniversary of commercial production. In the event that Diamondex fully exercises the three parts of this option by paying $2,500,000 to Nickel Oil & Gas, the NSR will be reduced to 0.5%.

6. INVESTMENT

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

At June 30, 2010, investments included Master Asset Vehicle II notes received in exchange for Canadian third-party asset backed commercial paper ("ABCP") that was held by the Company.

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.

The notes are classified as held-for-trading under the Company's Financial Instruments Policy which requires them to be fair valued at each period end with changes in fair value included in the statement of operations in the period in which they arise.

The fair value of the Class A-1 notes was established using a discounted cash flow approach based on the following inputs: the notes will pay interest at a rate 0.5% less than the bankers' acceptance ("BA") rate, prospective buyers of these notes were estimated to require premium yields 5% over the BA rate, average maturity of Class A -1 Notes were estimated to be 6.5 years. The Class C Notes are subordinated to the Class A and Class B Notes with respect to payment of interest and principal, and no amounts will be paid with respect to the Class C Notes until the Class A and Class B Notes are repaid in full.

(Expressed in Canadian dollars)

6. INVESTMENT (cont'd…)

The Class C and sub-prime backed Class 13 notes are viewed as highly speculative with regard to ultimate payment of principal at maturity. Accordingly, it is expected that Class C and sub-prime backed Class 13 notes will trade at $Nil value. In conjunction with the note exchange, the Company received a payment of $60,460 which was its share of the accumulated interest to June 30, 2009. The interest received to June 30, 2009 was accounted for as a reduction of the Company's investment. The estimated unpaid interest up to the restructuring date of January 21, 2009 is not material and was not included in the Company's fair value calculation.

During the year ended June 30, 2010, the Company received repayments of investment of $16,967 (2009 - $60,460) and adjusted for the increase in fair value of $36,063 (2009 – decrease $(323,059)).

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.

7. LOANS PAYABLE

During the year ended June 30, 2010, the Company:

i) secured a $550,000 demand non-revolving bridge loan from its bank pending any possible long-term solution to the current liquidity issues affecting the Company's investment in Plan Notes (Note 6). The bridge loan is secured by the Company's investment in Plan Notes. Interest on direct advances is paid at the Bank's prime rate plus 1% per annum. The bridge loan was repaid subsequent to June 30, 2010 (Note 16 (iv));

ii) received a US$1,000,000 (CDN$1,064,600) loan from a director of the Company. The loan is non-interest bearing, has a 3 month term, subsequently extended to June 30, 2011 (Note 16 (iii)), and may be repaid earlier by the Company. In consideration for granting the loan, the Company has assigned its option to acquire 500,000 of the Company's shares (Note 5) which are currently owned by Indotan Inc. The option was subsequently exercised by the director. A fair value of $117,713 was allocated to stock-based financing costs and recorded to contributed surplus in connection with the assignment.

The following weighted average assumptions were used for the Black-Scholes valuation of the options assigned during the year:

	2010
Risk-free interest rate	1.31%
Expected life of options	0.13 years
Annualized volatility	71.91%
Dividend rate	0.00%

(Expressed in Canadian dollars)

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Capital Stock	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Issued			
Balance as at June 30, 2008	71,410,906	$ 26,549,808	$ 5,540,446
Stock-based compensation	-	-	63,864
Share issuance cost recovery from December 2007 private placement	-	15,259	-
Balance as at June 30, 2009	71,410,906	26,565,067	5,604,310
Stock-based compensation	-	-	333,661
Stock-based financing (Note 7ii))	-	-	117,713
Exercise of warrants	1,679,084	1,175,359	-
Exercise of options	740,000	318,746	(128,756)
Issued for acquisition of subsidiaries	3,500,000	2,415,000	-
Balance as at June 30, 2010	77,329,990	$ 30,474,172	$ 5,926,928

During the year ended June 30, 2010, the Company:

a) issued 1,679,084 common shares at $0.70 per share for total proceeds of $1,175,359 pursuant to the exercise of warrants previously granted;

b) issued 740,000 common shares at $0.25 to $0.30 per share for total proceeds of $189,990 pursuant to the exercise of stock options previously granted;

c) issued 3,500,000 common shares at $0.69 per share for a value of $2,415,000 for acquisition of resource property (Note 5).

Stock options

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

(Expressed in Canadian dollars)

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

	Number of Options	Weighted Average Exercise Price
Outstanding, June 30, 2008	5,315,000	$ 1.19
Granted	250,000	0.30
Cancelled	(790,000)	(0.69)
Outstanding, June 30, 2009	4,775,000	1.23
Exercised	(740,000)	(0.26)
Granted	3,500,000	0.40
Cancelled	(3,450,000)	(1.56)
Expired	(10,000)	(0.25)
Outstanding, June 30, 2010	4,075,000	$ 0.41
Number of options currently exercisable	4,075,000	$ 0.41

During the year ended June 30, 2010, the Company recorded stock-based compensation of $333,661 (2009 - $63,864) using the Black-Scholes Option Pricing model, as a result of 50,000 (2009 – 250,000) options granted and 3,450,000 options re-priced. These amounts were recorded as contributed surplus on the balance sheet. The weighted average fair value of the options granted/re-priced was $0.27 (2009 - $0.26) per option. The fair value of options granted during the year was $13,518 (2009- $63,864) and incremental fair value of $320,143 (2009- $Nil) for options re-priced during the year.

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

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted and re-priced during the year:

	2010	2009
Risk-free interest rate	2.62%	3.24%
Expected life of options	5 years	5 years
Annualized volatility	121.25%	108%
Dividend rate	0.00%	0.00%

At June 30, 2010, the Company had share purchase options and warrants outstanding enabling holders to acquire common shares as follows:

	Number of Shares	Exercise Price	Expiry Date
Options	425,000	$ 0.56	January 13, 2011
	150,000	$ 0.30	July 31, 2013
	3,500,000	$ 0.40	September 16, 2014
	4,075,000		

(Expressed in Canadian dollars)

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

Warrants

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

	Number of Warrants	Weighted Average Exercise Price
Outstanding, June 30, 2008	7,628,320	$ 1.31
Expired	(2,911,902)	(0.60)
Outstanding, June 30, 2009	4,716,418	1.75
Repriced	(4,630,168)	(1.75)
Repriced	4,630,168	0.70
Exercised	(1,679,084)	(0.70)
Expired	(3,037,334)	(0.70)
Outstanding, June 30, 2010	-	$ -

9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company had the following significant non-cash transactions:

During the year ended June 30, 2010, the Company:

a) allocated $128,756 (2009 – $Nil) to capital stock from contributed surplus for stock options exercised during the period;

b) issued 3,500,000 common shares with a value of $2,415,000 for the acquisition of resource property (Note 5);

c) recorded $117,713 (2009- $Nil) to contributed surplus for stock-based financing cost (Note 7(ii)).

At June 30, 2010, the Company:

i) had included in accounts payable $101,312 (2009 - $22,672) of resource property costs, and $99,921 of share issue costs incurred by Nickel Oil & Gas Corp.

10. 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.

(Expressed in Canadian dollars)

10. RELATED PARTY TRANSACTIONS (cont'd…)

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 Nickel Oil & Gas 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 (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 (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.

11. INCOME TAXES

A reconciliation of income taxes at statutory rates with reported taxes is as follows:

	2010	2009
Loss for the year, before income taxes	$ (1,613,086)	$ (9,242,000)
Expected income tax recovery	$ (471,828)	$ (2,795,705)
Items not deductible for income tax purposes	127,985	68,757
Effect of change in tax rate	49,961	290,779
Change in valuation allowance recovery	293,882	1,672,169
Total income taxes	$ -	$ (764,000)

The significant components of the Company's future income tax assets are as follows:

	2010	2009
Future income tax assets:		
Non-capital loss carry forwards	$ 1,143,620	$ 833,031
Share issuance costs	87,192	153,152
Financing costs	35,223	9,164
Cumulative exploration expenses	1,243,479	1,195,761
Equipment	3,801	3,109
Long-term investment	62,350	66,858
	2,575,665	2,261,075
Valuation allowance	(2,575,665)	(2,261,075)
Net future income tax liability	$ -	$ -

(Expressed in Canadian dollars)

11. INCOME TAXES (cont'd…)

During the year ended June 30, 2010, the Company's 38.54% owned subsidiary, Nickel Oil & Gas issued 4,144,000 (2009 – 10,633,685) flow-though shares for total proceeds of $1,036,000 (2009 - $2,525,790). At June 30, 2010, the Company had spent $Nil of the flow-through expenditures and $1,036,000 remains to be spent. The flow-through agreements require the Company to renounce certain deductions for Canadian exploration expenditures incurred on the Company's resource properties to the flow-through participants.

The Company recognized a recovery of $Nil (2009 - $764,000) of future income tax.

The Company has available for deduction against future years' taxable income non-capital losses of approximately $4,574,488. Non-capital losses expire as follows:

2015	$ 403,890
2016	604,856
2027	486,895
2028	511,735
2029	1,105,496
2030	1,461,616
	$ 4,574,488

The Company has $27,384,330 (2009 - $21,692,069) of unclaimed resource expenses for Canadian income tax purposes which can be carried forward indefinitely and used to reduce taxable income in Canada.

Future tax benefits, which may arise as a result of these losses and resource expenditures, have not been recognized in these financial statements and have been offset by a valuation allowance.

12. FINANCIAL INSTRUMENTS AND RISK

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

Concentration of credit risk

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

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

(Expressed in Canadian dollars)

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

Fair value

The Company estimates the fair value of its financial instruments based on current interest rates, market value and pricing of financial instruments with comparable terms. Unless otherwise indicated, the carrying value of these financial instruments approximates their fair market value because of the near maturity of those instruments.

As at June 30, 2010 and June 30, 2009, the carrying amount of current financial assets and liabilities approximated the fair value because of the near maturity of those instruments and the carrying value of the demand non-revolving bridge loan (Note 7(i)) is considered to approximate fair value since it bears interest at current rates for similar types of borrowing arrangements.

Financial instruments measured at fair value on the balance sheet are summarized in levels of fair value hierarchy as follows:

	Level 1	Level 2	Level 3
Assets			
Cash and cash equivalents	$ 1,604,476	$ -	$ -
Investment	$ -	$ -	$ 835,799

Credit risk

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

The Company is holding Plan Notes with a fair value at June 30, 2010 of $835,799 (2009 - $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, 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.

(Expressed in Canadian dollars)

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

(b) Foreign currency risk

The Company's largest non-monetary assets are its resource interests in Indonesia. The Company could accordingly be at risk for foreign currency fluctuations and developing legal and political environments. The Company does not maintain significant 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.

(c) Price risk

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

13. COMMITMENT

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

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

14. SEGMENTED INFORMATION

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

	2010	2009
Resource properties – Canada	$ -	$ -
Oil and gas properties – Canada	3,254,807	
Resource properties - Indonesia	19,155,609	15,483,236
Equipment – Canada	11,074	13,842
	$ 22,421,490	$ 15,497,078
Resource property write-down-Canada	$ -	$ 8,066,801
Resource property write-down-Indonesia	$ 15,616	$ -

15. CAPITAL MANAGEMENT

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

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

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

There were no changes in the Company's approach to capital management during the year ended June 30, 2010.

16. SUBSEQUENT EVENTS

Subsequent to June 30, 2010, the Company:

i) 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.

ii) entered into an option and joint venture agreement with Vale S.A. ("Vale"), through its wholly owned subsidiary Vale International S.A., regarding a portion of its Sumbawa property. 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.

iii) 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.

iv) disposed all of its holdings in the MAV Plan Notes (Note 6) and received $890,277. Concurrently, the Company repaid the bank bridge loan of $550,000 (Note 7(i)).