SOUTHERN ARC MINERALS INC.

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2008 AND 2007

(Expressed in Canadian Dollars)

CHARTERED
ACCOUNTANTS
MacKay LLP

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Auditors' Report

To the Shareholders of
Southern Arc Minerals Inc.

We have audited the balance sheets of Southern Arc Minerals Inc. as at June 30, 2008 and 2007 and the statements of operations, comprehensive loss and deficit, 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 disclosures in the 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 financial statements present fairly, in all material respects, the financial position of the company as at June 30, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"MacKay LLP"

Chartered Accountants

Vancouver, Canada
September 24, 2008

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

	2008	2007
ASSETS		
Current		
Cash and cash equivalents	$ 9,296,877	$ 878,988
Prepaid expense and deposit	5,000	32,006
Receivables	16,605	9,933
Investment (Note 5)	-	1,408,258
	9,318,482	2,329,185
Equipment (Note 3)	17,302	21,628
Resource properties (Note 4)	13,152,613	8,443,787
Long-term investment (Note 5)	1,200,222	-
	$ 23,688,619	$ 10,794,600
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 491,194	$ 375,830
Shareholders' equity		
Capital stock (Note 6)	26,549,808	12,277,578
Share subscriptions received	-	43,750
Contributed surplus (Note 6)	5,540,446	1,580,928
Deficit	(8,892,829)	(3,483,486)
	23,197,425	10,418,770
	$ 23,688,619	$ 10,794,600

Nature and continuance of operations (Note 1)
Commitments (Note 4 and 11)
Subsequent events (Note 13)

On behalf of the Board:

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

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

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

	2008	2007
EXPENSES		
Amortization	$ 4,326	$ 3,639
Consulting fees	55,700	79,299
Foreign exchange (gain) loss	(24,294)	1,287
Investor relations	95,872	65,788
Management fees	177,000	150,000
Office and miscellaneous	149,530	88,078
Professional fees	159,866	162,710
Property investigation costs	29,341	22,682
Rent	45,862	39,505
Stock-based compensation (Note 6)	4,601,368	66,113
Transfer agent and filing fees	47,271	31,922
Travel	95,754	23,985
Loss before other items	(5,437,596)	(735,008)
OTHER ITEMS		
Interest income	240,057	64,441
Resource property written-off	-	(347,219)
Unrealized loss on investment (Note 5)	(211,804)	-
	28,253	(282,778)
Loss and comprehensive loss for the year	(5,409,343)	(1,017,786)
Deficit, beginning of year	(3,483,486)	(2,465,700)
Deficit, end of year	$ (8,892,829)	$ (3,483,486)
Basic and diluted loss per share	$ (0.08)	$ (0.02)
Weighted average number of shares outstanding	65,569,043	48,646,536

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

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

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (5,409,343)	$ (1,017,786)
Items not affecting cash:		
Stock-based compensation	4,601,368	66,113
Amortization	4,326	3,639
Resource property written-off	-	347,219
Unrealized loss on investment	211,804	-
Accrued interest	(3,768)	-
Changes in non-cash working capital items:		
(Increase) decrease in receivables	(6,672)	573
(Increase) decrease in prepaid expense and deposit	27,006	(12,889)
(Decrease) increase in accounts payable and accrued liabilities	(22,207)	46,586
Net cash used in operating activities	(597,486)	(566,545)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to resource properties	(4,304,555)	(3,341,062)
Acquisition of equipment	-	(16,164)
Acquisition of investment	-	(1,408,258)
Net cash used in investing activities	(4,304,555)	(4,765,484)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	14,143,260	3,529,684
Share issue costs	(823,330)	(97,170)
Subscriptions received	-	43,750
Advance from related party	-	10,880
Net cash provided by financing activities	13,319,930	3,487,144
Change in cash during year	8,417,889	(1,844,885)
Cash and cash equivalents, beginning of year	878,988	2,723,873
Cash and cash equivalents, end of year	$ 9,296,877	$ 878,988
Cash paid for interest	$ -	$ -
Cash paid for income taxes	$ -	$ -
Cash and cash equivalents consist of:		
Cash on hand	$ 187,922	$ 878,988
Term deposits	9,108,955	-
	$ 9,296,877	$ 878,988

Supplemental disclosure with respect to cash flows (Note 7)

The accompanying notes are an integral part of these 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. To date, the Company has not generated significant revenues from operations and is considered to be in the exploration stage.

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

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, which presume the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company's ability to continue as a going concern is dependent upon achieving profitable operations and upon obtaining additional financing. The outcome of these matters can not be predicted at this time. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

2. SIGNIFICANT ACCOUNTING POLICIES

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 (at interest rates ranging from 1% per annum to 2% per annum) 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.

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. Actual results could differ from these estimates.

Equipment

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

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 and investments with major financial institutions and by dealing with counterparties it believes to be creditworthy.

Resource properties

All costs related to the acquisition, exploration and development of resource properties are capitalized by property. 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.

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.

Asset retirement obligation

The Company records a liability at its fair value for the obligation associated with the retirement of a tangible long-lived asset. A corresponding asset retirement cost would be added to the carrying amount of the related asset and amortized to expense over the useful life of the asset. The Company has determined that there are no significant asset retirement obligations at June 30, 2008 and 2007.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

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. Exchange gains and losses arising on translation are included in the results of operations.

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.

Measurement uncertainty

The amounts recorded for amortization of equipment, the future recovery of the recorded cost of the properties and the future recovery of the recorded cost of the long-term investment are based on estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

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 issue costs

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

Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

Valuation of warrants

The Company has adopted the following policy 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.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Change in accounting policy

Financial instruments

Effective July 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") under CICA Handbook Section 1530 "Comprehensive Income" ("Section 1530"), Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and Measurement" ("Section 3855"), Section 3861 "Financial Instruments – Disclosure and Presentation" and Section 3865 "Hedges". These new sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles. Under Section 3855, all financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are initially measured in the balance sheet at fair value.

Subsequent measurement and changes in fair value will depend on their initial classification as follows: (1) held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; (2) available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired; (3) loans and receivables, held to maturity financial assets and other financial liabilities are measured at amortized cost; and (4) all derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sale normal purchase exemption and changes in their fair value are recorded in income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income.

As a result of the adoption of these new standards, the Company has classified its cash and cash equivalents and long-term investment as held-for-trading. Receivables and long-term investment are classified as loans and receivables and accounts payable and accrued liabilities are classified as other financial liabilities, all of which are measured at amortized cost. The Company has elected to measure all derivatives and embedded derivatives at fair value and the Company has a policy not to use hedge accounting.

Section 3855 also provides guidance on accounting for transaction costs incurred upon the issuance of debt instruments or modification of a financial liability. Transaction costs are now deducted from the financial liability and are amortized using the effective interest method over the expected life of the related liability.

As a result of the application of Section 3855, there was no effect on the Company's deficit position as at July 1, 2007.

Accounting changes

Effective July 1, 2007, the Company implemented the new CICA Handbook Section 1506 "accounting changes". Under these new recommendations, voluntary changes in accounting policy are permitted only when they result in the financial statements providing reliable and more relevant information. This section requires changes in accounting policy to be applied retrospectively unless doing so is impractical, requires prior period errors to be corrected retrospectively and requires enhanced disclosures about the effects of change in accounting policies, estimates and error on the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Change in accounting policy (cont'd…)

Accounting changes (cont'd…)

These recommendations also require the disclosure of new primary sources of generally accepted accounting principles that have been issued that the Company has not adopted because there are not yet in effect.

Recent accounting pronouncements

Goodwill and intangible assets

The Canadian Accounting Standards Board ("AcSB") issued CICA Handbook Section 3064 which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill remain unchanged from the standards included in the previous Section 3062. The section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008 and is not expected to have an impact on the Company's financial results.

Assessing going concern

The AcSB amended CICA Handbook Section 1400, to include requirements for management to assess and disclose an entity's ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. This section relates to disclosures and will not have an impact on the Company's financial results.

Capital disclosures

The AcSB issued CICA Handbook Section 1535 "Capital disclosures" The section specifies the disclosure of (i) an entity's objectives, policies, and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. This section relates to disclosures and will not have an impact on the Company's financial results.

International financial reporting standards ("IFRS")

In 2006, the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Recent accounting pronouncements (cont'd…)

Financial instruments

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

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

The AcSB issued CICA Handbook Section 3863, *Financial Instruments – Presentation,* which is to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This section carries forward standards that were previously established in Section 3861 relating to the presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company does not expect Section 3863 to an impact on the Company's financial results.

3. EQUIPMENT

	2008			2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Telephone equipment	$ 26,278	$ 8,976	$ 17,302	$ 26,278	$ 4,650	$ 21,628

(Expressed in Canadian dollars)

4. RESOURCE PROPERTIES

June 30, 2008	Lombok Property, Indonesia	Sumbawa Property, Indonesia	Total
Acquisition costs			
Balance, beginning and end of year	$ 1,051,254	$ 450,537	$ 1,501,791
Deferred exploration costs			
Incurred during the year:			
Assaying, testing, surveying and analysis	180,769	21,932	202,701
Camp construction, supplies and other	1,130,012	322,857	1,452,869
Drilling	1,778,072	-	1,778,072
Geological and other consulting	894,885	321,990	1,216,875
Travel	38,245	20,064	58,309
Total deferred exploration costs	4,021,983	686,843	4,708,826
Balance, beginning of year	3,960,749	2,981,247	6,941,996
Balance, end of year	7,982,732	3,668,090	11,650,822
Total resource property costs	$ 9,033,986	$ 4,118,627	$ 13,152,613

June 30, 2007	Lombok Property, Indonesia	Sumbawa Property, Indonesia	Flores Property, Indonesia	Total
Acquisition costs				
Balance, beginning of year	$ 1,051,254	$ 450,537	$ 17,941	$ 1,519,732
Written-off during the year	-	-	(17,941)	(17,941)
Balance, end of year	1,051,254	450,537	-	1,501,791
Deferred exploration costs				
Incurred during the year:				
Assaying, testing, surveying and analysis	196,992	48,434	31,922	277,348
Camp construction, supplies and accommodation	879,507	217,898	73,539	1,170,944
Drilling	509,865	79,702	1,320	590,887
Geological and other consulting	806,108	326,781	188,909	1,321,798
Travel	30,406	8,223	8,721	47,350
Written-off during the year	-	-	(329,278)	(329,278)
Total deferred exploration costs	2,422,878	681,038	(24,867)	3,079,049
Balance, beginning of year	1,537,871	2,300,209	24,867	3,862,947
Balance, end of year	3,960,749	2,981,247	-	6,941,996
Total resource property costs	$ 5,012,003	$ 3,431,784	$ -	$ 8,443,787

4. RESOURCE PROPERTIES (cont'd…)

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.

Lombok and Sumbawa Properties, Indonesia

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 the option, directly with Indotan, to acquire 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. The Company now has an option, until February, 2010 to acquire 50% of Indotan's 1% net smelter returns royalty ("NSR") on the Properties in consideration for the payment of $500,000. All of the holders of the NSR agreed that the NSR only applies to the Properties as at July 21, 2004 and not to any additional property interests which the Company acquires after that date.

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

4. RESOURCE PROPERTIES (cont'd…)

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

Lombok and Sumbawa are currently comprised of two separate applications to the Indonesian Government for a COW 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 permits the Company to conduct preliminary general survey work over the COW application areas. The Sumbawa SIPP was granted on January 2, 2004 for an initial 12 month period. On April 19, 2005, an extension and expansion of the Sumbawa Property SIPP was granted until April 19, 2006 and on April 22, 2006, an extension was granted until April 22, 2007. A third 12 month extension to the SIPP period was granted by the local regional authorities on June 20, 2007. The Lombok SIPP was granted on December 4, 2002. On July 15, 2005, an extension and expansion of the Lombok Property SIPP was granted until February 15, 2006. A 12 month extension on the Lombok SIPP has been filed. The granting of a SIPP is not a guarantee that a COW will be entered into.

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

5. LONG-TERM INVESTMENT

As at June 30, 2008, the Company held an investment of $1,200,222 (2007 - $1,408,258) consisting of Canadian Asset-Backed Commercial Paper ("ABCP") invested in Rocket Trust A, net of a $211,804 fair value adjustment. The ABCP investment matured on August 17, 2007, but was not repaid and remains outstanding.

On August 16, 2007 it was announced that the Montreal Group representing banks, asset-backed commercial paper providers and major investors had reached a standstill agreement to restructure the ABCP market. This restructuring is expected to replace the existing short-term investments with longer term notes.

There is no active market for this type of investment; therefore, to determine the fair value, the Company used a probability weighted valuation technique considering the associated credit risk and the time value of money.

Based on the limited available information the Company used the following assumptions in its valuation: the trust is a going concern, the Senior Notes will be AAA rated, the Notes will be interest bearing at 4.59%, the weighted average discount rate is 6% and maturity of 7 years. The credit risk interest premium was estimated by management and these estimates are not based on observable market prices or rates. The fair market value of this investment may be affected by changes in the assumptions. In addition, there is no certainty regarding the eventual recovery of this investment and consequently the timing and amount of any future cash flows may vary materially from current estimates.

(Expressed in Canadian dollars)

5. LONG-TERM INVESTMENT (cont'd…)

Since the investment is no longer capable of reasonably prompt liquidation, the Company has reclassified this investment as long-term in other assets. This investment continues to be classified as held-for trading.

6. 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, 2006	46,442,884	$ 8,813,046	$ 1,546,833
Issued for cash	7,000,000	2,100,000	-
Exercise of warrants	3,062,049	1,451,525	(56,841)
Exercise of options	50,000	57,511	(22,511)
Stock-based compensation	-	-	66,113
Share issuance costs	-	(97,170)	-
Agent warrants	-	(47,334)	47,334
Balance as at June 30, 2007	56,554,933	12,277,578	1,580,928
Private placement	9,432,836	11,319,403	-
Bonus shares	210,000	266,700	-
Exercise of warrants	2,988,137	1,812,639	(53,532)
Exercise of options	2,225,000	2,065,218	(956,718)
Stock-based compensation	-	-	4,601,368
Share issuance costs	-	(823,330)	-
Agent warrants	-	(368,400)	368,400
Balance as at June 30, 2008	71,410,906	$ 26,549,808	$ 5,540,446

The Company had nil shares in escrow at June 30, 2008.

During the year ended June 30, 2008, the Company:

a) issued 2,988,137 common shares for proceeds of $1,759,107 pursuant to the exercise of warrants.

b) issued 2,225,000 common shares for proceeds of $1,108,500 pursuant to the exercise of options.

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

c) completed a brokered private placement for 8,960,336 units at a price of $1.20 per unit, with each unit being comprised of one common share and one-half of a transferable share purchase warrant. Each warrant may be exercised to purchase an additional common share of the Company at a purchase price of $1.75 for a period of two years to December 18, 2009. The Company paid an aggregate of $698,906 in cash commissions, $124,424 in share issuance costs and issued an aggregate of 582,422 agent's warrants valued at $368,400. Each agent's warrant is exercisable into one common share at an exercise price of $1.20 per common share for a period of one year to December 18, 2008.

d) completed a non-brokered private placement for 300,000 units at a price of $1.20 per unit, with each unit being comprised of one common share and one-half of a transferable share purchase warrant. Each warrant may be exercised to purchase an additional common share of the Company at a purchase price of $1.75 for a period of two years to December 18, 2009.

e) completed a private placement for 172,500 units at a price of $1.20 per unit. Each unit consists of one common share and one-half of a transferable share purchase warrant exercisable at $1.75 per share until January 8, 2010.

f) issued 210,000 common shares with a value of $1.27 per share to consultants, geologists and field personnel for working on the Company's mineral properties. The shares are subject to hold periods whereby one-third of the shares become freely tradable every six months over a period of 18 months.

The Company had 4,177,781 shares in escrow at June 30, 2007.

During the year ended June 30, 2007, the Company:

a) completed a non-brokered private placement of 7,000,000 units at a price of $0.30 per unit for gross proceeds of $2,100,000. Each unit consists of one common share and one-half of a non-transferable share purchase warrant. Each whole warrant may be exercised to purchase an additional common share of the Company at a purchase price of $0.45 for a period of two years to March 28, 2009. If the weighted daily average trading price of the Company's common shares on the TSX exceeds $0.70 for 10 consecutive trading days, the Company may give 30 days written notice to the holders of warrants that the warrants will expire. Share issue costs of $144,504 were incurred in connection with the private placement, including 259,010 agent's warrants with a fair value of $47,334.

b) issued 50,000 common shares for proceeds of $35,000 pursuant to the exercise of options.

c) issued 3,062,049 common shares for proceeds of $1,394,684 pursuant to the exercise of warrants.

Stock options

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

(Expressed in Canadian dollars)

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

Stock options (cont'd…)

	Number of Options	Weighted Average Exercise Price
Outstanding, June 30, 2006	4,225,000	$ 0.47
Cancelled	(250,000)	0.60
Exercised	(50,000)	0.70
Outstanding, June 30, 2007	3,925,000	0.46
Granted (weighted average fair value, $1.46)	3,215,000	1.56
Granted (weighted average fair value, $1.59)	400,000	1.56
Exercised	(2,225,000)	0.50
Outstanding, June 30, 2008	5,315,000	1.19
Number of options currently exercisable	5,315,000	$ 1.19

During the year ended June 30, 2008, the Company reported stock-based compensation of $4,601,368, using the Black-Scholes Option Pricing model, as a result of 3,615,000 options granted. These amounts were recorded as contributed surplus on the balance sheet. The weighted average fair value of the options granted was $1.27 per option.

During the year ended June 30, 2007, the Company reported stock-based compensation of $66,113, using the Black-Scholes Option Pricing model, as a result of vested options that were granted previously. These amounts were recorded as contributed surplus on the balance sheet.

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

	2008	2007
Risk-free interest rate	4.28%	-
Expected life of options	5 years	-
Annualized volatility	110%	-
Dividend rate	0.00%	-

(Expressed in Canadian dollars)

6. 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, 2006	5,691,442	$ 0.62
Granted	3,759,010	0.45
Exercised	(3,062,049)	0.46
Outstanding, June 30, 2007	6,388,403	0.60
Granted	5,298,840	1.69
Exercised	(2,988,137)	0.59
Expired	(1,070,786)	0.94
Outstanding, June 30, 2008	7,628,320	$ 1.31

During the year ended June 30, 2008, the Company reported share issuance costs of $368,400, using the Black-Scholes option pricing model, as a result of 582,422 agent's warrants granted.

The following weighted average assumptions were used for the Black-Scholes valuation of agent warrants granted during the year:

	2008	2007
Risk-free interest rate	3.82%	3.96%
Expected life of warrants	1 year	1 year
Annualized volatility	134.46%	100.92%
Dividend rate	0.00%	0.00%

(Expressed in Canadian dollars)

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

Share purchase options and warrants

At June 30, 2008, 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	900,000	$	0.25	June 30, 2010
	675,000		0.56	January 13, 2011
	125,000		0.70	April 13, 2011
	3,215,000		1.56	September 26, 2012
	400,000		1.56	October 3, 2012
Warrants	2,329,480		0.45	March 28, 2009
	4,630,168		1.75	December 18, 2009
	582,422		1.20	December 18, 2008
	86,250		1.75	January 8, 2010

7. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company has the following significant non-cash transactions:

During the year ended June 30, 2008, the Company:

a) included in accounts payable $447,283 of resource property costs.

b) allocated $53,532 to capital stock from contributed surplus for agent warrants exercised during the year.

c) allocated $956,718 to capital stock from contributed surplus for stock options exercised during the year.

d) issued 210,000 common shares valued at $266,700 to consultants, geologists, and field personnel for working on the Company's resource properties.

e) recorded share issuance costs of $368,400, using the Black-Scholes option pricing model, as a result of 582,422 agents warrants granted. These amounts were recorded as contributed surplus on the balance sheet.

During the year ended June 30, 2007, the Company:

a) included in accounts payable $309,712 of resource property costs (June 30, 2006 - $242,448).

b) allocated $56,841 to capital stock from contributed surplus for agent warrants exercised during the year.

c) allocated $22,511 to capital stock from contributed surplus for stock options exercised during the year.

(Expressed in Canadian dollars)

8. RELATED PARTY TRANSACTIONS

During the year ended June 30, 2008 the Company entered into transactions with related parties as follows:

a) Paid $177,000 (June 30, 2007 - $150,000) for management fees and $18,000 (June 30, 2007 $18,000) for administration, recorded in office and miscellaneous expense, to a private company controlled by the Chief Executive Officer of the Company.

b) Paid $220,780 (June 30, 2007 - $193,405) 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 $55,700 (June 30, 2007 - $33,410) for consulting fees to an officer of the Company.

d) Paid $57,300 (June 30, 2007 - $50,046) and recorded in accounts payable and accrued liabilities an additional $Nil (June 30, 2007 - $37,154) for professional accounting fees to a firm in which a former officer is a partner.

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

9. INCOME TAXES

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

	2008	2007
Loss before income tax recovery	$ (5,409,343)	$ (1,017,786)
Expected income tax recovery	$ 1,774,805	$ 357,446
Items not deductible for income tax purposes	(1,683,691)	(24,986)
Items deductible for tax	110,410	60,354
Effect of change in tax rate	(249,131)	-
Tax benefit not recognized	47,607	(392,814)
Total income taxes	$ -	$ -

(Expressed in Canadian dollars)

9. INCOME TAXES (cont'd…)

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

	2008	2007
Future income tax assets:		
Non-capital loss carry forwards	$ 521,028	$ 470,482
Share issuance costs	241,956	133,757
Financing costs	3,630	8,145
Cumulative exploration expenses	314,297	246,326
Equipment	2,334	1,550
Long-term investment	27,535	-
	1,110,780	860,260
Valuation allowance	(1,110,780)	(860,260)
Net future income tax assets	$ -	$ -

The Company has available for deduction against future years' taxable income non-capital losses of approximately $2,004,000. Non-capital losses expire as follows:

2025	$403,890
2026	$604,856
2027	$486,895
2028	$508,312

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.

10. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, deposit, receivables, accounts payable and accrued liabilities and long-term investment. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values unless otherwise noted.

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, 2008, the Company had US$442,373 (approximately CAD$447,283) in accounts payable and US$1,502,189 (approximately CAD$1,518,862) in short term $US term deposits.

11. COMMITMENT

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

2009	$ 24,474

(Expressed in Canadian dollars)

12. SEGMENTED INFORMATION

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

	2008	2007
Loss for the year:		
Canada	$ (5,380,002)	$ (670,567)
Indonesia	(29,341)	(347,219)

	June 30, 2008	June 30, 2007
Resource properties - Indonesia	$ 13,152,613	$ 8,443,787
Equipment – Canada	17,302	21,628
	$ 13,169,915	$ 8,465,415

13. SUBSEQUENT EVENTS

Subsequent to June 30, 2008, the Company:

a) purchased 15,300,000 (approximately 43.6%) of the common shares of Canada Nickel Corp., a related private company with a common director, for $5,355,000. Canada Nickel Corp. is earning a 51% interest (10% earned) in the James Bay Nickel Project located in James Bay, Ontario;

b) granted 250,000 stock options to a director exercisable at $0.30 per common share for a term of 5 years.