SOUTHERN ARC MINERALS INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED
DECEMBER 31, 2010
(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited consolidated financial statements for the period ended December 31, 2010.

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

	December 31, 2010 (Unaudited)	June 30, 2010 (Audited)
ASSETS		
Current		
Cash and cash equivalents	$ 1,719,638	$ 1,604,476
Receivables	58,738	29,668
Prepaid expense and deposit	18,676	7,534
Investment (Note 7)	-	835,799
	1,797,052	2,477,477
Equipment (Note 5)	9,966	11,074
Resource properties (Note 6)	23,195,375	22,410,416
	$ 25,002,393	$ 24,898,967
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 338,103	$ 383,246
Loans payable (Note 8)	1,989,200	1,614,600
	2,327,303	1,997,846
Shareholders' equity		
Capital stock (Note 9)	31,306,878	30,474,172
Contributed surplus (Note 9)	8,223,038	5,926,928
Reserve	263,700	221,008
Deficit	(19,106,471)	(15,692,612)
Capital and reserve attributable to shareholders of Southern Arc Minerals Inc.	20,687,145	20,929,496
Non-controlling interest (Note 4)	1,987,945	1,971,625
Total equity	22,675,090	22,901,121
	$ 25,002,393	$ 24,898,967

Nature and continuance of operations (Note 2)
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
(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

	Three Months Ended December 31, 2010	Three Months Ended December 31, 2009	Six Months Ended December 31, 2010	Six Months Ended December 31, 2009
EXPENSES				
Amortization	$ 554	$ 692	$ 1,108	$ 1,384
Consulting fees	53,753	3,000	89,291	9,000
Foreign exchange	4,408	-	(10,963)	1,993
Management fees (Note 11)	100,500	100,500	201,000	201,000
Office and miscellaneous (Note 11)	69,413	34,311	129,753	67,081
Professional fees	151,601	76,680	310,915	173,411
Property investigation costs	20,198	2,669	94,500	2,669
Rent	4,086	7,183	8,172	11,113
Stock-based compensation (Note 9)	-	-	2,665,816	333,661
Transfer agent and filing fees	13,939	9,052	15,811	19,471
Travel	80,544	(742)	93,357	3,037
Loss before other items	(498,996)	(233,345)	(3,598,760)	(823,820)
OTHER ITEMS				
Interest income	18	795	18	3,204
Gain on sale of investments	54,852	-	54,852	-
Gain on settlement of lawsuit	-	250,000	-	250,000
	54,870	250,795	54,870	253,204
Net comprehensive income (loss) for the period	$ (444,126)	$ 17,450	$ (3,543,890)	$ (570,616)
Net comprehensive income (loss) attributable to:				
Shareholders of Southern Arc Minerals Inc.	$ (379,182)	$ (72,578)	$ (3,413,859)	$ (619,147)
Non-controlling interests	(64,944)	90,028	(130,031)	48,531
	$ (444,126)	$ 17,450	$ (3,543,890)	$ (570,616)
Basic and diluted loss per share	$ (0.01)	$ (0.00)	$ (0.05)	$ (0.01)
Weighted average number of shares outstanding	77,230,697	72,420,769	74,482,223	71,907,560

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

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

	Three Months Ended December 31, 2010	Three Months Ended December 31, 2009	Six Months Ended December 31, 2010	Six Months Ended December 31, 2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Net comprehensive income (loss) for the period	$ (444,126)	$ 17,450	$ (3,543,890)	$ (570,616)
Items not affecting cash:				
Stock-based compensation	-	-	2,665,816	333,661
Amortization	554	692	1,108	1,384
Foreign exchange	4,408	-	(10,963)	1,993
Gain on sale of investments	(54,852)	-	(54,852)	-
Changes in non-cash working capital items:				
(Increase)/decrease in receivables	2,437	(4,129)	(29,070)	4,913
Prepaid expense and deposit	(3,512)	728,523	(11,142)	717,845
Increase (decrease) in accounts payable and accrued liabilities	(136,689)	35,619	54,720	24,259
Net cash provided by (used in) operating activities	(631,780)	778,155	(928,273)	513,439
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to resource properties	(454,016)	(2,244,185)	(884,822)	(2,440,001)
Repayment of investment	-	8,610	374	11,694
Sale of investment	890,277	-	890,277	-
Net cash used in investing activities	436,261	(2,235,575)	5,829	(2,428,307)
CASH FLOWS FROM FINANCING ACTIVITIES				
Share issuance (net of cost) by Nickel Oil and Gas	200,000	-	189,043	-
Proceeds from loan	994,600	550,000	994,600	550,000
Loan repayment	(550,000)	-	(550,000)	-
Proceeds from issuance of shares	463,000	1,205,359	463,000	1,205,359
Net cash provided by financing activities	1,107,600	1,755,359	1,096,643	1,755,359
FOREIGN EXCHANGE ON CASH	(39,208)	-	(59,037)	(1,993)
Change in cash during period	872,873	297,939	115,162	(161,502)
Cash and cash equivalents, beginning of period	846,765	1,971,971	1,604,476	2,431,412
Cash and cash equivalents, end of period	$ 1,719,638	$ 2,269,910	$ 1,719,638	$ 2,269,910
Cash paid for interest	$ 1,839	$ 245	$ 5,200	$ 245

Cash paid for income taxes - $ nil

Cash and cash equivalents consist of cash on hand.

Supplemental disclosure with respect to cash flows (Note 10)

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

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

	Capital Stock	Contributed Surplus	Non-controlling interest reserve	Deficit	Total	Non-controlling interest	Total Equity
Balance at June 30, 2009	**$ 26,565,067**	**$ 5,604,310**	**$ -**	**$ (14,133,385)**	**$ 18,035,992**	**$ 1,369,164**	**$ 19,405,156**
Comprehensive loss for the year	-	-	-	(1,559,227)	(1,559,227)	(53,859)	(1,613,086)
Private placement, net of transaction costs	-	-	-	-	-	977,703	977,703
Reimbursement of income taxes paid to flow-through shares subscribers	-	-	-	-	-	(100,375)	(100,375)
Gain on diluted interest in subsidiary (Note 4)	-	-	221,008	-	221,008	(221,008)	-
Stock-based compensation	-	333,661	-	-	333,661	-	333,661
Stock-based financing costs	-	117,713	-	-	117,713	-	117,713
Exercise of warrants	1,175,359	-	-	-	1,175,359	-	1,175,359
Exercise of options	318,746	(128,756)	-	-	189,990	-	189,990
Issued for acquisition of subsidiaries (Note 6)	2,415,000	-	-	-	2,415,000	-	2,415,000
	3,909,105	322,618	221,008	-	4,452,731	656,320	5,109,051
Balance at June 30, 2010	**30,474,172**	**5,926,928**	**221,008**	**(15,692,612)**	**20,929,496**	**1,971,625**	**22,901,121**
Comprehensive loss for the period	-	-	-	(3,413,859)	(3,413,859)	(130,031)	(3,543,890)
Gain on diluted interest in subsidiary (Note 4)	-	-	42,692	-	42,692	146,351	189,043
Stock-based compensation	-	2,665,816	-	-	2,665,816	-	2,665,816
Exercise of options	832,706	(369,706)	-	-	463,000	-	463,000
	832,706	2,296,110	42,692	-	3,171,508	146,351	3,317,859
Balance at December 31, 2010	**$ 31,306,878**	**$ 8,223,038**	**$ 263,700**	**$ (19,106,471)**	**$ 20,687,145**	**$ 1,987,945**	**$ 22,675,090**

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

1. BASIS OF PRESENTATION

The consolidated interim period financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. All financial summaries included are presented on a comparative and consistent basis showing the figures for the corresponding period in the preceding year. The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of annual financial statements, except as noted below. Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These consolidated interim period statements should be read together with the audited financial statements and the accompanying notes included in the Company's latest annual report for the year ended June 30, 2010. In the opinion of the Company, its unaudited consolidated interim financial statements contain all adjustments necessary in order to present a fair statement of the results of the interim periods presented.

2. NATURE AND CONTINUANCE OF OPERATIONS

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

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

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

During the six month period ended December 31, 2010, the Company incurred a net loss of $3,413,859 (2009 - $619,147) and had a working capital deficiency of $530,251 (December 31, 2009 – working capital of $1,652,957). 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.

(see also Subsequent Events - note 16. d)).

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements include:

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

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

Recent accounting pronouncements

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

International financial reporting standards ("IFRS")

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

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

4. INVESTMENT IN NICKEL OIL & GAS CORP.

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

(Expressed in Canadian dollars)

4. INVESTMENT IN NICKEL OIL & GAS CORP. (cont'd…)

During the years ended June 30 2009 and 2010, Nickel Oil & Gas issued additional common stocks to third parties which diluted the Company's ownership percentage of Nickel Oil & Gas to 38.54% During the period ended December 31, 2010, Nickel Oil & Gas issued additional common stocks to a director which diluted the Company's ownership percentage of Nickel Oil & Gas to 37.59%, resulting in a gain on diluted interest in subsidiary of $42,692. The Company maintains control of Nickel as a result of a common director.

5. EQUIPMENT

	December 31, 2010			June 30, 2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Telephone equipment	$ 26,278	$ 16,312	$ 9,966	$ 26,278	$ 15,204	$ 11,074

6. RESOURCE PROPERTIES

December 31, 2010	Lombok Property, Indonesia	Sumbawa Properties, Indonesia	Brewster Area, Canada (Unproven)	Pine Creek Area, Canada (Unproven)	Total
Acquisition costs					
Balance, beginning and end of period	$ 2,427,299	$ 1,736,682	$ -	$ 1,691	$ 4,165,672
Deferred exploration costs					
Incurred during the period:					
Assaying, testing, surveying and analysis	-	3,167	-	-	3,167
Camp construction, supplies and other	344,048	168,363	-	-	512,411
Geological and other consulting	181,566	70,789	1,725	10,313	264,393
Travel	4,244	744	-	-	4,988
Total deferred exploration costs	529,858	243,063	1,725	10,313	784,959
Balance, beginning of period	10,773,410	4,218,218	1,813,635	1,439,481	18,244,744
Balance, end of period	11,303,268	4,461,281	1,815,360	1,449,794	19,029,703
Total resource property costs	$13,730,567	$ 6,197,963	$ 1,815,360	$ 1,451,485	$23,195,375

(Expressed in Canadian dollars)

6. RESOURCE PROPERTIES (cont'd…)

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

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.

6. 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 (completed) and Indonesian (completed) corporate entities. (see also Subsequent Events - note 16. a))

The Company has 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 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 of its 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 (to a related party in relation to a loan agreement – see note 8 ii) and exercised during the period ended December 31, 2010. 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 an 8% 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.

6. RESOURCE PROPERTIES (cont'd…)

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

During the period ended December 31, 2010, the Company and Newcrest Mining Limited ("Newcrest") announced the signing of a Heads of Agreement ("Agreement") involving a joint venture investment in the Taliwang property. The Agreement (which is non-binding other than relationship of parties, exclusivity, confidentiality, access and governing law provisions) includes the following commercial terms:

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

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

c) Following its acquisition of the shares in the Singapore company, Newcrest may retain its interest in the Taliwang project by solely funding additional expenditures to a maximum of US$46 million or to a completed feasibility study, whichever occurs first, with a minimum expenditure of US$2 million per annum; and

d) During the period of the Minimum Spend Obligation, a joint technical committee comprised of representatives of both parties and controlled by Newcrest, will supervise and direct the exploration programs.

If Newcrest fully complies with the funding terms of the Agreement, it will earn an effective 63.75% interest in the Taliwang project, leaving Southern Arc with an effective 21.25% interest. The remaining interest is held by the West Sumbawa Regency government (10%) and PT. Puri Permata Mega (5%).

During the period ended December 31, 2010, the Company entered into an option and joint venture agreement with Vale S.A. through its wholly owned subsidiary Vale International S.A. ("Vale"), regarding its East Elang and Sabalong properties (part of the Sumbawa property). To exercise its option, Vale must fully fund the advancement of either property according to the following schedule:

a) Phase 1 – Vale will fund US$1,000,000 (Sabalong) and US$1,200,000 (East Elang) of exploration expenditures within one year from the date the Company receives an exploration activities permit from the Ministry of Forestry for the that property; If Vale elects, they could proceed to;

b) Phase 2 minimum program – Vale could fund at least US$2,000,000 (Sabalong) and/or US$2,500,000 (East Elang) of additional exploration expenditures within 2 years of commencing Phase 2;

c) Phase 2 full program – Vale may proceed to completion of a pre-feasibility study or fund further exploration expenditures of at least US$10,000,000 (on either property) within 4 years of commencing Phase 2;

d) Upon completing the Phase 2 full program, Vale may elect to solely fund the completion of a bankable feasibility study within 7 years of commencing Phase 2.

If Vale completes a bankable feasibility study on either of the East Elang or Sabalong properties within the permitted timeframes, Vale will be entitled to receive a 75% interest in the Company's subsidiary PT. Selatan Arc Minerals ("PT SAM") which holds the IUP's for Sabalong and East Elang.

6. RESOURCE PROPERTIES (cont'd…)

Oil and Gas Properties

Brewster Area, Alberta, Canada

During the year ended June 30, 2010, the Company's 38% 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. Nickel's joint venture partner solely funded the completion, equipping and tie-in costs of the well and will receive 100% of all revenue from the well until it recoups 125% of the payout costs incurred.

Pine Creek Area, Alberta, Canada

During the year ended June 30, 2010, Nickel Oil & Gas, entered into a farmout and option agreement granting Nickel Oil & Gas the option to earn certain oil and gas rights with respect to property in the Pine Creek area, Alberta.During the period ended December 31, 2010, Nickel Oil & Gas entered into an Amending Agreement with its joint venture partner on the Pine Creek Property. Under the amending agreement, Nickel Oil & Gas earned a 60% working interest in two sections by funding 100% of the costs of drilling of the horizontal well. Nickel Oil & Gas had an obligation to pay 100% of the completion, equipping and tie-in costs. The horizontal well has been drilled by Nickel and Nickel's joint venture partner solely funded the completion, equipping and tie-in costs of the well. According to the Amending Agreement, the joint venture partner shall receive 100% of all revenue from the well until it recoups 125% of the payout costs incurred.

Other Rights

James Bay Nickel Project, Ontario, Canada

Nickel Oil & Gas holds a royalty equal to 1.5% of Net Smelter Returns ("NSR") in the Nickel Bay Project, Ontario. Nickel Oil & Gas has granted 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 the three parts of this option are exercised, Nickel will receive $2,500,000, and the NSR will be reduced to 0.5%.

(Expressed in Canadian dollars)

7. INVESTMENT

	December 31, 2010	June 30, 2010
Plan Notes	$ -	$ 835,799

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

During the period ended December 31, 2010, the Company:

i) received repayments of investment of $374 (2009 - $11,694); and

ii) disposed all of its holdings in MAVII notes for proceeds of $890,277. Concurrently, the Company repaid the demand non-revolving bridge loan of $550,000 (Note 8i)) to its bank and recognized a gain on sale of investment of $54,852.

8. LOANS PAYABLE

	December 31, 2010	June 30, 2010
Non-revolving bridge loan	$ -	$ 550,000
Non-interest bearing loans from a director	1,989,200	1,064,600
	$ 1,989,200	$ 1,614,600

Loans payable consists of:

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

ii) a non-interest bearing loan of US$1,000,000 (CDN$994,600) (June 30, 2010 – US$1,000,000 (CDN$1,064,600)) from a director of the Company. The loan has a 3 month term, and is repayable before June 30, 2011. In consideration for granting the loan, the Company has assigned its option to acquire 500,000 of the Company's shares at $0.50 per share (Note 6) from Indotan Inc. A fair value of $117,713 was allocated to stock-based financing costs and recorded to contributed surplus in fiscal year 2010 in connection with the assignment. During the period ended December 31, 2010, the director has exercised the option and acquired the mentioned shares; and

iii) a non-interest bearing loan of US$1,000,000 (CDN$994,600) (June 30, 2010 – $Nil) from a director of the Company to the Company's 100% owned subsidiary, Indotan Lombok PTE Ltd. The loan is repayable on demand. (see also Subsequent Events - note 16. b))

(Expressed in Canadian dollars)

9. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Capital Stock	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Issued			
Balance as at June 30, 2009	71,410,906	$ 26,565,067	$ 5,604,310
Stock-based compensation	-	-	333,661
Stock-based financing (Note 8ii))	-	-	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
Stock-based compensation	-	-	2,665,816
Exercise of options	975,000	832,706	(369,706)
Balance as at December 31, 2010	78,304,990	$ 31,306,878	$ 8,223,038

During the period ended December 31, 2010, the Company issued 975,000 common shares at $0.30 to $0.80 per share for total proceeds of $463,000 pursuant to the exercise of stock options previously granted.

(Expressed in Canadian dollars)

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

Stock options

The Company grants stock options in accordance with the policies of the TSX Venture Exchange ("TSXV"). The number of shares reserved for issuance under the plan shall not exceed 10% of the issued and outstanding common shares of the Company. The terms of the option, including the vesting terms and the option price are fixed by the directors at the time of grant subject to the price not being less than the market price of the Company's stock on the date of grant. The stock options granted are exercisable for a period of up to 5 years. A summary of the Company's outstanding stock options granted is presented below.

	Number of Options		Weighted Average Exercise Price
Outstanding, June 30, 2009	4,775,000	$	1.23
Exercised	(740,000)		(0.26)
Granted	3,500,000		0.40
Cancelled	(3,450,000)		(1.56)
Expired	(10,000)		(0.25)
Outstanding, June 30, 2010	4,075,000		0.41
Granted	3,650,000		0.80
Exercised	(975,000)		(0.47)
Outstanding, December 31, 2010	6,750,000	$	0.61
Number of options currently exercisable	6,750,000	$	0.61

During the period ended December 31, 2010, the Company recorded stock-based compensation of $2,665,815 (2009 - $333,661) using the Black-Scholes Option Pricing model, as a result of 3,650,000 (2009 – 3,500,000) options granted. These amounts were recorded as contributed surplus on the balance sheet. The weighted average fair value of the options granted was $0.73 (2009 - $0.10) per option.

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

(Expressed in Canadian dollars)

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

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

	Six Month Period Ended December 31, 2010	Six Month Period Ended December 31, 2009
Risk-free interest rate	2.37%	0.62%
Expected life of options	5 years	5 years
Annualized volatility	150.53%	121.25%
Dividend rate	0.00%	0.00%

At December 31, 2010, the Company had share purchase options outstanding enabling holders to acquire common shares as follows:

	Number of Shares	Exercise Price	Expiry Date
Options	3,150,000	$ 0.40	September 16, 2014
	3,600,000	$ 0.80	July 19, 2015
	6,750,000		

Warrants

The Company does not have any warrants outstanding. (see also Subsequent Events - note 16d.))

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company had the following significant non-cash transactions:

During the period ended December 31, 2010, the Company allocated $369,706 (2009 – $25,546) to capital stock from contributed surplus for stock options exercised during the period;

At December 31, 2010, the Company included in accounts payable $1,449 (2009 - $2,571) of resource property costs, and $66,780 (2009 - $Nil) of share issue costs incurred by Nickel Oil & Gas Corp; and

At June 30, 2010, the Company included in accounts payable $101,312 of resource property costs, and $99,921 of share issue costs incurred by Nickel Oil & Gas Corp.

11. RELATED PARTY TRANSACTIONS

During the period ended December 31, 2010, the Company entered into transactions with related parties as follows:

a) paid $201,000 (2009 - $201,000) for management fees and $60,000 (2009 - $21,000) for administration, (recorded in office and miscellaneous expense) to a private company controlled by the Chief Executive Officer and director of the Company.

b) paid $142,044 (2009 - $Nil) for geological consulting services included in resource properties to an officer of the Company and a company controlled by an officer of the Company.

c) paid $120,854 (2009 - $Nil) for geological consulting services included in resource properties to an officer of the Company.

d) paid $Nil (2009 - $2,283) for legal fees, included in professional fees, to a firm in which a director of Nickel Oil & Gas is a partner.

e) has a US$2,000,000 (CDN$1,989,200) (2009- $Nil) of loans from a director of the Company (Note 8 (ii) and (iii)).

f) issued 1,000,000 common shares of Nickel Oil & Gas for proceeds of $200,000 (2009 - $Nil) to an officer of Nickel Oil & Gas.

g) paid $2,021 (2009 - $Nil) for directors fees to an officer of a subsidiary.

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

12. FINANCIAL INSTRUMENTS AND RISK

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

Concentration of credit risk

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

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

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

Fair value

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

As at December 31, 2010 and June 30, 2010, the carrying amount of current financial assets and liabilities approximated the fair value because of the near maturity of those instruments.

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

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents. Management believes that the credit risk concentration with respect to cash and cash equivalents is remote as it maintains accounts with highly-rated financial institutions.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2010, the Company had a cash balance of $1,719,638 (June 30, 2010 - $1,604,476) to settle current liabilities of $2,327,303 (June 30, 2010 - $1,997,846). All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal period.

Market risk

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

(a) Interest rate risk

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

(Expressed in Canadian dollars)

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

Market risk (cont'd…)

(b) Foreign currency risk

The Company's largest non-monetary assets are its resource interests in Indonesia. The Company could accordingly be at risk for foreign currency fluctuations and developing legal and political environments. The Company does not maintain significant cash or monetary assets or liabilities in Indonesia. At December 31, 2010, the Company had US$1,274,057 (approximately CAD$1,267,177) in cash, and US$2,001,457 (CAD$1,990,649) in loans payable. As at December 31, 2010, US$ amounts were converted at a rate of US$1 to CAD$0.9946.

(c) Price risk

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

13. COMMITMENT

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

14. SEGMENTED INFORMATION

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

	December 31, 2010	June 30, 2010
Oil and gas properties – Canada	$ 3,266,845	$ 3,254,807
Resource properties - Indonesia	19,928,530	19,155,609
Equipment – Canada	9,966	11,074
	$ 23,205,341	$ 22,421,490
Resource property write-down-Indonesia	$ -	$ 15,616

15. CAPITAL MANAGEMENT

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

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

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

There were no changes in the Company's approach to capital management during the period ended December 31, 2010.

16. SUBSEQUENT EVENTS

Subsequent to the period ended December 31, 2010 the Company:

a) In January 2011, received a mining business license ("IUP") for its Lombok property; and

b) made a partial repayment of a loan from a Director of $600,000 (note 8 iii).

c) In January and February 2011, granted incentive stock options to directors, officers, and advisors of the Company for the purchase of up to 400,000 common shares, exercisable at $2.00 per share and for the purchase of up to 300,000 common shares exercisable at $1.85 per share.

d) On February 24, 2011, completed an equity offering of 17,738,750 common shares of the Company at a price of $1.60 per common share for gross proceeds of $28,382,000. In connection with the offering, the underwriters received a cash commission of 6% of the gross proceeds and 1,064,325 non-transferable common share purchase warrants exercisable for 18 months at $1.60 per share.